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ANNUAL REPORT 2023



“ A year of strong performances built on a compelling customer proposition and good execution. ”

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CONTENTS

Corporate directory	4
Snapshot	5
Letter to shareholders	8
Directors' report	10
Auditor's independence declaration	38
Financial Statements	39
Statement of profit or loss and other comprehensive income	40
Statement of financial position	41
Statement of changes in equity	42
Statement of cash flows	43
Notes to the financial statements	44
Directors' declaration	76
Independent auditor's report to the members of X2M Connect Limited	77
Corporate Governance Statement	81
Shareholder information	91

Key Notes:

- All currency is reported in Australian Dollars unless otherwise noted.
- PCP refers to the previous comparative period.
- FY23 refers to the year ending 30 June 2023.
- SaaS means Software as a Service.
- TAM means total addressable market.

CORPORATE DIRECTORY

Directors

Hon. Alan Stockdale AO (Non-Executive Chairman)
Mr Mohan Jesudason (Managing Director and Chief Executive Officer)
Mr Damien Johnston (Non-Executive Director)
Mr John Stewart (Non-Executive Director)

Company Secretary

Mr Oliver Carton

Registered office and principal place of business

Suite 1.01b, Building B,
18-24 Ricketts Road,
Mount Waverley, VIC 3149
Telephone: 1800 926 926 (1800 X2M X2M)

Share register

Automatic Pty Ltd
Level 5, 126 Phillip Street,
Sydney, NSW 2000
Telephone: +61 2 9698 5414

Auditor

Grant Thornton Audit Pty Ltd
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

Corporate Governance Statement

The Company's Corporate Governance Statement and Corporate Governance Plan are available on the Company's website at: <https://x2mconnect.com/investor-centre/>

End of year reporting calendar

Reporting requirement	Date
FY23 Annual Report	27 September 2023
Deadline for nomination as Director	17 October 2023
Notice of Annual General Meeting	27 October 2023
ASX Appendix 4C - September 2023 quarter	31 October 2023
Annual General Meeting	28 November 2023

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FY23 Snapshot



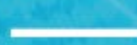
revenue

\$16.2m

up



56%



* on pcp

gross margin

\$3.8m

up



64%



* on pcp



FY23

Snapshot

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cashflow from
operating activities

-\$2.3m

improved by

▲ 62%

— *on pcp

adjusted EBITDA

-\$4.6m

improved by

▲ 25%

— *on pcp



FY23 Snapshot

connected devices

429k

up



75%

* on pcp



enterprise and government
customers: 65

up



46%

* on pcp

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Letter to shareholders

The 2022-2023 year has been one of progress for your company.

We are pleased to provide the X2M Connect Limited (“the Company”, “X2M”) Annual Report. The results show an outstanding year for the Company as we continued to grow our revenue and our gross profit significantly with an only minor increase in operating costs.

The results also indicate the progress the company is making in its journey toward profitability with cash burn from operating activities improving by 62% and adjusted EBITDA improving by 25%.

The current strategic focus of the business is on digitising the utility sector in the Asia Pacific Region (APAC) with its proprietary Internet of Things (IoT) technology. The Company’s core value proposition is to assist both utilities and governments to save time, money and enhance public safety, by enabling new and existing utility devices to communicate both to each other and to a centralised system via the internet. The collection of large volumes of data from meters or sensors and our ability to go back and control devices also provides the basis for artificial intelligence or machine learning applications to build upon our platform.

The Company’s focus is strongly on the utility sector where the addressable market across the region is large and importantly, the addressable market within X2M’s existing customer base is also large with penetration growing. The opportunity this provides is

the key to X2M’s growth strategy and, as shown in Chart 1 on page 13 of this report, that strategy is working.

Business development continues to progress well. Revenues for the FY23 year were \$16.2 million and the number of devices connected to our IoT platform at year-end was 428,801. These represent significant growth of 56% and 75% on last year’s results respectively.

Before IPO costs and non-cash share-based payments, the result for the year was adjusted to a EBITDA loss of \$4.6 million, an improvement of 25% on last year. This reflects the Company’s strategy to invest in growth and scale the business internationally, while controlling operating costs and increasing margins.

We are gaining traction in key markets.

Our biggest market is currently South Korea and we believe that this market offers good prospects of further growth. The Company has demonstrated great success in securing both new customers and repeat orders from existing customers. This validates our “land and expand” strategy of securing customers and then working to penetrate their entire available market with our technology.

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

The company established an office in Beijing during 2021 and we have secured significant revenue in this market in the last year. Our initial focus has been on securing hardware deployments at a lower margin with a view to establishing ourselves in this market and we are now implementing the next stage of our plan of increasing margins on sales in China on the back of now established relationships and channel partners.

X2M is making progress in its entry into the Australian energy management market with two land developments signed up with term sheets for Smart Communities and this work is also being leveraged into Smart Agriculture. The Directors and management are excited with the future developments in this area of our business.

X2M has been executing on growth prospects in Taiwan and, over the next few years, is targeting entry into other national utility markets where it makes business sense.

The share market on the ASX has recently experienced significant headwinds. There has been heavy downward pressure on many tech stock prices in a tough market. Despite a drop in our share price over the last year, X2M is doing very well from a business perspective and we have confidence that the market will recognise continued good business performance. The Board and management of the Company are especially grateful for the continued support of shareholders in these challenging times.

The progress towards profitability, with high growth in gross profit alongside almost flat operational costs, means your Directors and management see great opportunities ahead for our company especially in a context where so many Governments are encouraging and supporting adoption of technologies like ours.

We would like to take this opportunity to thank our team at X2M and our shareholders for the continued support of the Company as we realise current and future opportunities.



A handwritten signature in black ink, appearing to read "Alan Stockdale". The signature is fluid and cursive, written over a light blue background.

HON. ALAN STOCKDALE AO
CHAIRMAN



A handwritten signature in black ink, appearing to read "Mohan Jesudason". The signature is bold and stylized, written over a light blue background.

MOHAN JESUDASON
CHIEF EXECUTIVE OFFICER AND MANAGING DIRECTOR



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Directors' Report



Directors' Report

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 30 June 2023.

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 Mohan Jesudason (Managing Director and Chief Executive Officer) (appointed to the Board on 17 March 2023)
- Mr Damien Johnston (Non-Executive Director)
- Mr John Stewart (Non-Executive Director)
- Ms Jodie Leonard (Non-Executive Director) (resigned on 17 March 2023)

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 58 people at the end of the year.

During the financial year, the principal continuing activities of the Group included:

- Gas monitoring and control
- Water monitoring and control
- Energy monitoring and optimisation
- Data delivery for artificial intelligence and data analytics applications

The technology uses the internet to deliver rich data applications from process automation to analytics and artificial intelligence. The technology connects devices over the internet to enable monitoring, data exchange and the remote control of devices such as utility meters and pressure sensors.

As at 31 August 2023, X2M had more than 450,000 devices connected to its IoT platform and distributed intelligence solution. It generates real-time information and control to over 65 enterprise and government customers across Asia Pacific and operates over multiple radio technologies.

Dividends

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

Review of operations

The 2023 financial year was a transformative one for X2M. All core business metrics performed well with the Company's strategy of investing in growth delivering results. Key operational metrics compared to the prior corresponding period (pcp) ended 30 June 2022 were:

- Revenues from ordinary activities are up 56% to \$16.2 million
- Total cash burn from operating activities for the year was \$2.3 million, an improvement of 62% on the pcp
- Total connected devices increased to 428,801 up 75% on the pcp
- 19 new enterprise and government customers were added during the year bringing the total customer base up to 65, an increase of 46% on the pcp
- X2M is well positioned for FY24 with already contracted revenues of more than \$7.6 million

FY23 results for the Company reflect the outcomes of X2M'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 Software as a Service (SaaS) and maintenance revenues and moving into new markets where market analysis is positive. From its existing customer base, the Company has a total addressable market of over \$500 million¹ and a recurring revenue base of over \$40 million² per annum.

¹ Assumes customers install X2M current bundled services to all of their households

² Assumes customers install X2M SaaS services to all their households

Revenue for the period was \$16.2 million, up 56% on the pcp, reflecting significant organic growth across all established 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. A replicable solution across campus like institutions both domestically and globally. The China market, which the Group entered in 2021, made good progress earning revenues of \$4.4 million for the year. With phase 1 of the market entry strategy well progressed, the Group plans to move to higher margin sales in this market, which may result in slower growth in this market as we reset relevant prior year comparisons.

The Group's total connected devices increased to 428,801 at 30 June 2023, adding approximately 184,000 connected devices to its patented software platform over the year and representing 75% growth on the pcp and setting the scene for continued strong SaaS and other recurring revenue growth.

Other income was \$0.7 million, up 49% on the pcp. This mainly consists of \$0.6 million in research and development tax incentive and other government grants.

Gross profit margin improved to 23%, up from 22% in the pcp. This was mainly attributable to improved margins from South Korea and China operations.

Operating expenses, excluding cost of sales and share based payments expense, were \$9.1 million, up 2% on the pcp, a credible outcome in light of the very strong customer and revenues growth for the year.

Non-cash share based payments were \$0.6 million (pcp: \$2.2 million).

The loss for the Group after income tax amounted to \$6.5 million (2022: loss of \$10.2 million).

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

	Consolidated	
	2023	2022
	\$	\$
Loss after income tax	(6,514,079)	(10,235,780)
Less: Income tax expense	1,144	14,826
Add: Finance costs	212,457	74,658
Add: Depreciation and amortisation	1,054,958	946,043
EBITDA	(5,245,520)	(9,200,253)
Add: Share based payments expense**	645,952	2,184,136
Add: One off IPO expenses	-	891,708
Adjusted EBITDA*	<u>(4,599,568)</u>	<u>(6,124,409)</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 IPO 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, options and performance rights issued to employees.

The Group's cash and cash equivalents as at 30 June 2023 were \$1.8 million, an increase of \$0.8 million from 30 June 2022, mainly attributable to \$5.2 million (before costs) raised from the Entitlement Offer and Strategic Placements, offset by operating spend.

SEGMENT PERFORMANCE

South Korea

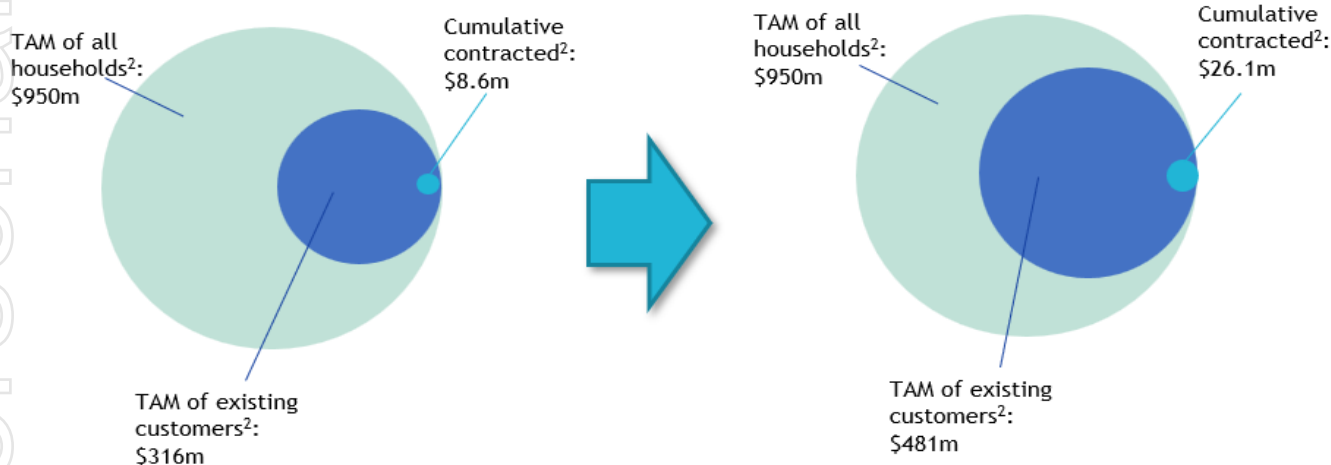
The Company's South Korean operations performed strongly, driven by continued deployments for Korea Water Resources Corporation (K Water) across 32 municipalities with many customers placing repeat orders in what is good validation of the Company, its technology offering and resulting customer use cases. FY23 revenue was \$10.5 million, up 69% on the pcp. Adjusted EBITDA loss was \$1 million, an improvement of 37% on the pcp.

During the financial year, X2M was awarded the Excellent Product Certification for its offering in South Korea. This certification became effective on 16 March 2023 and allowed X2M to receive larger value contracts without the local government customer having to perform a tender process and provided an opportunity to increase prices on certain products. This certification was achieved after an extended process and formed an additional accreditation as part of the South Korean Government Public Procurement System portal (PPS) which is an online ordering system for local governments.

The illustration in Chart 1 shows the success of X2M's "land and expand" strategy of increasing customer penetration once its platform has been deployed. Over the 21 months to June 2023, the total addressable market (TAM) of X2M's existing customers has increased from \$316 million to \$481 million. This represents an increase from 33% to 51% of the total South Korean country market. Contracting of the customers' TAM, on average, has increased from 2.7% to 5.4%. Overall penetration of customers' TAM is low and strong historical growth augers well for future growth.

SOUTH KOREA MARKET - SEP 2021

SOUTH KOREA MARKET - JUN 2023



1. Data as at 30 June 2023.

2. South Korea total addressable market (TAM) and contracted values are based on Year 1 bundled revenues of A\$120 per device.

Chart 1 - progress of growing customer TAM and conversion in South Korea

China

Despite the challenges with COVID-19 restrictions in the early part of FY23, X2M's China operations delivered \$4.4 million in total revenues (up 33% pcp), including delivery of the contract for water meters in Hebei province. 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. With phase 1 of the market entry strategy well progressed, the Group plans to move to higher margin sales in this market.

China reported an adjusted EBITDA loss of \$0.1 million, an improvement of 52% on the pcp.

Taiwan

Taiwan, which is X2M's incubation hub for new commercial releases, achieved revenue of \$0.8 million, up 180% on the pcp.

Revenue growth was mainly attributable to deployment of NBloT 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. This project included solar, the grid, and the ability to distribute energy to battery storage and EV charging. The solution also serviced many aspects of building energy management, and remotely controlled 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 EBITDA loss of \$0.8 million, an improvement of 4% on the pcp.

Other (including Japan, Hong Kong and Australia)

The Other segment consists of Japan, Hong Kong and Australia. This geographic segment includes Australia being the cost centre for corporate and R&D software development costs.

In Japan, X2M continued to grow connected devices under a licensing arrangement. Total connected devices in Japan at 30 June 2023 totalled 223,344, up 57% on the pcp.

The Other segment reported an adjusted EBITDA loss of \$2.8 million, an improvement of 23% on the pcp.

CONNECTED DEVICES CONTINUE TO CLIMB

Total connected devices numbered 428,801 at 30 June 2023. X2M added approximately 184,000 connected devices to its patented software platform over the year. Enterprise/government customers as at 30 June 2023 rose to 65, up 46% on the pcp. Chart 2 shows the acceleration in growth over recent years.

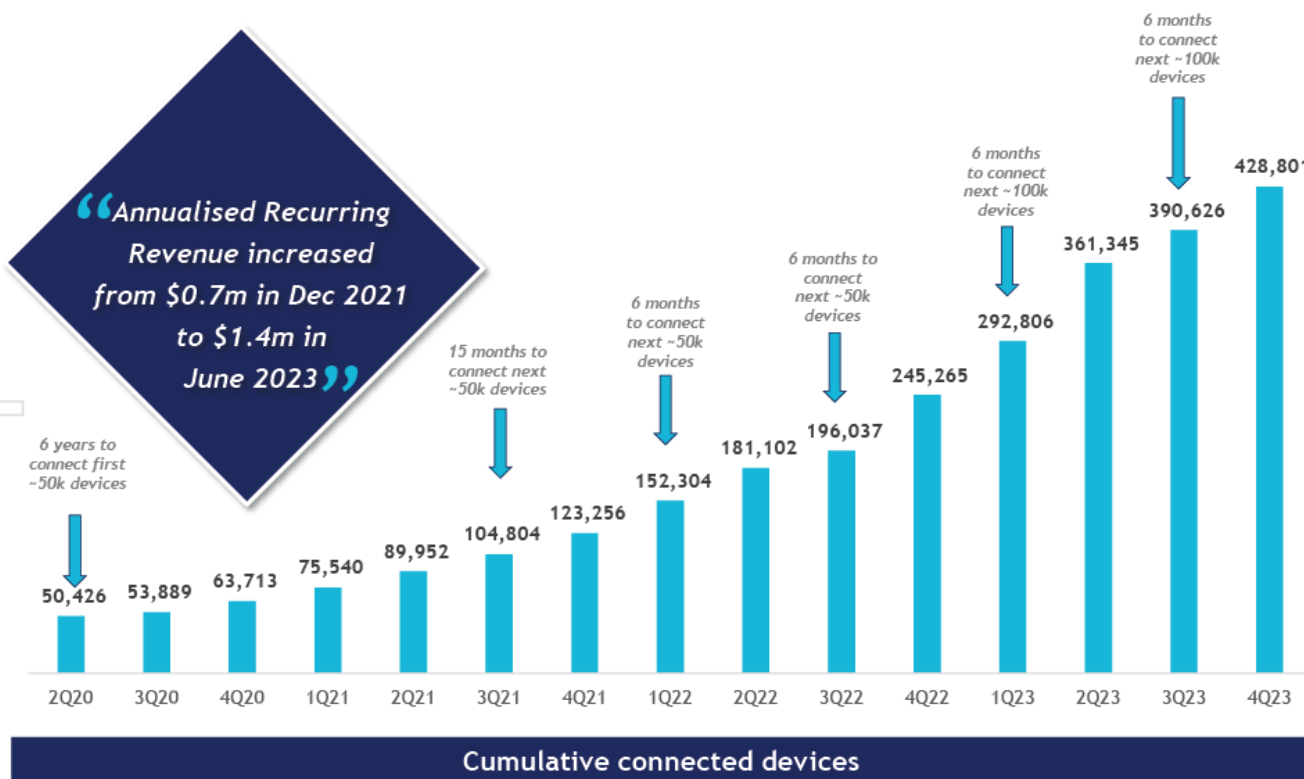


Chart 2 - growth in connected devices on the X2M platform

OVERHEADS

X2M's overheads¹ increased to \$9.1 million in FY23, up 2% or \$0.2 million on pcp. Overall a most credible result on the back of strong revenue and connected device growth.

¹ Adjusted for non-cash amounts and one-off IPO expenses not expected to occur in the future.

STRATEGY UPDATE

X2M's strategic programme is in three phases. The Company is well past the validation stage with established operations in each of its' existing markets. Strong and consistent performances over the last three years during the commercialisation phase delivered by a stable and experienced management team now positions it very well to move into phase three of its journey - the "Transformation" phase.

Chart 3 provides an illustration of the Company's three horizon strategy and ambitions as it enters the "Transformation" phase.



1. Total addressable market assumes customer installs X2M current bundled services to all its households.

Chart 3 - X2M three horizon strategy

The key focus of horizon three is to take the Company to being EBITDA and cashflow positive. Underpinning this is an ambition to accelerate device count on the X2M "Vision" platform and to capture share of the growing demand for data driven by artificial intelligence, big data analytics and machine learning applications. The large addressable markets in the regions it operates in, together with the potential within its existing customer base, positions the Company very well for supplying data for these new application arenas.

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.

The Company successfully completed a placement to professional and sophisticated investors of \$0.858 million being 12,629,409 shares at \$0.068 per share. This was followed by a share purchase plan, raising a further \$0.33 million with 4,889,680 shares issued at \$0.068 per share.

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

Subsequent to financial year end, the Company successfully completed a capital raising of \$1.7 million through a convertible note offer. \$650,000 of the conversion to ordinary shares are subject to shareholder approval at a meeting in October 2023.

On 5 September 2023, the Company issued the following unquoted securities:

- 6,866,892 FY24 LTI performance rights to overseas employees for nil consideration, vesting one month after release of the FY25 Annual Financial Statements, subject to share price hurdles, expiring on 31 December 2026; and
- 6,790,812 FY24 LTI options to Australian executive and employees, vesting one month after release of the FY26 Annual Financial Statements, subject to share price hurdles, expiring on 4 September 2028.

No other matter or circumstance has arisen since 30 June 2023 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.

Likely developments and expected results of operations

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

The FY24 outlook and growth strategy

As of the date of this report, X2M have already secured contracts expected to deliver approximately \$7.6 million in revenues in FY24.

The following graphic sets out key targets X2M is aiming to achieve in the FY24:

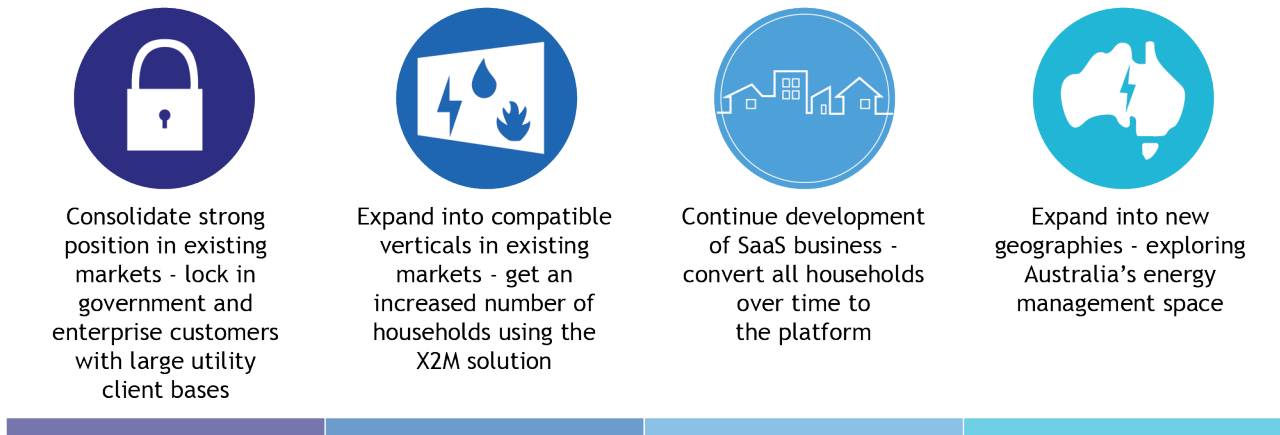


1. Annualised recurring revenues is SaaS and maintenance revenues annualised by multiplying monthly value by 12.

The Company's FY24 growth strategy is premised on:

- Capitalising on X2M's market position in APAC: Utilities and governments in the APAC region are migrating to sophisticated Internet-based technology solutions in search of productivity improvements and environmental sustainability. To meet demand, hardware and sensor manufacturers supplying the sector are seeking access to leading edge technology platforms to enhance their product offerings, which X2M can provide.
- X2M's product portfolio: X2M's proprietary platform remains a market leading offering protected by a strong patent portfolio and delivering a variety of product offerings across the water, gas and energy sectors. The Company will further leverage its capability across current and new customers and markets.
- Deeper penetration of the existing customer base: X2M's customer base represents a large addressable market in excess of \$500m in total revenues and \$40m in annual recurring revenues.
- Entering the Australian energy management sector: The Australian market presents scalable opportunities in the energy management sector as organisations work towards net zero emissions and consumers seek to reduce energy costs and support environmental sustainability. X2M is introducing Smart Communities and Smart Agriculture as solutions in the Australian market with term sheets signed for two customers.
- New markets: With proven success in its "Land and Expand" strategy, X2M will be assessing the possibility of expanding into new geographic markets in the APAC region, Middle East and North America.

The following graphic provides a visualisation of the Company Land and Expand Growth Strategy



Core strategy based on rapid growth at early state of the business.

1. X2M's hardware capability drives early penetration:
 - Incumbency strongly tends to drive repeat orders increasing penetration into the total addressable market of each customer; and
 - Hardware sales strongly tend to lock in future annual recurring SaaS revenues.
2. SaaS revenues are at higher gross margins than hardware sales.
3. As SaaS recurring revenues become a larger and increasing proportion of total revenues, they will drive future profitability.



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Risk Statement

X2M is committed to the effective management of risk to reduce uncertainty in its commercial activities and business outcomes and to protect and enhance shareholder value. There are various risks that could have a material impact on the achievement of the X2M's strategic objectives and future prospects.

Key risks and mitigation activities associated with the Group's objectives are set out below:

Product quality risks

The Company is dependent on the effective performance, reliability and availability of its technology platforms, hardware, software, third party data centres and communication systems. Therefore, there is a risk that the infrastructure and technology solutions supplied by the Company to customers may not be functional, may be faulty, or not meet customers' expectations. This may lead to the Company being required to repair or improve its products after sale and or installation, which may diminish operating margins or lead to losses. For those systems which the Company retains an ownership in and operates on behalf of the customer under long term agreements, or which the Company maintains under long term maintenance agreements, the Company may be made responsible if such systems are not functional or faulty. The Company may face claims from customers if its products do not meet standards that were contractually agreed upon.



Mitigation Strategies: The Company continues to use outsourced professional partners to manufacture hardware devices deployed. There are warranty terms with the contracted manufacturer. The Company uses tier one cloud providers such as AWS and KT GCloud to host services supplied to its customers. The Company has expanded its quality assurance department to perform functional and regression testing of its products to reduce the chances of failure.

Disruption of key business processes risk

The Company's business model relies on the execution of several critical business processes, particularly to support servicing of customers and to process transactions on their behalf. Key business processes could be disrupted by events outside of the Company's control such as system infrastructure disruption, system failures, service outages, corruption of information technology network or information systems as a result of computer viruses, bugs, worms or cyber attacks, as well as natural disasters, fire, power outages or other events outside the control of the Company, and those measures implemented by the Company to protect against such events are ineffective.

Any systemic failure could cause significant damage to the Company's reputation and its ability to process transactions for customers. Such systemic failure could also impact the Company's ability to retain existing, and generate new customers, any of which could have a material adverse impact on the Company's business, operating and financial performance, and/or growth.



Mitigation Strategies: The Company uses tier one services such as AWS, Microsoft 365 and Atlassian to reduce the chances of disruption to services. The Company implements information systems in line with best practice standards and has these audited by external parties to provide confidence of their suitability and resilience.

Price risks

The price of the Company's products may be high compared to other products, in particular in the APAC region where the Company operates or where there is high price pressure. This may lead to difficulties in the market acceptance for the Company's products, as customers may switch to cheaper products, which may require the Company to decrease prices. As a result, there could be lower operating margins.



Mitigation Strategies: The Company reviews competitor pricing and solution capabilities and adjusts pricing accordingly. The Company mitigates for drop in margin by producing products with perceived superiorities so that customers may be prepared to pay more than for competitor products. In South Korea, the Company was awarded the Excellent Product Certification which provides opportunity to increase prices on certain products.

Supplier and manufacturing risks

The Company sources certain key components for its devices from third party suppliers and outsources manufacturing of products to third parties.

The delivery of such components may be delayed, or a specific supplier may not be able to deliver at all, which may lead to a longer sales cycle or may force the Company to shift to another supplier. There is a risk that the Company could be disrupted if no alternative suppliers were able to be sought. There is a current global shortage of certain critical components which increases the magnitude and likelihood of this risk. There is a risk that key components provided by third party suppliers may be defective. The Company's products may be subject to product quality risks. The products supplied by the Company may not be functional or not meet customer's expectations. This may lead to requirements for the Company to improve or refine its products, which may diminish operating margins or lead to losses.



Mitigation Strategies: The Company manages the supply of critical components by way of forecasting and prepayment with key suppliers. Quality control processes are used in manufacturing to ensure the devices are operating as expected.

Cybersecurity and data protections

Given the nature of the Company's Software as a Service business, the Company collects and holds some personal information about its customers and their end customers in Japan, South Korea and Taiwan. Notwithstanding that the Company has currently adopted a number of policies and procedures regarding information security protection, the Company's systems, or those of its third-party providers, may fail, or be subject to disruption as a result of external threats or system errors. Cyber-attacks could also compromise or breach the safeguards implemented by the Company to maintain confidentiality in such information.



Mitigation Strategies: The Company implements information systems in line with best practice standards and has these audited by external parties to provide confidence of their suitability and resilience. The Company was certified to meet ISO27001:2013 in 2021 and successfully completed the annual audit in 2022, also adding the China entity to the certificate. A further annual external audit is scheduled for October 2023. As part of the review and audit of systems, various improvements are identified and scheduled for implementation to reduce the risk of incidents.

Competition risk

The utility industry in which the Company operates is subject to competition. Current or future competitors may come up with new, better or cheaper products and solutions. The Company's competitors include both small and medium enterprises and large, established corporations or multinationals. Those may decide to enter the Company's target markets and be able to fund aggressive marketing strategies. They may also have stronger financial capabilities than the Company which may negatively affect the operating and financial performance of the business. Although the Company will undertake all reasonable due diligence in its business decisions and operations, the Company will have no influence or control over the activities or actions of its competitors, which activities or actions may, positively or negatively, affect the operating and financial performance of the Company's business.




Mitigation strategies: The Company reviews competitor pricing and solution capabilities and adjusts pricing accordingly. The Company attempts to mitigate the need for a reduction in price by producing products perceived to be superior so that customers may be prepared to pay more than for competitive products. In South Korea, the Company has received a Performance Excellence Certificate and Excellent Product Certification for its products which provides justification for improved product pricing or contract terms. The Company continues to invest in product development to improve product offerings to stay competitive.

Liquidity and additional requirements for capital

The Company is targeting to grow revenue at a greater rate than expenses. However, there is a risk that expenses cannot be contained to the expected level and will exceed management expectations. Depending on the Company's ability to generate income from its operations, the Company may require further financing in addition to amounts raised to date. Any additional equity financing will dilute shareholdings, and debt financing, if available, may involve restrictions on financing and operating activities. If the Company is unable to obtain additional financing as needed, it may be required to reduce the scope of its operations. There is however no guarantee that the Company will be able to secure any additional funding or be able to secure funding on terms favourable to the Company.




Whilst the Company is targeting to grow revenue at a greater rate than expenses, market variables or elements outside the control of the Company may come into effect. Based on the current assumptions, 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.

 **Mitigation Strategies:** The Company continuously monitors its cash requirements and capital funding prospects. Subsequent to year end, the Group successfully raised \$1,700,000 before costs via issue of convertible notes. Cash flow forecasts prepared by management indicate that the Group will have sufficient funds to meet budgeted plans and commitments over the next twelve months. However, further cash may be required if the Company decides to accelerate its growth plans, invest in new verticals, pursue entry into a new market or if the planned income and expenses vary significantly from the forecasts.

Regulatory risk


The Company is subject to continuing regulation, including quality regulations applicable to the manufacture and operation of its devices and privacy regulations concerning personal identifying data. Whilst the Company currently meets the regulations applicable to its products and services, there can be no guarantee that the regulatory environment in which the Company operates may not change in the future which may impact on the Company's existing approvals and products. There is a risk that the Company may inadvertently breach a regulation despite the controls implemented to prevent this. There is a risk that a breach of or change in regulations may have a material impact on the Company's activities.

The Company intends to expand its operations into target jurisdictions in the short to medium term. Further regulatory approvals may be required to expand into new jurisdictions including but not limited to safety, electromagnetic radiation and interference requirements and other product quality and safety standards specific to the target jurisdiction. However, as at the date of this report, the Company is not aware that any further regulatory approvals are required. If further regulatory approvals are required, the Company may not be able to obtain the necessary approvals and clearances in a timely fashion or may not be able to obtain the necessary approvals and clearances at all.

 **Mitigation Strategies:** The Company understands the importance of complying with all regulations across the jurisdictions in which it operates. Internal process is in place to review compliance with regulations.

Insurance


The Company intends to insure its operations in accordance with industry practice. However, in certain circumstances the Company's insurance may not be of a nature or level to provide adequate insurance cover. The occurrence of an event that is not covered or fully covered by insurance could have a material adverse effect on the business, financial condition and results of the Company. Insurance of all risks associated with the Company's business may not always be available and where available the costs may be prohibitive. Further there is a risk that any insurance claim by the Company may not be paid by the insurer due to default or other reasons.

 **Mitigation strategies:** The Company engages with insurance brokers as part of its review of its insurance covers at least on an annual basis.

Legal proceedings

Legal proceedings may arise from time to time in the course of the business of the Company including enforcing or defending its intellectual property rights against infringement and unauthorised use by the competitors or in relation to a contract dispute.

As announced to the ASX on 31 May 2023, the Company settled with the plaintiffs in the Freestyle Technology litigation proceedings, with each party paying their own costs.

 **Mitigation strategies:** The Company continues to monitor the possible exposure to legal proceedings.

Environmental regulation

Environmental regulation does not impose any material obligations or raise any material risk to the Company under any Australian Commonwealth or State law or in any of the other jurisdictions in which we operate.

Information on directors

Hon. Alan Stockdale AO

Title

Non-Executive Chairman
(appointed on 8 February 2021)

Experience and expertise

Mr Stockdale has significant legal, Government, investment banking and other business experience. He was Victorian Treasurer (1992-1999) and was the Minister for IT and Multimedia from 1996 to 1999. He was a successful barrister, law firm Partner and Consultant and worked as an investment banker for Macquarie Bank. Mr Stockdale is Chairman of Knosys Limited and was previously Chairman of ASX-listed companies Senetas, Axon Instruments and Symex (now Pental) and Chairman of the Medical Research Commercialisation Fund. He has been Chairman or a Director of several other listed companies, unlisted companies and voluntary organisations.

Other current directorships

Non-Executive Chairman of Knosys Limited (ASX: KNO)

Former directorships (last 3 years)

Nil

Special responsibilities

Chair of the Board
Member, Audit and Risk Committee

Interests in shares

768,722 fully paid ordinary shares*

Interests in options

144,135 unlisted options*
96,091 listed options*

* Shares and options are held indirectly by a nominee

Damien Johnston

Title

Non-Executive Director
(appointed on 8 February 2021)

Experience and expertise

Mr Johnston is an ASX experienced Finance Executive. Mr Johnston is currently the Interim CFO at Tabcorp Holdings Limited where he also previously held the CFO position. He previously held several senior financial roles at BHP Group Limited. Mr Johnston has solid governance experience through his involvement on the Tabcorp Holdings Limited Board and related committees. Mr Johnston has extensive experience in mergers and acquisitions at Tabcorp Holdings Limited and BHP Group Limited.

Other current directorships

Nil

Former directorships (last 3 years)

Nil

Special responsibilities

Chair, Audit and Risk Committee

Interests in shares

678,479 fully paid ordinary shares*

Interests in options

72,068 unlisted options*
48,046 listed options*

* Shares and options are held indirectly by a nominee

Mohan Jesudason

Title

Managing Director and Chief Executive Officer (appointed to the Board on 17 March 2023)

Experience and expertise

Mr Jesudason has over 30 years' business and executive experience. He was previously the Managing Director of Gaming and Group Marketing at Tabcorp Holdings Limited for 10 years. He also worked 9 years at Telecom New Zealand (now Spark New Zealand Limited) which included the position of Managing Director at Telecom Mobile. Mr Jesudason also worked at National Mutual/AXA (now AMP Limited) for 16 years where he served in a variety of roles from Graduate trainee to senior executive. Mr Jesudason is a Director of the Melbourne Football Club, on the Advisory Board of Enterprise Victoria and a past Director of Racing Victoria Limited where he was also a Member of the Racing Integrity Council.

Other current directorships

Nil

Former directorships (last 3 years)

Nil

Special responsibilities

Nil

Interests in shares

11,898,387 fully paid ordinary shares*

Interests in options

20,119,236 unlisted options*
470,589 listed options*

* Shares and options are held indirectly by a nominee

Information on directors

John Stewart

Title

Non-Executive Director
(appointed on 8 February 2021)

Experience and expertise

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

Other current directorships

Nil

Former directorships (last 3 years)

Nil

Special responsibilities

Member, Audit and Risk Committee

Interests in shares

384,362 fully paid ordinary shares

Interests in options

72,068 unlisted options
48,046 listed options

Jodie Leonard

Title

Non-Executive Director
(resigned on 17 March 2023)

Company Secretary

Oliver Carton

(Company Secretary, appointed on 1 October 2021)

Experience and expertise

Mr Carton is a qualified lawyer and experienced Company Secretary with over 30 years' experience in a variety of corporate roles. He is currently a director or company secretary of a number of listed, unlisted and not for profit entities such as the Melbourne Symphony Orchestra and Australian Mines Limited. He currently runs his own consulting business and was previously a Director of the Chartered Accounting firm KPMG. Prior to that, he was a senior legal officer with ASIC.

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the period ended 30 June 2023, and the number of meetings attended by each Director were:

	Board		Remuneration and Nomination Committee ⁽¹⁾		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Alan Stockdale ⁽²⁾	14	14	3	3	5	5
Mohan Jesudason ⁽³⁾	6	6	-	-	-	-
Damien Johnston ⁽⁴⁾	14	14	3	3	5	5
John Stewart	14	14	3	3	5	5
Jodie Leonard ⁽⁵⁾	8	8	3	3	4	4

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

- (1) Remuneration and Nomination Committee was dissolved during the year. Its responsibility was assumed by the Board.
- (2) Chair of the Board
- (3) Appointed to the Board on 17 March 2023
- (4) Chair of Audit and Risk Committee
- (5) Chair of Remuneration and Nomination Committee (resigned from the Board on 17 March 2023)

Remuneration report (audited)

The Board of Directors are pleased to present the Remuneration Report for X2M Connect Limited for the financial year ended the 30th of June 2023.

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

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

Gender diversity remains a challenge across the technology industry. Given the current size of the team and the limited opportunity for change, we will only be able to address gender diversity as we add to or replace team members. However, the Company is an equal opportunity employer and will seek to improve gender diversity as the business grows. Details of the Company's diversity targets can be found in the Corporate Governance Plan on the X2M company website at www.x2mconnect.com and on page 84 of this report.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

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

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

Strategic Priorities

- Commercialise our technology
- Build footprint across Asia Pacific
- Increase market penetration
- Increase recurring revenue from SaaS licensing
- Building our capability

Remuneration Principles

- Attract and retain talent
- Align with Strategy
- Performance focused
- Reward fairly
- Merit based

Remuneration Governance

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

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience
- reflecting competitive reward for contribution to growth in shareholder wealth
- providing a clear structure for earning rewards

Remuneration Framework

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

Total Fixed Remuneration (TFR)	Short Term Incentive (STI)	Long Term Incentive (LTI)
Attract and retain the best talent.	Rewards current year performance.	Reward long-term sustainable performance.
Base salary and superannuation (where applicable).	Annual cash payment and/or premium priced options and performance rights.	Options or performance rights.
TFR is set in relation to the external market and considers size and complexity of role along with individual responsibilities, experience, and skills.	STI provides appropriate differentiation of pay for performance and is based on business and individual performance outcomes.	LTI supports alignment to long-term overall Company performance and aligns with shareholder value.
TFR preferred positioning is 50 th to 75 th percentile of the market comparator group.	2023 objectives based on achieving Company and Personal KPI's.	Hurdles set to align with strategic business drivers and long-term shareholder value.

Non-executive directors remuneration

Fees and payments to Non-Executive Directors reflect the demands and responsibilities of their role. Non-Executive Directors' fees and payments are reviewed annually by the Board. The Board may, from time to time, receive advice from independent remuneration consultants to ensure Non-Executive Directors' remuneration is appropriate and in line with the market. The Chairman's fees are determined independently to the fees of other Non-Executive Directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to the determination of his own remuneration.

ASX listing rules require the aggregate Non-Executive Directors' remuneration be determined periodically by a general meeting. The current maximum aggregate remuneration payable to Non-Executive Directors of the consolidated entity in any financial year is \$400,000 as approved at the time of listing.

Executive remuneration

The Group aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable at-risk components.

The executive remuneration and reward framework has four components:

- base pay and superannuation
- short-term performance incentives
- share-based payments
- other remuneration such as long service leave

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary and superannuation (where applicable), is reviewed annually by the Board and is based on external market benchmarks which considers the size and complexity of the role along with individual responsibilities, experience and skills.

The short-term incentive ('STI') program is designed to align the key executives with the short term financial and strategic objectives of the Company. STI payments are granted to executives based on achievement of specific annual company and personal targets referred to as key performance indicators ('KPI's').

The long-term incentive ('LTI') is based on equity awards. Shares, options or performance rights are awarded to executives with long-term incentive performance measured at the end of the relevant three-year performance period.

Consolidated entity performance and link to remuneration

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

	FY19 ⁽¹⁾	9 December to 30 June 2020 ⁽²⁾	FY21	FY22	FY23
Short term measures					
Revenue \$m	-	\$1.3	\$5.7	\$10.4	\$16.2
OPEX \$m ⁽⁴⁾	-	\$1.9	\$7.0	\$8.4	\$9.1
Adjusted EBITDA \$m ⁽⁵⁾	-	(\$1.0)	(\$4.4)	(\$6.1)	(\$4.6)
Connected Devices	-	63,713	123,256	245,265	428,801
Long term measures					
Share Price at June 30 ⁽³⁾	-	-	-	\$0.093	\$0.058
Earnings per Share cents	-	(3.25)	(12.21)	(7.70)	(3.54)

- (1) Results not available as the Company was not incorporated in FY19.
- (2) Results reflect the period from when the Company was incorporated on 9 December 2019.
- (3) FY22 share price reflects closing price on ASX on last day of trading.
- (4) OPEX is a non-IFRS measure calculated as total expenditure, less cost of sales, share based payments, depreciation and amortisation, finance costs, one-off IPO bonus and one-off IPO expenses.
- (5) 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 IPO expenses.

In order to incentivise executives and align with shareholder objectives, the 2023 LTI plan provided for the potential to be awarded shares, performance rights and options. The Company has two employee incentive plans used to award LTI. A summary of the key plan terms and conditions are noted in the following tables:

Share Plan Terms and Conditions

Feature	Description
Eligibility	Directors, employees, and contractors are eligible to participate.
Administration of Plan	The Board is responsible for the operation of the Share Plan and has broad discretion to administer the plan.
Issue Price	Determined by the Board.
Vesting Condition	Except in the case of Directors, the KMP and other employees must meet plan conditions including current employment, and eligibility. May vest under special conditions including death & disability, retirement, or redundancy.
Resignation	Unvested shares lapse at the time of resignation unless determined otherwise by the Board. Shares will vest pro rata to the proportion of the period from the date of issue to the date of resignation and must be Board approved.
Hedging	Hedging prohibited
Forfeiture	<ul style="list-style-type: none"> • Forfeiture can occur under conditions that include: • Plan vesting conditions not satisfied • Participant no longer an eligible participant • Board discretion to cancel the plan • Change of control or a winding up resolution or order is made, and the Board does not waive the vesting condition.
Good leaver	<p>Subject to the terms of an Offer, where a Participant becomes a Good Leaver:</p> <ul style="list-style-type: none"> • Options will continue in force and remain exercisable until the Expiry date • Performance rights held will continue in force and remain exercisable. <p>The Board has discretion to allow some or all of unvested awards to be held with the remainder lapsing.</p>
Bad leaver	Unless determined by the Board otherwise, if Bad Leaver determined, all vested Awards not yet exercised will remain in force and exercisable until 1 month after termination date thereafter automatic lapse will occur.
Malus & Claw Back	Forfeiture due to fraud, dishonesty, or other improper behaviour.
Restriction on Transfer	Transfers not permitted unless the sale, transfer or disposal requires the preparation of a disclosure document.
Quotation on ASX	Plan shares quoted on ASX and subject to the Listing Rules, as well as any holding lock applying to that applies to the shares.
Rights Attaching to Plan Shares	Same terms and conditions as the Company's issued shares (other than plan transfer restrictions). Shares will have equal rank with all other issued Shares from the issue date (except for entitlements which have a record date before the issue date).
Appointment of Trustee	The Board retains discretion for Shares to be held by a Trustee on trust, and the Board maintains power to approve or deny application to withdraw Shares held by the Trustee on their behalf.
Maximum Number of Shares	12,472,640 Shares (being 5% of the issued capital of the Company on a fully diluted basis at the date of the 2022 AGM).

Performance Rights and Options Plan Terms and Conditions

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

	C = the market value of one Share; and D = the Exercise Price.
Amendments	The Board may make amendments subject to plan rules, the Corporations Act, Listing Rules, and any other applicable law.
Maximum Number of Securities	37,417,920 Securities (being 15% of the issued capital on a fully diluted basis at the date of the 2022 AGM).

FY23 Long Term Incentive Arrangements

Performance period	1 July 2022 - 30 June 2025	
Vehicle	Premium priced options	
Measurement	Share price target measured using 1 calendar month VWAP share price from the date audited 2025 accounts are released	
Exercise price	\$0.1375	
Option value	\$0.04	
Targets and Vesting Schedule	Performance Over 3 Year Period vs Target	Proportion of options capable of vesting
	< 2 times issue VWAP	Nil
	≥ 2 times to 3 times issue VWAP+	Straight line vest 33% - 100%
	Issue VWAP is 1 calendar month VWAP share price from the date audited 2022 accounts are released	
LTI Rights awarded	5,785,510 to KMPs	
Expiry date	2 September 2027	

FY23 Short Term Incentive Plan Terms and Conditions

In FY23, a formal STI plan was introduced to align executives with the short-term goals of the Company and reward them for delivery of key financial and strategic imperatives. Details of the plan and outcomes follows:

Hurdles	<ol style="list-style-type: none"> 1. No material regulatory breaches 2. No material governance breaches 3. 90% of team to complete governance training by year end 4. Achievement of 90% of group revenue target
Weightings	Corporate KPI's - 80% Personal KPI's - 20%
Corporate KPI's	<ol style="list-style-type: none"> 1. ≥ Total Group Budgeted Revenue (50% weighting) 2. ≥ Group Budgeted EBITDA (10% weighting) 3. ≤ Group Budgeted OPEX (10% weighting) 4. ≥ Total number of connected devices budgeted (10% weighting) <p>Margin floor - deliver of < budgeted gross margin % (excluding China) results in the eligible corporate STI payment being reduced by 20%</p>
Personal KPI's	Two personal KPI's set for each executive based on individual responsibilities. Each personal KPI is weighted at 10%.

STI Outcomes	<p>a. Hurdles - all group hurdles were met</p> <p>b. Corporate KPI Outcomes - 80% achieved</p> <ol style="list-style-type: none"> 1. Total Group Budgeted Revenue - Achieved 2. Group Budgeted EBITDA - Achieved 3. Group Budgeted OPEX - Achieved 4. Total number of connected devices budgeted - Achieved <p>c. Margin floor - Achieved</p> <p>d. Personal KPI's</p> <ul style="list-style-type: none"> - CEO - 20% achieved - COO - 20% achieved
Payment	<p>Payment is split between cash and premium priced options as follows:</p> <ul style="list-style-type: none"> - 50% paid as cash within 30 days after the audited year end accounts announced to the market - 50% paid as premium priced options <p>Subsequent to year end, the Board and Executives mutually agreed to pay the full FY23 STI (\$200,000 for CEO and MD, \$99,618 for COO) in premium priced options, subject to shareholders approval.</p>

Use of remuneration consultants

A remuneration consultant was engaged during 2022 financial year to provide remuneration recommendations as defined in section 9B of the Corporations Act 2001. The consultant was engaged by, and reported directly to, the Board.

An agreed set of protocols were put in place to ensure that the remuneration recommendations would be free from undue influence from key management personnel. These protocols included requiring that the consultant not communicate with affected key management personnel without a member of the Board being present, and that the consultant not provide any information relating to the outcome of the engagement with the affected key management personnel. The Board is satisfied that these protocols were followed and as such there was no undue influence.

Voting and comments made at the Company's 2022 Annual General Meeting ('AGM')

At the 2022 AGM, 99.99% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2022. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

The key management personnel of the Group consisted of the following directors of X2M Connect Limited:

- Alan Stockdale (Non-Executive Chairman)
- Mohan Jesudason (Chief Executive Officer and Managing Director) (appointed to the Board on 17 March 2023)
- Damien Johnston (Non-Executive Director)
- John Stewart (Non-Executive Director)
- Jodie Leonard (Non-Executive Director) (resigned on 17 March 2023)

Other key management personnel:

- Keith Jelley (Chief Operating Officer)

Amounts of remuneration

Details of the remuneration of key management personnel of the Group are set out in the following tables.



	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled ⁽⁴⁾	
2023	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Alan Stockdale ⁽⁵⁾	100,000	-	-	10,500	-	8,820	119,320
Damien Johnston ⁽⁵⁾	54,505	-	-	5,723	-	4,410	64,638
John Stewart ⁽⁵⁾	45,455	-	-	4,773	-	4,410	54,638
Jodie Leonard ⁽³⁾⁽⁵⁾	38,992	-	-	4,094	-	4,410	47,496
<i>Executive Director:</i>							
Mohan Jesudason ⁽¹⁾	476,581	-	-	25,292	9,331	264,628	775,832
<i>Other Key Management Personnel:</i>							
Keith Jelley ⁽²⁾	276,581	-	-	25,292	5,297	131,808	438,978
	992,114	-	-	75,674	14,628	418,486	1,500,902

(1) Mr Jesudason was awarded a \$200,000 FY23 STI bonus, including 50% or \$100,000 payable in cash, for achieving 100% of his FY23 STI KPIs. It was mutually agreed between the Board and Mr Jesudason that the full FY23 STI bonus will be awarded as premium priced options, subject to shareholder approval, otherwise cash will be paid.

(2) Mr Jelley was awarded a \$99,618 FY23 STI bonus, including 50% or \$49,809 payable in cash, for achieving 100% of his FY23 STI KPIs. It was mutually agreed between the Board and Mr Jelley that the full FY23 STI bonus will be awarded as premium priced options provided shareholders approve similar options for Mr Jesudason.

(3) Ms Leonard resigned from the Board on 17 March 2023.

(4) Reflects equity awarded to the KMP or their nominee.

(5) Share based payments for Non-Executive Directors under the IPO replacement prospectus dated 24 August 2021.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	Total
	Cash salary and fees	Cash bonus	Non-monetary	Super-annuation	Long service leave	Equity-settled ⁽⁶⁾	
2022	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>							
Alan Stockdale ⁽³⁾	100,000	-	-	10,000	-	6,984	116,984
Jodie Leonard ⁽³⁾⁽⁴⁾⁽⁵⁾	58,704	-	-	4,870	-	3,492	67,066
Damien Johnston ⁽³⁾⁽⁴⁾⁽⁵⁾	58,704	-	-	4,870	-	3,492	67,066
John Stewart ⁽³⁾⁽⁴⁾	55,662	-	-	4,566	-	3,492	63,720
<i>Other Key Management Personnel:</i>							
Mohan Jesudason ⁽¹⁾	478,306	605,667	-	23,568	9,545	1,488,403	2,605,489
Keith Jelley ⁽²⁾	278,306	37,490	-	23,568	5,539	442,486	787,389
	1,029,682	643,157	-	71,442	15,084	1,948,349	3,707,714

DIRECTORS' REPORT

- (1) Mr Jesudason received an IPO cash bonus \$525,381 following the successful IPO of the Company as disclosed in the IPO replacement prospectus dated 24 August 2021. Mr Jesudason was also awarded a \$80,286 cash bonus, equating to 50% of his total STI payment for achieving 80% of his FY22 STI. The remaining 50% of his STI payment was awarded as performance rights that converted into options in March 2023.
- (2) Mr Jelley was awarded a cash bonus of \$37,490 equating to 50% of his total STI payment for achieving 75% of his FY22 STI. The remaining 50% of his STI payment was awarded as performance rights that converted into options in March 2023.
- (3) Options were granted to Non-Executive Directors under the IPO replacement prospectus dated 24 August 2021.
- (4) In FY22, a one-off payment of \$10,000 was made to reflect the increased workload required to support the Company's listing.
- (5) From 7 March 2022, Committee Chairs were paid an additional \$10,000 per annum reflected in FY22 on a pro rata basis.
- (6) Reflects equity awarded to the KMP or their nominee.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2023	2022	2023	2022	2023	2022
<i>Non-Executive Directors:</i>						
Alan Stockdale	93%	94%	-	-	7%	6%
Damien Johnston	93%	95%	-	-	7%	5%
John Stewart	92%	95%	-	-	8%	5%
Jodie Leonard	91%	95%	-	-	9%	5%
<i>Executive Director:</i>						
Mohan Jesudason	66%	20%	26%	23%	8%	57%
<i>Other Key Management Personnel:</i>						
Keith Jelley	70%	39%	23%	5%	7%	56%

The proportion of the cash bonus paid/payable or forfeited is as follows:

Name	Cash bonus paid/payable		Cash bonus forfeited	
	2023	2022	2023	2022
<i>Executive Directors:</i>				
Mohan Jesudason*	100%	80%	-	20%
<i>Other Key Management Personnel:</i>				
Keith Jelley*	100%	75%	-	25%

* As noted above, it was mutually agreed between the Board and the Executives that the cash component of FY23 STI will be paid in premium priced options, subject to shareholders approval.

Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name: Mohan Jesudason
 Title: Chief Executive Officer
 Agreement commenced: 1 February 2020
 Term of agreement: Ongoing
 Details: Mr Jesudason will receive a base remuneration of \$501,874 per annum inclusive of superannuation.

The Company may issue shares and options to Mr Jesudason under incentive plans as part of Mr Jesudason's ongoing remuneration as deemed appropriate by the Board, subject to all required Shareholder approvals under the Listing Rules and Corporations Act.

The Company has agreed to pay Mr Jesudason a combined cash and premium options based Short Term Incentive (STI) of 40% of base remuneration per annum for on target performance as and when deemed appropriate by the Board under the STI Plan developed by the Company and such STI to be based on Mr Jesudason's achievement of KPIs (as determined by the Board in its sole discretion, acting reasonably) agreed between the Board and Mr Jesudason for the year concerned.

Either party may terminate the employment in writing at any time by giving at least 12 months' notice.

Name: Keith Jelley
 Title: Chief Operating Officer
 Agreement commenced: 1 February 2020
 Term of agreement: Ongoing
 Details: Mr Jelley will receive a base remuneration of \$301,874 per annum inclusive of superannuation.

The Company may issue Shares and Options to Mr Jelley under incentive plans as part of the Mr Jelley's ongoing remuneration as deemed appropriate by the Chief Executive Officer and Board, subject to all required Shareholder approvals under the Listing Rules and Corporations Act.

The Company has agreed to pay Mr Jelley a combined cash and premium options based Short Term Incentive (STI) of 33% of the base remuneration per annum for on target performance as deemed appropriate by the CEO and the Board under the Short Term Incentive Plan.

Either party may terminate the employment in writing at any time by giving at least 6 months' notice.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

Share-based compensation**Issue of shares**

There were no shares issued to directors and other key management personnel as part of compensation during the period ended 30 June 2023.

Options

The terms and conditions of each grant of options over ordinary shares affecting remuneration of key management personnel in this financial period or future reporting years are as follows:

Name	Number of options		Vesting date and			Exercise price	Fair value per option at grant date
	granted	Grant date	exercisable date	Expiry date			
Mohan Jesudason	3,861,924	2 September 2022	30 September 2025	2 September 2027		\$0.1375	\$0.040
Keith Jelley	1,923,586	2 September 2022	30 September 2025	2 September 2027		\$0.1375	\$0.040
Mohan Jesudason*	655,219	17 March 2023	17 March 2023	17 March 2028		\$0.3400	\$0.086
Keith Jelley*	305,961	17 March 2023	17 March 2023	17 March 2028		\$0.3400	\$0.086

* Options were issued on conversion of FY22 STI performance rights.

The key management personnel were also issued free-attaching listed options as part of the Entitlement Offer in August 2022. Details are as follows:

Name	Number of options		Vesting date and			Exercise price	Fair value per option at grant date
	granted	Grant date	exercisable date	Expiry date			
Alan Stockdale	96,091	19 August 2022	19 August 2022	31 August 2024		\$0.16	-
Jodie Leonard	48,046	19 August 2022	19 August 2022	31 August 2024		\$0.16	-
Damien Johnston	48,046	19 August 2022	19 August 2022	31 August 2024		\$0.16	-
John Stewart	48,046	19 August 2022	19 August 2022	31 August 2024		\$0.16	-
Mohan Jesudason	470,589	19 August 2022	19 August 2022	31 August 2024		\$0.16	-
Keith Jelley	117,648	19 August 2022	19 August 2022	31 August 2024		\$0.16	-

The number of options over ordinary shares granted to and vested by Directors and other key management personnel during the period ended 30 June 2023 are set out below:

Name	Number of options granted during the period 2023	Number of options granted during the period 2022	Number of options vested during the period 2023	Number of options vested during the period 2022
	Alan Stockdale	96,091	144,135	96,091
Mohan Jesudason	4,987,732	15,602,093	1,125,808	14,228,153
Damien Johnston	48,046	72,068	48,046	-
John Stewart	48,046	72,068	48,046	-
Keith Jelley	2,347,195	5,427,064	423,609	4,742,718
Jodie Leonard	48,046	72,068	48,046	-

Values of options over ordinary shares granted, exercised and lapsed for Directors and other key management personnel during the period ended 30 June 2023 are set out below:

Name	Value of options granted during the period \$	Value of options exercised during the period \$	Value of options lapsed during the period \$	Remuneration consisting of options for the period %
Mohan Jesudason	154,477	-	-	34%
Keith Jelley	76,943	-	-	30%

Performance rights

There were no performance rights issued to directors and other key management personnel as part of compensation during the period ended 30 June 2023.

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the Company held during the financial period by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

	Balance at the start of the period	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the period
<i>Ordinary shares</i>					
Alan Stockdale	576,541	-	192,181	-	768,722
Jodie Leonard*	288,271	-	96,091	(384,362)	-
Damien Johnston	288,271	-	390,208	-	678,479
John Stewart	288,271	-	96,091	-	384,362
Mohan Jesudason	10,810,152	-	1,088,235	-	11,898,387
Keith Jelley	3,603,384	-	382,353	-	3,985,737
	15,854,890	-	2,245,159	(384,362)	17,715,687

* Ms Leonard resigned from the Board on 17 March 2023. The balance noted in "Disposals / other" column represents her shareholding as at the date of resignation.

Option holding

The number of options over ordinary shares in the Company held during the financial period by each director and other members of key management personnel of the Group, including their personally related parties, is set out below:

	Balance at the start of the period	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the period
<i>Options over ordinary shares</i>					
Alan Stockdale	144,135	96,091	-	-	240,226
Jodie Leonard*	72,068	48,046	-	(120,114)	-
Damien Johnston	72,068	48,046	-	-	120,114
John Stewart	72,068	48,046	-	-	120,114
Mohan Jesudason	15,602,093	4,987,732	-	-	20,589,825
Keith Jelley	5,427,064	2,347,195	-	-	7,774,259
	21,389,496	7,575,156	-	(120,114)	28,844,538

* Ms Leonard resigned from the Board on 17 March 2023. The balance noted in "Disposals / other" column represents her option holding as at the date of resignation.

STI Performance rights

The number of performance rights over options in the Company held during the financial period by each key management personnel of the Group, including their personally related parties, is set out below:

	Balance at the start of the period	Granted	Converted	Expired/ forfeited/ other	Balance at the end of the period
<i>Performance rights over options</i>					
Mohan Jesudason	-	819,023	(655,219)	(163,804)	-
Keith Jelley	-	407,947	(305,961)	(101,986)	-
	-	<u>1,226,970</u>	<u>(961,180)</u>	<u>(265,790)</u>	-

Loans to key management personnel and their related parties

No loans were provided from the Company to any key management person or their related parties in 2023 (2022: Nil).

Other transactions with key management personnel and their related parties

In the 2023 financial year, X2M incurred \$80,380 legal fees on behalf of Mr Mohan Jesudason and Mr Keith Jelley (2022: \$236,406). These legal fees relate to preparation of the defence in relation to legal proceedings regarding Freestyle Technology Limited. Mr Jesudason and Mr Jelley were indemnified by X2M for these proceedings as part of their respective executive employment agreement with the Company. The legal services provided to Mr Jesudason and Mr Jelley also cover a former Director of Freestyle Technology Limited (in liquidation) under a common defence. These legal proceedings were settled during the period.

During the 2023 financial year, X2M paid \$19,500 for social media management, graphic design and supporting services to Azimbo Consulting Pty Ltd (an entity associated with Keith Jelley, X2M Chief Operating Officer) (2022: \$1,250). The transactions were made on normal commercial terms.

This concludes the remuneration report, which has been audited.

Shares under option

Unissued ordinary shares of X2M Connect Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
16 July 2021	15 July 2025	\$0.250	9,411,283
14 September 2021	13 September 2025	\$0.358	9,559,588
14 September 2021	13 September 2025	\$0.358	5,188,029
14 September 2021	13 September 2024	\$0.250	1,646,154
14 September 2021	13 September 2024	\$0.313	1,646,154
14 April 2022	14 April 2027	\$0.500	2,058,286
27 June 2022	27 June 2027	\$0.500	1,359,264
19 August 2022	31 August 2024	\$0.160	21,108,218
25 August 2022	31 August 2024	\$0.160	2,242,179
29 August 2022	29 August 2027	\$0.140	986,822
2 September 2022	2 September 2027	\$0.138	5,785,510
17 March 2023	17 March 2028	\$0.140	1,518,028
17 March 2023	17 March 2028	\$0.340	961,180
5 September 2023	4 September 2028	\$0.098	6,790,812
			<u>70,261,507</u>

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the Company or of any other body corporate.

Shares issued on the exercise of options

There were no ordinary shares of X2M Connect Limited issued on the exercise of options during the period ended 30 June 2023 and up to the date of this report.

Shares under performance rights

Unissued ordinary shares of X2M Connect Limited under performance rights at the date of this report are as follows:

Grant date	Expiry date	Performance rights exercise price	Number under performance rights
17 March 2023	31 December 2024	-	1,195,500
17 March 2023	31 December 2025	-	5,029,940
5 September 2023	31 December 2026	-	<u>6,866,892</u>
			<u><u>13,092,332</u></u>

Shares issued on the conversion of performance rights

There were no ordinary shares of X2M Connect Limited issued on the conversion of performance rights during the period ended 30 June 2023 and up to the date of this report.

Indemnity and insurance of officers

The Company has indemnified the Directors and executives of the Company for costs incurred, in their capacity as a Director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial period, the Company paid a premium in respect of a contract to insure the Directors and executives of the Company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The company has not otherwise, during or since the end of the financial year, except to the extent permitted by law indemnified or agreed to indemnify any current or former officer or auditor of the company against a liability incurred by such an officer or auditor.

During the financial period, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the Company

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

Other proceedings

As announced to the ASX on 31 May 2023, the Company settled with the plaintiffs in the Freestyle Technology litigation proceedings, with each party paying their own costs.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial period by the auditor are outlined in note 24 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the financial period, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

DIRECTORS' REPORT

The Directors are of the opinion that the services as disclosed in note 24 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the Company who are former partners of Grant Thornton Audit Pty Ltd

There are no officers of the Company who are former partners of Grant Thornton Audit Pty Ltd.

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.

Auditor

Grant Thornton Audit Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors



Hon. Alan Stockdale AO
Non-Executive Chairman

27 September 2023

Grant Thornton Audit Pty Ltd

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Melbourne VIC 3008
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Melbourne VIC 3001
T +61 3 8320 2222

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 year ended 30 June 2023, 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, 27 September 2023

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Financial Statements



STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE PERIOD ENDED 30 JUNE 2023

	Note	Consolidated 2023	2022
Revenue	4	16,213,089	10,387,638
Other income	5	658,617	443,213
Total revenue and other income		<u>16,871,706</u>	<u>10,830,851</u>
Expenses			
Cost of sales		(12,410,381)	(8,074,964)
Employee benefits expense	6	(5,313,786)	(5,194,039)
Share based payments expense	32	(645,952)	(2,184,136)
Depreciation and amortisation expense	6	(1,054,958)	(946,043)
Finance costs	6	(212,457)	(74,658)
Telephone expenses		(413,784)	(271,008)
Short-term lease expenses		(44,127)	(62,203)
Other expenses	6	(2,325,047)	(1,979,152)
Professional fees		(964,149)	(1,373,894)
IPO expenses		-	(891,708)
Total expenses		<u>(23,384,641)</u>	<u>(21,051,805)</u>
Loss before income tax expense		(6,512,935)	(10,220,954)
Income tax expense	7	(1,144)	(14,826)
Loss after income tax expense for the period attributable to the owners of X2M Connect Limited		(6,514,079)	(10,235,780)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		43,795	(9,957)
Other comprehensive income/(loss) for the period, net of tax		43,795	(9,957)
Total comprehensive income/(loss) for the period attributable to the owners of X2M Connect Limited		<u>(6,470,284)</u>	<u>(10,245,737)</u>
		\$	\$
		Cents	Cents
Basic earnings per share	33	(3.54)	(7.70)
Diluted earnings per share	33	(3.54)	(7.70)

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

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2023

	Note	Consolidated 2023 \$	2022 \$
Assets			
Current assets			
Cash and cash equivalents	8	1,785,032	1,020,020
Trade and other receivables	9	2,565,557	241,489
Contract assets	10	961,727	796,228
Inventories	11	228,163	135,135
Other assets	12	3,808,287	2,054,133
Total current assets		<u>9,348,766</u>	<u>4,247,005</u>
Non-current assets			
Property, plant and equipment and right-of-use assets	13	450,270	627,622
Intangible assets	14	3,946,700	3,095,854
Other assets	12	429,738	201,972
Total non-current assets		<u>4,826,708</u>	<u>3,925,448</u>
Total assets		<u>14,175,474</u>	<u>8,172,453</u>
Liabilities			
Current liabilities			
Trade and other payables	15	6,405,703	2,236,186
Contract liabilities	16	3,552,254	2,203,139
Borrowings	17	2,069,095	558,476
Lease liabilities	19	159,592	243,075
Employee benefits	18	875,186	739,164
Total current liabilities		<u>13,061,830</u>	<u>5,980,040</u>
Non-current liabilities			
Lease liabilities	19	257,495	340,380
Employee benefits	18	450,902	296,341
Total non-current liabilities		<u>708,397</u>	<u>636,721</u>
Total liabilities		<u>13,770,227</u>	<u>6,616,761</u>
Net assets		<u>405,247</u>	<u>1,555,692</u>
Equity			
Issued capital	20	24,127,410	19,293,275
Reserves	21	2,671,008	2,141,509
Accumulated losses		(26,393,171)	(19,879,092)
Total equity		<u>405,247</u>	<u>1,555,692</u>

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

STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD ENDED 30 JUNE 2023

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	-	-	(10,235,780)	(10,235,780)
Other comprehensive income/(loss) for the period, net of tax	-	(9,957)	-	(9,957)
Total comprehensive income/(loss) for the period	-	(9,957)	(10,235,780)	(10,245,737)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs	7,042,048	-	-	7,042,048
Issue of shares on conversion of convertible notes	2,000,000	-	-	2,000,000
Transfers	652,431	(652,431)	-	-
Share-based payments	185,838	1,998,298	-	2,184,136
Options issued as consideration for Public Offer services	-	390,025	-	390,025
Balance at 30 June 2022	<u>19,293,275</u>	<u>2,141,509</u>	<u>(19,879,092)</u>	<u>1,555,692</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	-	-	(6,514,079)	(6,514,079)
Other comprehensive income for the period, net of tax	-	43,795	-	43,795
Total comprehensive income/(loss) for the period	-	43,795	(6,514,079)	(6,470,284)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 20)	4,804,247	-	-	4,804,247
Issue of shares under employee incentive plan	29,888	-	-	29,888
Share-based payments (note 32)	-	485,704	-	485,704
Balance at 30 June 2023	<u>24,127,410</u>	<u>2,671,008</u>	<u>(26,393,171)</u>	<u>405,247</u>

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

STATEMENT OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2023

	Note	Consolidated	
		2023	2022
		\$	\$
Cash flows from operating activities			
Receipts from customers		16,484,606	12,074,079
Receipts from government grants		1,468,350	352,389
Payments to suppliers and employees		(20,285,217)	(18,634,402)
Net cash used in operating activities	31	(2,332,261)	(6,207,934)
Cash flows from investing activities			
Payments for property, plant and equipment		(11,841)	(38,608)
Payments for intangibles		(2,684,221)	(1,659,929)
Payment for security deposits		(216,145)	(114,889)
Net cash used in investing activities		(2,912,207)	(1,813,426)
Cash flows from financing activities			
Proceeds from issue of shares	20	5,160,857	8,000,000
Share issue transaction costs		(370,874)	(694,743)
Advance received from investors		50,000	-
Proceeds from convertible notes		-	500,000
Proceeds from borrowings		2,197,000	1,035,034
Repayment of borrowings		(782,499)	(1,430,646)
Repayment of lease liabilities (including interest)		(279,746)	(195,635)
Net cash from financing activities		5,974,738	7,214,010
Net increase/(decrease) in cash and cash equivalents		730,270	(807,350)
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		34,742	(125,472)
Cash and cash equivalents at the end of the financial period	8	<u>1,785,032</u>	<u>1,020,020</u>

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

Note 1. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

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

Going concern

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

The Group recorded a net loss for the year ended 30 June 2023 of \$6,514,079 (2022: \$10,235,780) and Cash outflows from operating and investing activities were \$5,244,468 (2022: \$8,021,360). As at 30 June 2023 the Group had net assets of \$405,247 and had a working capital deficiency, being current assets less current liabilities, of \$3,713,064.

During the period, the Group successfully completed an Entitlement Offer, Placement and Share Purchase Plan, raising a total of \$5,160,862 before costs. Proceeds from the Offer were utilised to fund strategic initiatives and operating activities. 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.

Subsequent to year end, the Group raised \$1,700,000 before costs from issue of convertible notes. 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 the Group does not trade in line with its cashflow forecast and / or, if required, fails to raise additional capital, a material uncertainty would exist that may cast doubt on the Group's ability to continue as a going concern and, therefore, may be unable to realise its assets and discharge its liabilities in the normal course of business.

Should the Group be unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the ordinary course of business, and at amounts that differ from those stated in the financial statements. 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.

Basis of preparation

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

Note 1. Significant accounting policies (continued)

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Parent entity information

These financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 28.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of X2M as at 30 June 2023 and the results of all subsidiaries for the period then ended.

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

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

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

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

Foreign currency translation

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

Foreign currency transactions

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

Foreign operations

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

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

Note 1. Significant accounting policies (continued)

Interest

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

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Group's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Impairment of financial assets

The Group recognises a loss allowance for expected credit losses on financial assets which are measured at amortised cost. The measurement of the loss allowance depends upon the Group's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

The loss allowance reduces the asset's carrying value with a corresponding expense through profit or loss.

Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Note 1. Significant accounting policies (continued)

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Convertible notes

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

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST/VAT, unless the GST/VAT incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST/VAT receivable or payable. The net amount of GST/VAT recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST/VAT components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST/VAT recoverable from, or payable to, the tax authority.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

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

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

Note 2. Critical accounting judgements, estimates and assumptions (continued)

R&D Tax Incentives

Under the Research and Development (R&D) Tax Incentive scheme, the Group receives a 18.5% refundable tax offset above the Group's tax rate, of eligible expenditures if its turnover is less than \$20 million per annum provided it is not controlled by income tax exempt entities. A R&D plan is required to be filed with AusIndustry in the following financial year, and based on this filing, the Group would be able to receive the incentive in cash. Management performs a detailed review of the Group's total research and development expenditure to determine the potential claim under the R&D tax incentive legislation. There is a significant degree of judgement and interpretation of the R&D tax legislation required by management to assess the eligibility of the R&D expenditure under the scheme. This is to avoid the risk that expenses claimed are ineligible and the methodology adopted is not appropriate or not in accordance with the ATO guidelines including inaccurate calculations of the R&D tax incentive refund. For the year ended 30 June 2023 the Group has recorded a R&D tax incentive of \$1,480,841 (2022: \$1,314,897), in relation to 2023 financial year. This R&D tax refund receivable is subject to the Group completing the R&D tax application process and income tax returns on a timely basis.

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 3. Operating segments

Identification of reportable operating segments

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

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

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

Intersegment transactions

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

Intersegment receivables, payables and loans

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

Major customers

During the year ended 30 June 2023, seven customers from South Korea contributed \$7,691,243, representing 47% of total external revenues. Two customers from China contributed \$4,119,862, representing 25% of total external revenues.

Note 3. Operating segments (continued)**Operating segment information**

	South Korea \$	China \$	Taiwan \$	Other \$	Total \$
Consolidated - 2023					
Revenue					
Sales to external customers	10,462,476	4,368,012	828,179	554,422	16,213,089
Intersegment sales	321,527	-	-	328,125	649,652
Total sales revenue	10,784,003	4,368,012	828,179	882,547	16,862,741
Other income	96,222	3,297	463	558,635	658,617
Total segment revenue	10,880,225	4,371,309	828,642	1,441,182	17,521,358
Intersegment eliminations					(649,652)
Total revenue and other income					16,871,706
Adjusted EBITDA*					
Depreciation and amortisation	(1,028,150)	(93,383)	(803,945)	(2,674,090)	(4,599,568)
Adjusted EBIT*	(1,152,825)	(181,870)	(822,153)	(3,497,678)	(5,654,526)
Unallocated					
Share based payments**					(645,952)
Finance costs					(212,457)
Income tax expense					(1,144)
Loss after income tax expense					(6,514,079)
Assets					
Segment assets	3,564,637	2,758,394	618,758	7,233,685	14,175,474
Total assets					14,175,474
Liabilities					
Segment liabilities	5,549,062	2,583,671	654,929	4,982,565	13,770,227
Total liabilities					13,770,227

* 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 and performance rights to employees.

Note 3. Operating segments (continued)

Consolidated - 2022	South Korea \$	China \$	Taiwan \$	Other \$	Total \$
Revenue					
Sales to external customers	6,183,307	3,294,587	296,092	613,652	10,387,638
Intersegment sales	289,753	-	-	-	289,753
Total sales revenue	6,473,060	3,294,587	296,092	613,652	10,677,391
Other income	75,432	5,845	11,610	350,326	443,213
Total segment revenue	6,548,492	3,300,432	307,702	963,978	11,120,604
Intersegment eliminations					(289,753)
Total revenue and other income					10,830,851
Adjusted EBITDA*					
Depreciation and amortisation	(430,290)	(91,626)	(20,237)	(403,890)	(946,043)
Adjusted EBIT*	(2,050,414)	(286,574)	(858,373)	(3,875,091)	(7,070,452)
<i>Unallocated</i>					
Share based payments**					(2,184,136)
IPO expenses***					(891,708)
Finance costs					(74,658)
Income tax expense					(14,826)
Loss after income tax expense					(10,235,780)
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 under the Employee Incentive Plan.

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

Accounting policy for operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Note 4. Revenue

	Consolidated 2023 \$	2022 \$
SaaS and maintenance revenue	1,149,585	1,148,177
Hardware sales	14,910,568	8,894,685
Professional service fees	152,936	344,776
Revenue	16,213,089	10,387,638

SaaS and maintenance revenues for 2022 included \$374,689 of hardware subscription revenues.

Note 4. Revenue (continued)**Disaggregation of revenue**

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

	Consolidated	
	2023	2022
	\$	\$
Timing of revenue recognition		
Goods transferred at a point in time	14,910,568	9,057,983
Services transferred over time	<u>1,302,521</u>	<u>1,329,655</u>
	<u>16,213,089</u>	<u>10,387,638</u>

Accounting policy for revenue recognition

The Group recognises revenue as follows:

Revenue from contracts with customers

Revenue arises from the sale of goods and the rendering of services. It is measured by reference to the fair value of consideration the Group is entitled to, excluding sales taxes, rebates, and trade discounts. The Group enters into sales transactions involving an outright sale to the client, on a subscription basis or for the rendering of services.

The Group applies the revenue recognition criteria set out below to each separately identifiable component of the sales transaction in order to reflect the substance of the transaction.

To determine whether to recognise revenue, the Group follows a five-step process:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied

When the Group enters into transactions involving its products and services, the total transaction price for a contract is allocated amongst the various performance obligations based on either individual selling price or cost plus model as prescribed under para. 79 of AASB 15 *Revenue from Contracts with Customers*.

Revenue is recognised either at a point in time or over time, when the Group satisfies performance obligations by transferring the promised goods or services to customers.

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers and the related revenue recognition policies.

Note 4. Revenue (continued)

Type of product/service	Nature and timing of satisfaction of performance obligations
SaaS and maintenance revenue	SaaS and maintenance revenue is recognised evenly over time. Where a contract provides pricing for licence/subscription fees, revenue is recognised over the service period following the completion of hardware being installed.
Hardware sales	Hardware sales are recognised at a point in time when the Group has transferred to the buyer control of the goods and where there is no unfulfilled obligation that could affect the buyer's acceptance of the goods. The timing of the transfer of control varies depending on the individual terms of the sales agreement. The transfer usually occurs once the units of hardware are installed.
Professional service fees	Revenue is recognised over time, subject to the principal of constraint as receipt of payment is contingent upon achievement of the objectives defined in the contract. The constraint is relieved and revenue recognised when the management are able to determine that it is highly likely that there is no significant reversal of revenue associated with the constrained revenue.

Note 5. Other income

	Consolidated 2023	2022
	\$	\$
Research and development tax credits	387,439	339,476
Government assistance	165,009	10,632
Interest income	6,292	1,137
Other income	99,877	91,968
	<u>658,617</u>	<u>443,213</u>

Accounting policy for research and development tax credits and government assistance

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

Research and development tax credits are recognised as income once the Group is satisfied that the Group has complied with the conditions attached to the tax credits and that the tax credits will be received. Research and development tax credits that are associated with capitalised development costs are offset against intangibles where applicable.

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

Accounting policy for interest income

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

Note 6. Expenses

	Consolidated	
	2023	2022
	\$	\$
Loss before income tax includes the following specific expenses:		
<i>Finance costs</i>		
Interest and finance charges paid/payable on borrowings	194,646	63,961
Interest on lease liabilities	17,811	10,697
Finance costs expensed	<u>212,457</u>	<u>74,658</u>
<i>Employee benefits expense</i>		
Salaries and wages expense	4,000,300	3,890,422
Superannuation expense	608,473	506,245
Short term incentives	356,632	328,504
Long term incentives	-	103,625
Other employee benefits	348,381	365,243
Total employee benefits expense	<u>5,313,786</u>	<u>5,194,039</u>
<i>Other expenses</i>		
Advertising and marketing	177,701	122,931
Patent expenses	122,909	121,056
Product remediation	711,673	737,041
Subscriptions	269,600	184,753
Travel costs	568,812	383,112
Other administrative expenses	474,352	430,259
Total other expenses	<u>2,325,047</u>	<u>1,979,152</u>
<i>Depreciation and amortisation expense</i>		
Depreciation of property, plant and equipment	22,800	386,734
Depreciation of right-of-use assets	289,543	191,549
Amortisation of intangible assets	742,615	367,760
Total depreciation and amortisation expense	<u><u>1,054,958</u></u>	<u><u>946,043</u></u>

Note 7. Income tax

	Consolidated	
	2023	2022
	\$	\$
<i>Income tax expense</i>		
Current tax	1,144	14,826
Deferred tax	-	-
Aggregate income tax expense	<u>1,144</u>	<u>14,826</u>
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Loss before income tax expense	<u>(6,512,935)</u>	<u>(10,220,954)</u>
Tax at the statutory tax rate of 25%	(1,628,234)	(2,555,239)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Permanent differences	245,493	741,135
Difference in overseas tax rates	42,826	53,336
Current period tax losses not recognised (net of difference in overseas tax rates)	1,150,177	1,726,742
Other deferred tax assets not recognised	189,738	34,026
Prior period adjustments	<u>1,144</u>	<u>14,826</u>
Income tax expense	<u>1,144</u>	<u>14,826</u>

	Consolidated	
	2023	2022
	\$	\$
<i>Carry forward tax losses not recognised</i>		
Carry forward tax losses not recognised comprise:		
Carry forward losses: X2M Connect Limited	2,017,401	1,485,787
Carry forward losses: Freestyle Technology Taiwan Limited (1)	296,651	1,287,757
Carry forward losses: Freestyle Technology Co., Ltd (2)	2,058,704	1,478,404
Carry forward losses: Golden Sino Hong Kong Limited	4,858	1,400
Carry forward losses: Freestyle Technology (Shanghai) Co., Ltd	4,439	338
Carry forward losses: Freestyle Technology Japan KK (2)	238,084	112,779
Carry forward losses: Beijing Freestyle Technology Co., Ltd	<u>147,076</u>	<u>115,277</u>
Total carry forward tax losses not recognised	<u>4,767,213</u>	<u>4,481,742</u>

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

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

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

Note 7. Income tax (continued)

	Consolidated	
	2023	2022
	\$	\$
<i>Deferred tax liability</i>		
Deferred tax liability comprises temporary differences attributable to:		
Intellectual property, patents and copyright	269,262	453,592
Employee benefits	(331,522)	(258,876)
Other	62,260	(194,716)
	<u> </u>	<u> </u>
Deferred tax liability	<u> </u>	<u> </u>

Accounting policy for income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

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

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

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

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

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

Note 8. Cash and cash equivalents

	Consolidated	
	2023	2022
	\$	\$
<i>Current assets</i>		
Cash on hand	774	732
Cash at bank	1,784,258	1,019,288
	<u> </u>	<u> </u>
	<u>1,785,032</u>	<u>1,020,020</u>

Accounting policy for cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Note 9. Trade and other receivables

	Consolidated	
	2023	2022
	\$	\$
<i>Current assets</i>		
Trade receivables	2,405,755	184,372
Other receivables	159,802	57,117
	<u>2,565,557</u>	<u>241,489</u>

Accounting policy for trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Note 10. Contract assets

	Consolidated	
	2023	2022
	\$	\$
<i>Current assets</i>		
Contract assets	<u>961,727</u>	<u>796,228</u>
<i>Reconciliation</i>		
Reconciliation of the written down values at the beginning and end of the current and previous financial period are set out below:		
Opening balance	796,228	237,483
Additions	929,557	732,768
Transfer to trade receivables	(764,058)	(174,023)
Closing balance	<u>961,727</u>	<u>796,228</u>

Accounting policy for contract assets

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

Note 11. Inventories

	Consolidated	
	2023	2022
	\$	\$
<i>Current assets</i>		
Finished goods - at cost	<u>228,163</u>	<u>135,135</u>

Accounting policy for inventories

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

Note 11. Inventories (continued)

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

Note 12. Other assets

	Consolidated	
	2023	2022
	\$	\$
<i>Current assets</i>		
Research and development tax credit receivables	1,480,841	1,314,897
Prepayments	2,283,147	739,236
Other assets	44,299	-
	<u>3,808,287</u>	<u>2,054,133</u>
<i>Non-current assets</i>		
Deposits	429,738	201,972
	<u>4,238,025</u>	<u>2,256,105</u>

Note 13. Property, plant and equipment and right-of-use assets

	Consolidated	
	2023	2022
	\$	\$
<i>Non-current assets</i>		
Office equipment - at cost	93,223	66,214
Less: Accumulated depreciation	(34,143)	(10,019)
	<u>59,080</u>	<u>56,195</u>
Deployed infrastructure - at cost	1,200,635	1,140,723
Less: Accumulated depreciation	(1,200,635)	(1,140,723)
	<u>-</u>	<u>-</u>
Right-of-use assets (land & buildings) - at cost	978,668	846,255
Less: Accumulated depreciation	(587,478)	(274,828)
	<u>391,190</u>	<u>571,427</u>
	<u>450,270</u>	<u>627,622</u>

Note 13. Property, plant and equipment and right-of-use assets (continued)**Reconciliations**

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

Consolidated	Office equipment \$	Deployed infrastructure \$	Right-of-use assets (land & buildings) \$	Total \$
Balance at 1 July 2021	15,985	377,930	238,941	632,856
Additions (net of exchange differences)	38,608	-	449,567	488,175
Exchange differences	6,627	3,779	74,468	84,874
Depreciation expense	(5,025)	(381,709)	(191,549)	(578,283)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 30 June 2022	56,195	-	571,427	627,622
Additions (net of exchange differences)	20,128	-	122,181	142,309
Exchange differences	5,557	-	(12,875)	(7,318)
Depreciation expense	(22,800)	-	(289,543)	(312,343)
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 30 June 2023	<u>59,080</u>	<u>-</u>	<u>391,190</u>	<u>450,270</u>

Accounting policy for property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss. Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group.

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

Property, plant and equipment are depreciated on a straight line basis over their estimated useful lives commencing from the time each asset is held ready for use. Leased assets are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the assets.

The estimated useful lives of property, plant and equipment are as follows:

Office equipment	5-20 years
Deployed infrastructure	5 years
Right-of-use assets	2-5 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted, if appropriate.

Accounting policy for right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Note 13. Property, plant and equipment and right-of-use assets (continued)

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

The Group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets of \$44,127 (2022: \$62,203) are expensed to profit or loss on a straight line basis.

Note 14. Intangible assets

	Consolidated 2023 \$	2022 \$
<i>Non-current assets</i>		
Intellectual property, patents and copyright - at cost	5,384,521	3,808,628
Less: Accumulated amortisation	<u>(1,550,103)</u>	<u>(812,786)</u>
	3,834,418	2,995,842
Intellectual property in progress - at cost	<u>112,282</u>	<u>100,012</u>
	<u><u>3,946,700</u></u>	<u><u>3,095,854</u></u>

Reconciliations

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

Consolidated	Intellectual property, patents and copyright \$	Intellectual property in progress \$	Total \$
Balance at 1 July 2021	1,161,912	1,034,775	2,196,687
Capitalisation of expenses (net of exchange differences and tax credits)	-	1,266,927	1,266,927
Transfers in/(out)	2,197,773	(2,197,773)	-
Amortisation expense	<u>(363,843)</u>	<u>(3,917)</u>	<u>(367,760)</u>
Balance at 30 June 2022	2,995,842	100,012	3,095,854
Capitalisation of expenses (net of exchange differences and tax credits)	66,763	1,526,698	1,593,461
Transfers in/(out)	1,511,724	(1,511,724)	-
Amortisation expense	<u>(739,911)</u>	<u>(2,704)</u>	<u>(742,615)</u>
Balance at 30 June 2023	<u><u>3,834,418</u></u>	<u><u>112,282</u></u>	<u><u>3,946,700</u></u>

Impairment Testing of Intangible balances

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

The Group assessed indicators of impairment for these intangible assets. As at 30 June 2023, the carrying value of capitalised intellectual properties was \$3,946,700 (2022: \$3,095,854). Management assessed both internal and external information as described in paragraph 12 of AASB 136 *Impairment of Assets*. No indicators of impairment were identified.

Note 14. Intangible assets (continued)

Accounting policy for intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Intellectual property, patents and copyright

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

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

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

Intellectual property in progress

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

Note 15. Trade and other payables

	Consolidated	
	2023	2022
	\$	\$
<i>Current liabilities</i>		
Trade payables	4,761,430	1,093,714
Accrued expenses	1,594,273	1,142,472
Other payables	50,000	-
	<u>6,405,703</u>	<u>2,236,186</u>

Refer to note 22 for further information on financial instruments.

Accounting policy for trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial period and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Note 16. Contract liabilities

	Consolidated	
	2023	2022
	\$	\$
<i>Current liabilities</i>		
Contract liabilities	3,552,254	2,203,139
	<u>3,552,254</u>	<u>2,203,139</u>
<i>Reconciliation</i>		
Reconciliation of the written down values at the beginning and end of the current and previous financial period are set out below:		
Opening balance	2,203,139	1,070,696
Payments received in advance	3,542,137	2,203,139
Transfer to revenue - included in the opening balance	(2,193,022)	(1,070,696)
	<u>3,552,254</u>	<u>2,203,139</u>

Accounting policy for contract liabilities

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

Note 17. Borrowings

	Consolidated	
	2023	2022
	\$	\$
<i>Current liabilities</i>		
Insurance premium funding	25,313	23,037
Other borrowings*	2,043,782	535,439
	<u>2,069,095</u>	<u>558,476</u>

Refer to note 22 for further information on financial instruments.

*X2M obtained \$2 million loan facility from Brownvalley Family Trust of which \$1.947 million was drawn down as at 30 June 2023. This was an advance secured against X2M's FY23 Research and Development tax incentive. The interest rate for the loan facility is 14% per annum. X2M must repay the loan, together with all interest accrued on the earlier of 30 June 2024 or 14 business days after receipt of an early repayment notice from the lender.

Note 18. Employee benefits

	Consolidated	
	2023	2022
	\$	\$
<i>Current liabilities</i>		
Employee benefits	875,186	739,164
	<u>875,186</u>	<u>739,164</u>
<i>Non-current liabilities</i>		
Employee benefits	450,902	296,341
	<u>450,902</u>	<u>296,341</u>
	<u>1,326,088</u>	<u>1,035,505</u>

Note 18. Employee benefits (continued)

Accounting policy for employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Note 19. Lease liabilities

	Consolidated	
	2023	2022
	\$	\$
<i>Current liabilities</i>		
Lease liability	159,592	243,075
<i>Non-current liabilities</i>		
Lease liability	257,495	340,380
	<u>417,087</u>	<u>583,455</u>

Refer to note 22 for further information on financial instruments.

Accounting policy for lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Note 20. Issued capital

	2023 Shares	Consolidated 2022 Shares	2023 \$	2022 \$
Ordinary shares - fully paid	<u>204,719,828</u>	<u>140,101,536</u>	<u>24,127,410</u>	<u>19,293,275</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		-	-	(567,927)
Balance	30 June 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
Issue of shares under the Employee Incentive Share Plan	17 March 2023	398,500	\$0.075	29,888
Issue of Placement shares	5 May 2023	9,688,233	\$0.068	658,800
Issue of shares on completion of the Share Purchase Plan	18 May 2023	4,889,680	\$0.068	332,498
Issue of Placement shares	31 May 2023	2,941,176	\$0.068	200,000
Share issue transaction costs		-	-	(356,610)
Balance	30 June 2023	<u>204,719,828</u>		<u>24,127,410</u>

Ordinary shares

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

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

Share buy-back

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

Capital risk management

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

Note 20. Issued capital (continued)

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

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

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

Accounting policy for issued capital

Ordinary shares are classified as equity.

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

Note 21. Reserves

	Consolidated	
	2023	2022
	\$	\$
Foreign currency reserve	(203,019)	(246,814)
Share-based payments reserve	2,874,027	2,388,323
	<u>2,671,008</u>	<u>2,141,509</u>

Foreign currency reserve

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

Share-based payments reserve

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

Movements in reserves

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

Consolidated	Foreign currency reserve \$	Share-based payments reserve \$	Total \$
Balance at 1 July 2021	(236,857)	652,431	415,574
Options issued as consideration for Public Offer services	-	390,025	390,025
Foreign currency translation	(9,957)	-	(9,957)
Share based payments	-	1,998,298	1,998,298
Transfer to issued capital	-	(652,431)	(652,431)
	<u>(246,814)</u>	<u>2,388,323</u>	<u>2,141,509</u>
Balance at 30 June 2022	(246,814)	2,388,323	2,141,509
Foreign currency translation	43,795	-	43,795
Share based payments	-	485,704	485,704
	<u>(203,019)</u>	<u>2,874,027</u>	<u>2,671,008</u>
Balance at 30 June 2023	<u>(203,019)</u>	<u>2,874,027</u>	<u>2,671,008</u>

Note 22. Financial instruments

Financial risk management objectives

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

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

Market risk

Foreign currency risk

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

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

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

Consolidated	Assets		Liabilities	
	2023 \$	2022 \$	2023 \$	2022 \$
Korean Won (KRW)	530,878	674,789	(1,964,031)	(851,624)
Japanese Yen (JPY)	84,807	65,078	(44,620)	(11,035)
Taiwan dollars (TWD)	104,877	59,307	(219,405)	(72,890)
Chinese Renminbi (CNY)	2,231,475	46,712	(2,583,671)	(38,341)
United States dollars (USD)	2,074	61,141	-	-
Hong Kong dollars (HKD)	346	941	-	-
	<u>2,954,457</u>	<u>907,968</u>	<u>(4,811,727)</u>	<u>(973,890)</u>

Sensitivity

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

Note 22. Financial instruments (continued)

Consolidated - 2023	% change	AUD strengthened		% change	AUD weakened	
		Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
Net KRW denominated financial liabilities	10%	143,315	(143,315)	10%	(143,315)	143,315
Net JPY denominated financial asset	10%	(4,019)	4,019	10%	4,019	(4,019)
Net TWD denominated financial liabilities	10%	11,453	(11,453)	10%	(11,453)	11,453
Net CNY denominated financial liabilities	10%	35,220	(35,220)	10%	(35,220)	35,220
Net USD denominated financial assets	10%	(207)	207	10%	207	(207)
Net HKD denominated financial assets	10%	(35)	35	10%	35	(35)
		<u>185,727</u>	<u>(185,727)</u>		<u>(185,727)</u>	<u>185,727</u>
Consolidated - 2022	% change	AUD strengthened		% change	AUD weakened	
		Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
Net KRW denominated financial liabilities	10%	17,684	(17,684)	10%	(17,684)	17,684
Net JPY denominated financial assets	10%	(5,404)	5,404	10%	5,404	(5,404)
Net TWD denominated financial liabilities	10%	1,358	(1,358)	10%	(1,358)	1,358
Net CNY denominated financial assets	10%	(837)	837	10%	837	(837)
Net USD denominated financial assets	10%	(6,114)	6,114	10%	6,114	(6,114)
Net HKD denominated financial assets	10%	(94)	94	10%	94	(94)
		<u>6,593</u>	<u>(6,593)</u>		<u>(6,593)</u>	<u>6,593</u>

Price risk

The Group is not exposed to any significant price risk.

Interest rate risk

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

Credit risk

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

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

Note 22. Financial instruments (continued)

The Group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the economic entity.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

Liquidity risk

Prudent liquidity risk management implies maintain sufficient cash balances. The directors regularly monitor the cash position of the group, giving consideration to the level of expenditure and future project commitments.

Remaining contractual maturities

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

Consolidated - 2023	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
Non-derivatives						
<i>Non-interest bearing</i>						
Trade and other payables	-	6,405,703	-	-	-	6,405,703
<i>Interest-bearing - fixed rate</i>						
Insurance premium funding	4.24%	25,313	-	-	-	25,313
Other borrowings	14.00%	2,043,782	-	-	-	2,043,782
Lease liabilities	7.13%	159,592	107,577	149,918	-	417,087
Total non-derivatives		8,634,390	107,577	149,918	-	8,891,885

Consolidated - 2022	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
Non-derivatives						
<i>Non-interest bearing</i>						
Trade and other payables	-	2,236,186	-	-	-	2,236,186
<i>Interest-bearing - fixed rate</i>						
Insurance premium funding	2.78%	23,037	-	-	-	23,037
Other borrowings	14.09%	535,439	-	-	-	535,439
Lease liabilities	3.83%	243,075	127,291	213,089	-	583,455
Total non-derivatives		3,037,737	127,291	213,089	-	3,378,117

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

Fair value of financial instruments

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

Note 23. Key management personnel disclosures

Directors

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

Alan Stockdale	Non-Executive Chairman (appointed on 8 February 2021)
Mohan Jesudason	Chief Executive Officer and Managing Director (appointed to the Board on 17 March 2023)
Damien Johnston	Non-Executive Director (appointed on 8 February 2021)
John Stewart	Non-Executive Director (appointed on 8 February 2021)
Jodie Leonard	Non-Executive Director (resigned on 17 March 2023)

Other key management personnel

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

Keith Jelley	Chief Operating Officer
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Compensation

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

	Consolidated	
	2023	2022
	\$	\$
Short-term employee benefits	992,114	1,672,839
Post-employment benefits	75,674	71,442
Long-term benefits	14,628	15,084
Share-based payments	418,486	1,948,349
	<u>1,500,902</u>	<u>3,707,714</u>

Note 24. Remuneration of auditors

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

	Consolidated	
	2023	2022
	\$	\$
<i>Audit services - Grant Thornton Audit Pty Ltd</i>		
Audit or review of the financial statements	<u>93,936</u>	<u>80,000</u>
<i>Other services*</i>		
Tax compliance	<u>13,802</u>	<u>29,610</u>
	<u>107,738</u>	<u>109,610</u>

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

Note 25. Contingent liabilities

The Directors are not aware any contingent assets or contingent liabilities as at 30 June 2023 (2022: Nil).

As announced to the ASX on 31 May 2023, the Company settled with the plaintiffs in the Freestyle Technology litigation proceedings, with each party paying their own costs.

Note 26. Commitments

The Group had no material commitments not accounted for in the statement of financial position as at 30 June 2023 (2022: Nil).

Note 27. Related party transactions

Parent entity

X2M Connect Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 29.

Key management personnel

Disclosures relating to key management personnel are set out in note 23 and the remuneration report included in the Directors' report.

Transactions with related parties

In the 2023 financial year, X2M incurred \$80,380 legal fees on behalf of Mr Mohan Jesudason and Mr Keith Jelley (2022: \$236,406). These legal fees relate to preparation of the defence in relation to legal proceedings regarding Freestyle Technology Limited. Mr Jesudason and Mr Jelley were indemnified by X2M for these proceedings as part of their respective executive employment agreement with the Company. The legal services provided to Mr Jesudason and Mr Jelley also cover a former Director of Freestyle Technology Limited (in liquidation) under a common defence. These legal proceedings were settled during the period.

During the 2023 financial year, X2M paid \$19,500 for social media management, graphic design and supporting services to Azimbo Consulting Pty Ltd (an entity associated with Keith Jelley, X2M Chief Operating Officer) (2022: \$1,250). The transactions were made on normal commercial terms.

Receivable from and payable to related parties

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

Loans to/from related parties

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

	Consolidated	
	2023	2022
	\$	\$
Current borrowings:		
Loan from other related party*	-	32,522

* During the previous financial year, an employee from X2M's Beijing subsidiary provided a loan to the company. There was no interest payable on the loan and it was subsequently repaid in July 2022.

Terms and conditions

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

Note 28. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2023	2022
	\$	\$
Loss after income tax	(6,470,282)	(10,245,736)
Total comprehensive income	(6,470,282)	(10,245,736)

Statement of financial position

	Parent	
	2023	2022
	\$	\$
Total current assets	2,951,152	2,031,050
Total assets	5,343,192	4,435,932
Total current liabilities	4,675,922	2,560,973
Total liabilities	4,937,945	2,880,240
Equity		
Issued capital	24,127,150	19,293,015
Share-based payments reserve	2,874,027	2,388,323
Accumulated losses	(26,595,930)	(20,125,646)
Total equity	<u>405,247</u>	<u>1,555,692</u>

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2022 and 30 June 2023.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2022 and 30 June 2023.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 1, except for the following:

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

Note 29. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2023 %	2022 %
Freestyle Energy Two Pty Ltd	Australia	100%	100%
Freestyle Technology Taiwan Limited	Taiwan	100%	100%
Freestyle Technology Co., Ltd	South Korea	100%	100%
Golden Sino Hong Kong Limited	Hong Kong	100%	100%
Freestyle Technology (Shanghai) Co., Ltd	China	100%	100%
Freestyle Technology Japan KK	Japan	100%	100%
Beijing Freestyle Technology Co., Ltd	China	100%	100%

Note 30. Events after the reporting period

Subsequent to financial year end, the Company successfully completed a capital raising of \$1.7 million through a convertible note offer. \$650,000 of the conversion to ordinary shares are subject to shareholder approval at a meeting in October 2023.

On 5 September 2023, the Company issued the following unquoted securities:

- 6,866,892 FY24 LTI performance rights to overseas employees for nil consideration, vesting one month after release of the FY25 Annual Financial Statements, subject to share price hurdles, expiring on 31 December 2026; and
- 6,790,812 FY24 LTI options to Australian executive and employees, vesting one month after release of the FY26 Annual Financial Statements, subject to share price hurdles, expiring on 4 September 2028.

No other matter or circumstance has arisen since 30 June 2023 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 31. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	2023	2022
	\$	\$
Loss after income tax expense for the period	(6,514,079)	(10,235,780)
Adjustments for:		
Depreciation and amortisation	1,054,958	946,043
Share-based payments	645,952	2,184,136
Change in operating assets and liabilities:		
Increase in trade and other receivables	(2,324,068)	(36,663)
Increase in inventories	(93,028)	(58,818)
Increase in other assets	(579,616)	(547,534)
Increase in contract assets	(165,499)	(558,745)
Increase in trade and other payables	4,003,421	192,118
Increase in contract liabilities	1,349,115	1,856,740
Decrease in derivative liabilities	-	(31,488)
Increase in employee benefits	290,583	110,597
Decrease in other provisions	-	(28,540)
Net cash used in operating activities	<u>(2,332,261)</u>	<u>(6,207,934)</u>

Note 32. Share-based payments

Unlisted options issued to key management personnel and employees

A share option plan has been established by the Group and approved by under the IPO Replacement Prospectus dated 24 August 2021, whereby the Group may, at the discretion of the Board, grant options over ordinary shares in the Company to certain key management personnel and employee of the Group. The options are issued for nil consideration and are granted in accordance with performance guidelines established by the Board.

The options were independently valued using either Black-Scholes or Binominal option pricing model. \$441,928 share based payments expense was recognised for the year ending 30 June 2023 (2022: \$1,914,342).

Class	Grant date	Expiry date	Exercise price	Balance at the start of the period	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the period
Pre-IPO options	16/07/2021	15/07/2025	\$0.2500	9,411,283	-	-	-	9,411,283
IPO options	14/09/2021	13/09/2025	\$0.3575	9,559,588	-	-	-	9,559,588
IPO options	14/09/2021	13/09/2025	\$0.3575	5,408,029	-	-	(220,000)	5,188,029
FY22 LTI Options	14/04/2022	14/04/2027	\$0.5000	2,058,286	-	-	-	2,058,286
FY22 LTI Options	27/06/2022	27/06/2027	\$0.5000	1,571,368	-	-	(212,102)	1,359,266
FY23 LTI Options	29/08/2022	29/08/2027	\$0.1400	-	986,822	-	-	986,822
FY23 LTI Options	02/09/2022	02/09/2027	\$0.1375	-	5,785,510	-	-	5,785,510
FY23 LTI Options	17/03/2023	17/03/2028	\$0.1408	-	1,518,028	-	-	1,518,028
				<u>28,008,554</u>	<u>8,290,360</u>	<u>-</u>	<u>(432,102)</u>	<u>35,866,812</u>

Pre-IPO and IPO options were issued for services in establishing and building the Company through to the IPO. These were disclosed in the Replacement Prospectus dated 14 August 2021.

Note 32. Share-based payments (continued)

Set out below are the options exercisable at the end of the financial period:

Grant date	Expiry date	2023 Number	2022 Number
16/07/2021	15/07/2025	9,411,283	9,411,283
14/09/2021	13/09/2025	9,559,588	9,559,588
		<u>18,970,871</u>	<u>18,970,871</u>

The weighted average remaining contractual life of options outstanding at the end of the financial period was 2.8 years.

For the options granted during the current financial period, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
29/08/2022	29/08/2027	\$0.085	\$0.1400	80%	-	3.48%	\$0.040
02/09/2022	02/09/2027	\$0.080	\$0.1375	80%	-	3.39%	\$0.040
17/03/2023	17/03/2028	\$0.075	\$0.1408	70%	-	3.12%	\$0.021

Performance rights

On 17 March 2023, X2M issued 1,195,500 performance rights to overseas employees as part of their FY22 LTI arrangements. One third of the performance rights will vest on 30 September 2023 and the remaining balance will vest on 30 September 2024, subject to staff retention. \$26,127 share based payments expense was recognised for the year ending 30 June 2023.

On 17 March 2023, X2M also issued 5,029,940 performance rights to overseas employees as part of their FY23 LTI arrangement. The performance rights expect to vest on 30 September 2025, subject to price hurdle and staff retention. These performance rights were independently valued using binomial pricing model. \$17,649 share based payments expense was recognised for the year ending 30 June 2023.

For the performance rights granted during the current financial period, the valuation model inputs used to determine the fair value at the grant date, are as follows:

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
17/03/2023	31/12/2024	\$0.075	-	70%	-	3.01%	\$0.075
17/03/2023	31/12/2025	\$0.075	-	70%	-	3.01%	\$0.032

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

	Consolidated	
	2023 \$	2022 \$
Issue of shares to key management personnel and employees	-	185,838
Unlisted options to key management personnel and employee	441,928	1,914,342
Performance rights to key management personnel	-	83,956
Performance rights to overseas employees	43,776	-
Unlisted options to be issued to key management personnel and employee*	160,248	-
	<u>645,952</u>	<u>2,184,136</u>

Note 32. Share-based payments (continued)

*As at 30 June 2023, the Company accrued \$160,248 share based payments expense, being 50% of the total FY23 STIs for CEO/Managing Director, COO and an employee. This is expected to be paid in premium priced options, subject to shareholders approval.

Accounting policy for share-based payments

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

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

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

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

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Note 33. Earnings per share

	Consolidated	
	2023	2022
	\$	\$
Loss after income tax attributable to the owners of X2M Connect Limited	<u>(6,514,079)</u>	<u>(10,235,780)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>184,061,197</u>	<u>132,984,057</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>184,061,197</u>	<u>132,984,057</u>
	Cents	Cents
Basic earnings per share	(3.54)	(7.70)
Diluted earnings per share	(3.54)	(7.70)

Accounting policy for earnings per share

Basic earnings per share

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

Diluted earnings per share

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

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 30 June 2023 and of its performance for the financial period ended on that date; and
- there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

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

On behalf of the Directors



Hon. Alan Stockdale AO
Non-Executive Chairman

27 September 2023

Independent Auditor's Report

To the Members of X2M Connect Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of X2M Connect Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2023, 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 year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

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

- a giving a true and fair view of the Group's financial position as at 30 June 2023 and of its performance for the year ended on that date; and
- b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 1 in the financial statements, which indicates that the Group incurred a net loss of \$6,514,079 and cash outflows from operating and investing activities of \$5,244,468 during the year ended 30 June 2023, and. As of that date, the Group had net assets of \$405,247 and current liabilities exceeded its total assets by \$3,713,064. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key audit matters

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

In addition to the matter described in *the Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition of contracts that contain multiple element arrangements – Notes 4 and 16 Revenue recognition for multiple-element arrangements can be complex and involve management judgement. Complexity is involved in the following revenue streams; hardware, licence, and services charges. These judgements include: <ul style="list-style-type: none">• identification of each performance obligation in the arrangements;• determination of the appropriate allocation of the amount of revenue to each element in particular as many of the Group's arrangements involve the delivery of hardware, licences, and other services; and• determining when the performance obligation of each element is satisfied, and the associated revenue can be recognised. <p>This area is a key audit matter due to the complexity surrounding the bundled contract revenue recognition.</p>	<p>Our procedures include, amongst others:</p> <ul style="list-style-type: none">• considering the appropriateness of management's assessment of revenue streams in accordance with accounting standard AASB 15 <i>Revenue from Contracts with Customers</i>;• documenting our understanding of the various arrangements used by the Group and evaluating management's revenue recognition of the elements they contained to assess compliance with AASB 15;• sample testing revenue recorded to contracts with customers to assess whether revenue is being recognised in accordance with the Group's revenue recognition policies;• assessing the sales selected in our sample above, where applicable, for the accuracy of revenue to be deferred at year-end;• analytically reviewing deferred revenue balances at reporting period end for exceptions and anomalies against expectations;• substantiating sales transactions around reporting date and agreeing transactions to supporting documents to assess whether revenue is recognised in the correct periods; and• assessing the adequacy of disclosures for compliance with the revenue recognition requirements of Australian Accounting Standards (AASBs).

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

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2023, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Directors for the financial report

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

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1_2020.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in pages 23 to 35 of the Directors' report for the year ended 30 June 2023.

In our opinion, the Remuneration Report of X2M Connect Limited, for the year ended 30 June 2023 complies with section 300A of the *Corporations Act 2001*.

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Responsibilities

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



Grant Thornton Audit Pty Ltd
Chartered Accountants



B A Mackenzie
Partner – Audit & Assurance
Melbourne, 27 September 2023

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Corporate Governance Statement



Corporate Governance Statement

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

This Corporate Governance Statement reports against the ASX Corporate Governance Principles and Recommendations (4th Edition) (ASX Principles). The practices detailed in the Corporate Governance Plan are current as of 27 September 2023 and have been approved by the Board. A full copy of the Corporate Governance Plan can be found on the company website at www.x2mconnect.com. Key details of the plan are detailed below.

Principle 1: The Board Lays Solid Foundations for Management Oversight

Board Responsibilities and Delegations

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

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

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

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

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

framework, as well as corporate governance policies and practices that promote the responsible management and conduct of X2M.

The Board's responsibilities include:

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

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

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

Board Committees

The Board has established an Audit and Risk Committee to assist it in discharging its function. It also established a Remuneration Committee however during the period the role of that Committee was taken over by the full Board given the Board size and state of development of the Company's operations. All other responsibilities are managed by the full Board.

Board Meetings

The Board meets as often as necessary to fulfil its role. Directors are required to allocate sufficient time to X2M to perform their responsibilities effectively, including adequate time to prepare for Board meetings. During the period, the Board met 14 times.

For full details of Directors' attendance at Board and Committee Meetings for 2023, refer to "Board and Committee Meeting Attendance" on page 23.

Access to Information and Independent Professional Advice.

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

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

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

Background Checks Before Appointing Directors and Senior Executives

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

Prior to the appointment of a new Director or senior executive (being a member of the Executive Team), the Board undertakes appropriate background checks as to the candidate's character, experience and education and confirms that the candidate does not have a criminal record. For Directors only, confirmation is also obtained that the Director is not an undischarged bankrupt. Having satisfied the background checks, the candidate for a Director is required to provide the Chair with the commitment that they will have adequate time to fulfil their responsibilities as a Non-Executive Director of X2M. The Chair must be satisfied that the candidate for Director can materially contribute to the overall skills and experience of the Board with reference to the X2M Director Skills Matrix.

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

Diversity

Consistent with X2M's values, the Company is committed to providing an inclusive, equitable and fair workplace where everyone is treated with respect and dignity regardless of gender, marital or family status, sexual orientation, gender identity,

age, ability, ethnicity, religious beliefs, cultural background, socio-economic background, perspective, and experience.

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

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

Diversity Status

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

X2M has a diverse workforce and is represented by a broad range of ages and nationalities. Gender diversity remains a challenge across the technology industry and in the geographies in which X2M operates, and is represented in the table below. However, X2M is an equal opportunity employer and is committed to improving diversity as far as possible as the business scales. The workforce diversity as at the 30th of June 2023 follows:

	FEMALE		MALE	
	NUMBER	%	NUMBER	%
Board	0	0	4	100
Senior Management*	5	22	18	78
Total Employees	8	14	50	86

Table 1: Diversity status of the 30th of June 2023

(*Senior Management includes the Executive Team who report to the CEO and their direct reports.)

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

Diversity Targets

X2M set gender diversity targets annually. Given the current size of the team and the limited opportunity for change, X2M will only be able to address gender diversity as it adds to or replaces team members. Further, and as stated, gender diversity remains a challenge across the technology industry and in the geographies in which X2M operates. However, the Company is an equal opportunity employer and will seek to improve gender diversity as the business grows.

The long term gender diversity targets are:

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

Table 2: Long term Diversity Targets

Performance Review of the Board

The X2M's Board Charter requires an annual Board assessment and review of its performance, its committees, and Directors. During the period a formal review was not undertaken however the Board informally reviews and assesses its performance regularly.

Performance Review of the CEO and Executive Team

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

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

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

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

Nomination Committee

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

Composition of the Board and Details of Directors

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

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

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

DIRECTOR	STATUS	APPOINTMENT DATE
Alan Stockdale	Independent	8 February 2021
Mohan Jesudason	Not independent	17 March 2023
Damien Johnston	Independent	8 February 2021
John Stewart	Independent	8 February 2021

Table 3: Status of Director Independence

For details of the current Directors, their qualifications, skills, and experience refer to page 21 of Directors' Report.

Board Skills Matrix

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

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

Key Board Skills and Experience	Number
Asia Pacific Market Experience Experience working in/leading an organisation with global operations, or an understanding of different political, cultural, regulatory, and business environments	4
Strategy Experience defining strategic objectives, assessing business plans and driving execution.	4
Digital, Data and Technology Expertise in adopting new digital technologies or implementing technology projects, and experience with managing digital disruption, leveraging digital technologies or understanding the use of data and data analytics.	4
Governance and Compliance Experience in the design and application of corporate governance and compliance programs with a commitment to high standards of governance.	4
Financial and Risk Management Understand financial drivers of the business and experience implementing or overseeing financial accounting, reporting, internal controls, and risk management frameworks.	4
Merger and Acquisitions Experience in undertaking or overseeing corporate mergers and acquisitions with ability to evaluate transactions and govern the transition phase.	4
Capital Management Experience in capital management strategies including debt financing and capital raisings.	4
People and Culture Experience monitoring a company's culture, OHS program, people management, succession planning, and remuneration frameworks.	4
Legal and Regulatory Experience in a capacity requiring skills and knowledge in relation to the law, especially with reference to company law and other relevant legal disciplines.	4

Government, Regulatory Agencies and Politics Experience in dealing with Governments and Government agencies and a broad knowledge of the workings of governments and politics.	4
Experience with Infrastructure Industries Experience in dealing with and/or marketing and selling to infrastructure industries, especially electricity, gas water and other utilities.	3

Table 4: Board Skills Assessment

Director Selection, Appointment and Induction

From time to time, the Board reviews the size, structure and composition of the Board, taking into consideration the balance of skills, experience and knowledge of Board members. Given the current state of the Company's operations the Board considers that the current size of the Board is appropriate.

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

Code of Conduct

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

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

The Code of Conduct was approved by the Board in February 2020 and a copy can be found on the Company's website at www.x2mconnect.com.

Trading Policy

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

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

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

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

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

- a) prior written approval by the Chair to be given to Directors (the Chair himself must seek prior written approval from the Chair of the Audit and Risk Committee); and
- b) prior written approval from the CEO or Chair to be given to the members of the Executive Team.

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

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

Whistleblower Policy and Anti-Bribery and Corruption Policy

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

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

Principle 4: The Board Safeguards the Integrity of Corporate Reports

Audit and Risk Committee (ARC)

The ARC has three members, Damien Johnston (Chair), Alan Stockdale and John Stewart.

The ASX Principles recommend that an audit committee have at least three members, all of whom are non-executive Directors and a majority of whom are independent and that the chair of the audit committee be an independent Director who is not the chair of the board. The ARC met these requirements in 2023.

For full details of Committee members' attendance at Committee Meetings for 2023, refer to "Board and Committee Meeting attendance" which is contained in the Directors' Report on page 23.

The ARC Charter requires that all members of the ARC can read and understand financial statements and that at least one member is a qualified accountant or other financial professional with appropriate experience of financial and accounting matters. The ARC met these requirements in 2023. For details of the qualifications, skills and experience of the ARC, refer to page 21 for further details.

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

The objectives of the ARC are to:

- a) assist the Board to achieve its objectives in relation to corporate and financial reporting, the application of accounting policies, business policies and practices, legal and regulatory compliance and internal control and the risk management framework.
- b) maintain and improve the quality, credibility, and objectivity of the financial accountability process; and

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

Independent Audit

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

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

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

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

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

CEO and CFO Declaration

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

For the half-financial year ended 31 December 2022 and for the financial year ended 30 June 2023, the CEO and CFO made a declaration in accordance with section 295A of the Corporations Act and Recommendation 4.2 of the ASX Principles.

Auditor at the AGM

At X2M's 2023 AGM, Grant Thornton Audit Pty Ltd, as the independent external auditor, will be present and available to answer shareholder questions on the:

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

Principle 5: The Board Makes Timely and Balanced Disclosure

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

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

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

In addition, at each Board meeting, consideration is given to any information that must be disclosed to the ASX in accordance with X2M continuous disclosure obligations.

The Company Secretary has primary responsibility for all communication with the ASX in relation to ASX

Listing Rule matters. The Company Secretary is also responsible for ensuring that the Directors receive copies of all material market announcements promptly after they have been made.

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

Principle 6: The Board Respects the Rights of Security Holders

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

The Company Website

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

All ASX announcements made by the Company can also be accessed via the 'Announcements' section of the ASX website www.asx.com.au/asx/statistics/announcements.do, using the X2M ticker code X2M.

Investor Relations

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

Shareholder Communications

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

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

Shareholder Engagement and Participation

To encourage shareholder engagement and participation at the AGM, when possible, shareholders have the opportunity to attend the AGM, ask questions from the floor, participate in voting and meet the Board and the Executive Team in person. In the event the AGM is held electronically, the Company will ensure that appropriate technology is used to facilitate the participation of shareholders at such meetings. Shareholders who are unable to attend the AGM are encouraged to vote on the proposed motions by appointing a proxy via the proxy form that accompanies the notice of meeting, or online through the share registry's website. For the 2023 AGM, all questions will be decided by a poll rather than a show of hands.

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

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

Principle 7: The Board Recognises and Manages Risk

Risk Committee

The ARC is charged with the responsibility to assist the Board in the oversight of risk. Please refer to page 21 for details of the members of the Committee, qualifications and experience of members and individual attendances at Committee meetings.

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

- a) oversee the establishment and implementation of the risk management framework and internal compliance and control systems.
- b) monitoring the mechanism for assessing the ongoing efficiency and effectiveness of the risk management framework and internal compliance and control systems.
- c) monitoring whether X2M is operating within the risk appetite set by the Board and make recommendations on any necessary changes that should be made to the risk appetite.

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

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

Review of Risk Management Framework

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

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

The ARC oversees the establishment and implementation of, the Group's Risk Management Framework and makes recommendations to the Board on the soundness of risk management across X2M. In 2023, management in conjunction with the ARC developed the Risk Appetite Statement and Risk Register. In 2024, the risk management processes of the Company will develop further as the Company matures.

X2M's internal compliance and control systems are designed to ensure effective and efficient operations, including financial reporting and compliance with laws and regulations, and managing risk across the Group's business activities. The internal control systems which have been adopted by the Company aim to develop a culture which is able to identify, communicate and manage material risk.

Internal Audit Function

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

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

Material Exposure to Environmental or Social Risks

The Audit and Risk Committee Charter requires the Audit and Risk Committee (or, in its absence, the

Board) to assist management to determine whether the Company has any potential or apparent exposure to environmental or social risks and, if it does, put in place management systems, practices and procedures to manage those risks.

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

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

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

Principle 8: The Board Remunerates Fairly and Responsibly

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

Remuneration Committee

The Company had a Remuneration Committee during the year, however the Board assumed the operations of that Committee in the second half of FY23. The Remuneration Committee was responsible for

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

As stated, the Board has assumed these responsibilities.

The Remuneration Committee Charter sets out the role and responsibilities of the Committee. A copy of the Charter is located on the X2M website at www.x2mconnect.com. The Charter was approved in February 2021 and is reviewed annually or as required.

Remuneration Policies and Practices

Details about X2M's remuneration strategy, framework, policies, and practices are set out in the Company's Remuneration Report on page 23.

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

Policy on Hedging Equity-based Incentive Schemes

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

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

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

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Shareholder Information



Shareholder Information

The shareholder information set out below was applicable as at 12 September 2023.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Ordinary shares		Listed options over ordinary shares		Unlisted options over ordinary shares	
	Number of holders	% of total shares issued	Number of holders	% of total shares issued	Number of holders	% of total shares issued
1 to 1,000	10	-	19	0.04	-	-
1,001 to 5,000	95	0.14	50	0.53	-	-
5,001 to 10,000	108	0.42	17	0.52	-	-
10,001 to 100,000	210	3.35	57	8.94	13	1.60
100,001 and over	137	96.09	36	89.97	22	98.40
	560	100.00	179	100.00	35	100.00
Holding less than a marketable parcel	197	0.49	-	-	-	-

	Performance rights	
	Number of holders	% of total shares issued
1 to 1,000	-	-
1,001 to 5,000	-	-
5,001 to 10,000	-	-
10,001 to 100,000	-	-
100,001 and over	19	100.00
	19	100.00

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares % of total shares	
	Number held	
	issued	
1. Super Properties Pty Ltd (Shayne Smyth A/C)	19,923,329	9.73
2. Bond Street Custodians Limited (Davkre - D08642 A/C)	18,527,340	9.05
3. Mazzara Succession Pty Ltd (Mazzara A/C)	17,260,015	8.43
4. Greg Baynton Group	15,503,681	7.57
5. M & M Jesudason Co Pty Ltd (Jesudason Family A/C)	11,898,387	5.81
6. Mr Philip Matthew St Baker & Mrs Peta Jane St Baker (P & P St Baker Family A/C)	9,760,000	4.77
7. Vanew Pty Ltd (G M Tauber Family A/C)	9,065,870	4.43
8. Perle Ventures Pty Ltd (877 Capital Investments2 A/C)	5,563,775	2.72
9. Hailan Shi	5,470,588	2.67
10. Azimbo Investments Pty Ltd (Azimbo Family A/C)	3,985,737	1.95
11. P D Crutchfield Pty Ltd (Crutchfield Super Fund A/C)	3,858,824	1.88
12. Perle Ventures Pty Ltd (PV Investments 3 A/C)	3,569,517	1.74
13. Mrs Stephanie Lee McEwan	3,566,666	1.74
14. JML Capital Limited	2,776,471	1.36
15. Miller Family Enterprises Pty Ltd (Hylton Dommy A/C)	2,666,668	1.30
16. Ms Junfei Zhao	2,237,000	1.09
17. Mr Anthony Braunthal & Mrs Donna Braunthal (Brownvalley Super Fund)	2,177,647	1.06
18. Rogers Superannuation Pty Ltd (Rogers SF A/C)	2,147,059	1.05
19. Chengyu Fang	2,070,500	1.01
20. Fairwinds Superannuation Pty Ltd (Fairwinds SF A/C)	2,000,001	0.98
	<u>144,029,075</u>	<u>70.34</u>

	Listed options over ordinary shares	
	Number held	% of total options issued
1. Greg Baynton Group	4,143,843	17.75
2. Mr Philip Matthew St Baker & Mrs Peta Jane St Baker (P & P St Baker Family A/C)	4,059,412	17.38
3. Bond Street Custodians Limited (Davkre - D08642 A/C)	1,948,271	8.34
4. Vanew Pty Ltd (G M Tauber Family A/C)	1,029,412	4.41
5. Kyriaco Barber Pty Ltd	605,391	2.59
6. JML Capital Limited	588,236	2.52
7. Equitech Pty (Resi Ventures Unit A/C)	588,235	2.52
8. Terry Morris Pty Ltd (Morris Family Super A/C)	580,039	2.48
9. KMR Shares Pty Ltd (The KMR Investment Unit A/C)	500,001	2.14
10. Hailan Shi	500,000	2.14
11. Mrs Stephanie Lee McEwan	483,333	2.07
12. M & M Jesudason Co Pty Ltd (Jesudason Family A/C)	470,589	2.02
13. Mr Denis Michael Sheehan & Mrs Diane Maree Fitzgerald (The DM Sheehan Family A/C)	441,177	1.89
14. Timber Wolf Holdings Pty Ltd (The Long Shot A/C)	441,176	1.89
15. Goffacan Pty Ltd (KMM Family A/C)	359,437	1.54
16. Sutville Pty Ltd (Investments A/C)	357,500	1.53
17. Mr Ian James Reinhardt	353,533	1.51
18. Miller Family Enterprises Pty Ltd (Hylton Dommy A/C)	333,334	1.43
19. Superhero Securities Limited (Client A/C)	316,844	1.36
20. P D Crutchfield Pty Ltd (Crutchfield Super Fund A/C)	294,118	1.26
	18,393,881	78.77

Unquoted equity securities

	Number on issue	Number of holders
Options over ordinary shares issued	46,911,110	35
Performance rights to be converted into ordinary shares	13,092,332	19

The following persons hold 20% or more of unquoted equity securities:

Name	Class	Number held
M & M Jesudason Co Pty Ltd (Jesudason Family A/C)	Options over ordinary shares issued	20,119,236
Azimbo Investments Pty Ltd (Azimbo Family A/C)	Options over ordinary shares issued	10,348,989
Yongsun Kim	Performance rights to be converted into ordinary shares	3,321,291
Chengyu Fang	Performance rights to be converted into ordinary shares	3,292,791

Substantial holders

Substantial holders in the Company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
Super Properties Pty Ltd (Shayne Smyth A/C)	29,056,621	14.19
Bond Street Custodians Limited (Davkre - D08642 A/C)	18,527,340	9.05
Mazzara Succession Pty Ltd (Mazzara A/C)	17,260,015	8.43
Greg Baynton Group	15,503,681	7.57
M & M Jesudason Co Pty Ltd (Jesudason Family A/C)	11,898,387	5.81

	Listed options over ordinary shares	
	Number held	% of total options issued
Greg Baynton Group	4,143,843	17.75
Mr Philip Matthew St Baker & Mrs Peta Jane St Baker (P & P St Baker Family A/C)	4,059,412	17.38
Bond Street Custodians Limited (Davkre - D08642 A/C)	1,948,271	8.34

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

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

Listed options

Listed options do not have voting rights.

Unquoted options and performance rights

Unquoted options and performance rights do not have voting rights.

There are no other classes of equity securities.

Restricted securities

Class	Expiry date	Number of shares
Escrowed shares 24 months from quotation	22 September 2023	33,417,755
Escrowed shares	24 March 2024	547,200
Escrowed shares	25 March 2024	4,104,000
Escrowed shares	30 June 2024	894,154
Escrowed shares	2 July 2024	5,219,448
Escrowed shares	14 July 2024	1,486,704
Voluntary escrowed shares	24 March 2024	1,785,428
Voluntary escrowed shares	30 June 2024	3,027,476
Voluntary escrowed shares	12 February 2024	259,200
Employee options @ \$0.3575 Expire 13 September 2025	14 September 2023	360,339
Executive options @ \$0.3575 Expire 13 September 2025	14 September 2023	7,169,691
Executive options @ \$0.25 Expire 15 July 2025	16 July 2023	7,058,462
Broker options @ \$0.25 Expire 13 September 2024	14 September 2023	1,646,154
Broker options @ \$0.3125 Expire 13 September 2024	14 September 2023	1,646,154
		<u>68,622,165</u>

Annual General Meeting and Director Nominations Closing date

X2M Connect Limited advises that its Annual General Meeting will be held on Tuesday 28 November 2023 at 10:00am. The details relating to the meeting will be advised in the Notice of Meeting to be sent to all Shareholders and released to ASX immediately upon despatch.

The Closing date for receipt of nomination for the position of Director is Tuesday 17 October 2023. Any nominations must be received in writing no later than 5.00pm (Melbourne time) on Tuesday 17 October 2023 at the Company's Registered Office.

Consistency with business objectives - ASX Listing Rule 4.10.19

In accordance with ASX Listing Rule 4.10.9, the consolidated entity states that it has used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives. The business objectives are maximising performance, generating appropriate levels of shareholder value and financial return, and sustaining the growth and success of the Company. Consistent with the use of funds which were disclosed in the Company's Replacement Prospectus dated 24 August 2021, the consolidated entity believes it has used its cash in a consistent manner for the following purposes:

- Customer acquisition;
- Customer support;
- Development, IT services and IP costs;
- Licensing and geographic expansion;
- Mergers and acquisitions review;
- Administration;
- Working capital; and
- Expenses of the Public Offer.

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“ Demand for data,
X2M’s incumbency and
government initiatives
provide good tail winds
for 2024 ”

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