

1. Company details

Name of entity:	X2M Connect Limited
ACN:	637 951 154
Reporting period:	For the period ended 31 December 2023
Previous period:	For the period ended 31 December 2022

2. Results for announcement to the market

			\$
Revenues from ordinary activities	down	16.6% to	7,483,843
Loss from ordinary activities after tax attributable to the owners of X2M Connect Limited	up	11.6% to	(3,276,561)
Loss for the period attributable to the owners of X2M Connect Limited	up	11.6% to	(3,276,561)
Adjusted EBITDA* loss	down	17.0% to	(1,755,531)

* 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.

Dividends

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

Key points

Group revenue performance is the result of the strategic decision made at the start of the year to move away from low margin hardware sales as the Company drives for cash breakeven and a record 1H last financial year. Overall key metrics are trending well. Importantly, operating cash burn reduced significantly, operating expenses reduced, margins improved and adjusted EBITDA losses declined. Key operational metrics for the half year were as follows:

- Revenues from ordinary activities were \$7.5 million, down 17% on the pcp
- Recurring SaaS and maintenance revenue \$0.9 million, up 53% on pcp
- Gross profit \$2.8 million, up 26% on the pcp
- Operating expenditure, excluding capital raising costs, was \$4.6 million, down by 3% on the pcp
- 1H24 cash burn from operating activities was \$0.4 million, an improvement of 57% on the pcp
- South Korea segment delivered its first positive EBITDA of \$0.3 million
- 15 new enterprise and government customers were acquired bringing the total customer base to 73, an increase of 26% on the pcp
- Connected devices 520,417, up 44% on the pcp

Group Commentary

Revenue was \$7.5 million, down 17% on the pcp, reflecting a record 1H performance in prior year and the move away from low margin hardware sales. Recurring SaaS and maintenance revenues continued to grow and were up 53% on pcp to \$0.9 million. South Korean operations continued to perform well, driven by significant improvement in gross profit, deeper penetration into existing customers' addressable markets and a number of new municipalities coming on board. Taiwan continued to be the incubation hub for new innovations. This led to the recently announced strategic agreement with GreenRock (See ASX Announcement on 29 January 2024). The China market, which the Group entered in 2021, generated \$1.1 million in hardware revenue. The Group's total connected devices increased to 520,417 at 31 December 2023, adding approximately 159,000 connected devices to its patented software platform over the period, and representing 44% growth from 31 December 2022.

Cost of sales at \$4.7 million, was down 31% on the pcp, or \$2.1 million. Manufacturing costs in South Korea decreased significantly due to continued innovation on product offerings and growth in volumes. As a result, gross profit margin improved to 37%, up from 24% in the pcp.

Operating expenses reduced by 3% on pcp to \$4.6 million. This was driven by strong cost control. This figure excludes \$0.2 million in capital raising costs.

Non-cash share based payments were \$0.4 million (pcp: \$0.2 million), including options issued to Directors and key management personnel for salary forgone as part of cost reduction initiatives.

Finance costs were \$0.5 million (pcp: \$0.1 million), including \$0.2 million non-cash interest accrued on the convertible notes.

Financial position

The Group's cash and cash equivalents as at 31 December 2023 were \$2.9 million, an increase of \$1.1 million from 30 June 2023, mainly attributable to \$1 million (before costs) raised from share placements, receipt of FY23 R&D incentive, offset by operating spend.

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

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>(1.98)</u>	<u>(1.53)</u>

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

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

Previous period

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

7. Dividend reinvestment plans

Not applicable.

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8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

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

Not applicable.

10. Audit qualification or review

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


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

11. Attachments

Details of attachments (if any):

The Half Year Financial Report of X2M Connect Limited for the period ended 31 December 2023 is attached.

12. Signed

Signed  _____

Date: 28 February 2024

Hon. Alan Stockdale AO
Non-Executive Chairman
Melbourne

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Half Year Financial Report

31 DECEMBER 2023

www.x2mconnect.com
ACN 637 951 154

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“

We are pleased with X2M's performance for the first half of the year. We set out to deliver a performance that took X2M closer to being cashflow positive and the key metrics of gross profit, margin improvement and cost controls suggest we are on track to do this.

”

Mohan Jesudason, CEO and Managing Director
X2M Connect Limited

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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

Automic Pty Ltd
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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 & X2MO)

Website

www.x2mconnect.com

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Director's Report



X2M Connect Limited
Directors' report
31 December 2023

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of X2M Connect Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the period ended 31 December 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)
Mr Damien Johnston (Non-Executive Director)
Mr John Stewart (Non-Executive Director)

Principal activities

X2M operates in the utility sector across the Asia Pacific Region with offices in Australia, Japan, South Korea, Taiwan and China. The Company employed 56 people at the end of the period.

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

- Gas monitoring and control
- Water monitoring and control
- Energy monitoring and optimisation
- 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 December 2023, X2M had 520,417 devices connected to its IoT platform and distributed intelligence solution. The X2M technology delivers real-time information and control for 73 enterprise and government customers across Asia Pacific while operating over multiple radio technologies and communication protocols.

Review of operations

Whilst revenue is lower than the pcip, which was a record half year, all other key metrics are trending well. Importantly, operating cash burn improved significantly, reflecting X2M's focus on cash management, higher margin revenues and strong cost control.

Key operating metrics for the Group for the half year ended 31 December 2023 include:

- Revenue \$7.5 million, down 17% on the pcip
- Recurring SaaS and maintenance revenue \$0.9 million, up 53% on pcip
- Gross profit \$2.8 million, up 26% on the pcip
- Operating expenditure, excluding capital raising costs, was \$4.6 million, reduced by 3% on the pcip
- Adjusted EBITDA* loss \$1.8 million, an improvement of 17% on the pcip
- Loss after tax of \$3.3 million, up 12% on the pcip, mainly driven by non-operating expenditure
- Connected devices 520,417, up 44% on the pcip
- Number of enterprise and government customers 73, up 26% on the pcip
- Cash at bank \$2.9 million
- 1H24 cash burn from operating activities was \$0.4 million, an improvement of 57% on the pcip

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

	Consolidated	
	31 December 2023 \$	31 December 2022 \$
Loss after income tax	(3,276,561)	(2,935,983)
Add: Income tax expense	-	361
Add: Finance costs	462,584	96,511
Add: Depreciation and amortisation	674,660	511,545
EBITDA	(2,139,317)	(2,327,566)
Add: Share based payments expense**	383,786	212,555
Adjusted EBITDA*	<u>(1,755,531)</u>	<u>(2,115,011)</u>

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

** Share based payments expense relates to non-cash shares and options issued to employees.

Segment performance

South Korea

South Korea reported an adjusted EBIT profit of \$0.2 million (31 December 2022: loss of \$0.4 million), a significant milestone for the Company and is the largest market for X2M. This improvement was driven by increased margins on hardware as a result of lower production costs and increased pricing implemented during the year. South Korea achieved revenue of \$5.9 million. Although total revenues were down 10% on the pcp, the gross profit had increased significantly to \$2.4 million (31 December 2022: \$1.6 million).

During the period, X2M continued to receive repeat orders from its existing customers and thus further cemented X2M's leadership position in the South Korean market. This aligned with the Company's long-term strategy to secure customers with large numbers of households that will drive future SaaS and maintenance revenues. For the six month ended 31 December 2023, SaaS and maintenance revenues were \$0.6 million, up 61% on the pcp.

China

Despite the softer macro-operating environment, China delivered revenues of \$1.1 million. As noted in FY23 annual report release, with phase 1 of the market entry strategy well progressed, the Group focused on higher margin sales in this market.

China reported an adjusted EBIT loss of \$0.1 million (31 December 2022: \$0.0 million).

Taiwan

Taiwan achieved revenue of \$0.2 million, down 58% on the pcp, attributable to timing of contract deployment completions in 1H24 which will fall into 2H24 of this financial year.

Taiwan, which is X2M's incubation hub for new commercial releases, had also been focusing on developing energy management solutions with three initial mandates for energy efficient government buildings in Taiwan. This in turn has led to the recently announced strategic partnership with GreenRock Energy Co., Ltd (See ASX Announcement on 29 January 2024).

Taiwan reported an adjusted EBIT loss of \$0.4 million (31 December 2022: \$0.4 million).

Other

The Other segment consists of Japan, Hong Kong and Australia. Australia continued to be the cost centre for corporate costs including head office expenses and R&D software development costs. This segment reported revenue of \$0.2 million, down 10% on the pcp; and an adjusted EBIT loss of \$2.2 million (31 December 2022: \$1.8 million), mainly driven by depreciation and amortisation for the period. In Japan, X2M continued to grow connected devices under a licensing arrangement. Total connected devices in Japan at 31 December 2023 reached 290,671, an increase of 45% from 31 December 2022 and 30% from 30 June 2023.

\$0.4 million of non-cash share based payments were incurred, mainly attributable to securities issued to key management personnel and employees under an incentive plan, and options issued to Directors and key management personnel for salary forgone as part of cost reduction initiatives. Finance costs were \$0.5 million (pcp: \$0.1 million), including \$0.2 million non-cash interest accrued on the convertible notes.

Significant changes in the state of affairs

In August 2023, the Company successfully completed a capital raising of \$1.7 million through a convertible note offer. \$650,000 of the conversion to ordinary shares was approved by shareholders at a general meeting in October 2023. In October 2023, the Company successfully completed a capital raising placement of \$0.98 million.

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

Matters subsequent to the end of the financial period

On 23 January 2024, the Company announced that it had raised \$1.1 million (before costs) from an Entitlement Offer. X2M plans to place the shortfall shares over the following three months under the terms of the Entitlement Offer.

On 29 January 2024, X2M announced strategic agreements with GreenRock Energy Co., Ltd (GreenRock). This strategic alliance has five components which are as follows:

- GreenRock invests \$1.3 million in X2M. Subject to meeting statutory requirements and ASX listing rules, GreenRock will have the right to appoint one Director to the Board of X2M provided it maintains at least 10% of the ordinary shares of X2M.
- X2M entered into a binding agreement to acquire \$0.52 million of GreenRock shares. X2M's holding will represent less than 1% of GreenRock's issued capital.
- GreenRock to own batteries for X2M's Australian Smart Community projects.
- The parties entered into an agreement where X2M (subject to agreeing specification and commercial terms) will be the priority energy management platform provider to GreenRock for the monitoring, control and optimisation of their renewable energy and battery storage operations.
- GreenRock to partner with X2M to develop their energy management business globally.

On 29 January 2024, X2M completed a Placement of \$0.4 million whereby approximately 9,925,559 shares were issued at \$0.0403 per Share. The funds raised from GreenRock and from the Placement will be used for platform enhancements for renewable energy, smart communities and ongoing operations.

No other matter or circumstance has arisen since 31 December 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.

Auditor's independence declaration

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

X2M Connect Limited
Directors' report
31 December 2023

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

On behalf of the directors



Hon. Alan Stockdale AO
Non-Executive Chairman

28 February 2024

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Grant Thornton Audit Pty Ltd

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Auditor's Independence Declaration

To the Directors of X2M Connect Limited

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



Grant Thornton Audit Pty Ltd
Chartered Accountants



B A Mackenzie
Partner – Audit & Assurance
Melbourne, 28 February 2024

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Financial Statements



X2M Connect Limited
Statement of profit or loss and other comprehensive income
For the period ended 31 December 2023

		Consolidated	
		31	31
	Note	December	December
		2023	2022
		\$	\$
Revenue	5	7,483,843	8,973,674
Other income		186,386	373,944
Total revenue and other income		<u>7,670,229</u>	<u>9,347,618</u>
Expenses			
Cost of sales		(4,709,839)	(6,777,467)
Employee benefits expense		(2,677,034)	(2,799,425)
Share based payments expense	6	(383,786)	(212,555)
Depreciation and amortisation expense		(674,660)	(511,545)
Finance costs		(462,584)	(96,511)
Short-term lease expenses		(62,853)	(22,390)
Other expenses	7	(1,469,189)	(1,426,706)
Professional fees		(506,845)	(436,641)
Total expenses		<u>(10,946,790)</u>	<u>(12,283,240)</u>
Loss before income tax expense		(3,276,561)	(2,935,622)
Income tax expense		-	(361)
Loss after income tax expense for the period attributable to the owners of X2M Connect Limited		(3,276,561)	(2,935,983)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		72,658	(28,863)
Other comprehensive income for the period, net of tax		<u>72,658</u>	<u>(28,863)</u>
Total comprehensive income for the period attributable to the owners of X2M Connect Limited		<u>(3,203,903)</u>	<u>(2,964,846)</u>
		Cents	Cents
Basic earnings per share		(1.55)	(1.95)
Diluted earnings per share		(1.55)	(1.95)

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

X2M Connect Limited
Statement of financial position
As at 31 December 2023

		Consolidated	
		31	
	Note	December 2023 \$	30 June 2023 \$
Assets			
Current assets			
Cash and cash equivalents		2,917,136	1,785,032
Trade and other receivables		3,002,864	2,565,557
Contract assets		233,778	961,727
Inventories		280,862	228,163
Other assets	8	2,885,626	3,808,287
Total current assets		<u>9,320,266</u>	<u>9,348,766</u>
Non-current assets			
Property, plant and equipment and right-of-use assets		490,359	450,270
Intangible assets	9	4,206,248	3,946,700
Other assets	8	414,239	429,738
Total non-current assets		<u>5,110,846</u>	<u>4,826,708</u>
Total assets		<u>14,431,112</u>	<u>14,175,474</u>
Liabilities			
Current liabilities			
Trade and other payables	10	5,537,503	6,405,703
Contract liabilities		3,712,275	3,552,254
Borrowings	11	2,635,549	2,069,095
Lease liabilities		164,229	159,592
Employee benefits		901,048	875,186
Total current liabilities		<u>12,950,604</u>	<u>13,061,830</u>
Non-current liabilities			
Borrowings	11	1,483,771	-
Lease liabilities		294,626	257,495
Employee benefits		486,655	450,902
Total non-current liabilities		<u>2,265,052</u>	<u>708,397</u>
Total liabilities		<u>15,215,656</u>	<u>13,770,227</u>
Net assets/(liabilities)		<u>(784,544)</u>	<u>405,247</u>
Equity			
Issued capital	12	25,140,407	24,127,410
Reserves		3,744,781	2,671,008
Accumulated losses		(29,669,732)	(26,393,171)
Total equity/(deficiency)		<u>(784,544)</u>	<u>405,247</u>

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

X2M Connect Limited
Statement of changes in equity
For the period ended 31 December 2023

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

Consolidated	Issued capital \$	Reserves \$	Accumulated losses \$	Total deficiency in equity \$
Balance at 1 July 2023	24,127,410	2,671,008	(26,393,171)	405,247
Loss after income tax expense for the period	-	-	(3,276,561)	(3,276,561)
Other comprehensive income for the period, net of tax	-	72,658	-	72,658
Total comprehensive income for the period	-	72,658	(3,276,561)	(3,203,903)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 12)	932,025	-	-	932,025
Issue of shares under employee incentive plan	80,972	-	-	80,972
Convertible note reserve	-	419,853	-	419,853
Options issued to a lender as part of borrowing costs	-	278,448	-	278,448
Share based payments	-	302,814	-	302,814
Balance at 31 December 2023	<u>25,140,407</u>	<u>3,744,781</u>	<u>(29,669,732)</u>	<u>(784,544)</u>

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

X2M Connect Limited
Statement of cash flows
For the period ended 31 December 2023

Note	Consolidated	
	31 December 2023 \$	31 December 2022 \$
Cash flows from operating activities		
	8,619,483	11,187,792
	1,460,711	64,572
	(10,509,851)	(12,214,094)
	13,749	2,190
	<u>(415,908)</u>	<u>(959,540)</u>
Cash flows from investing activities		
	(36,460)	(2,409)
	(1,380,128)	(1,224,002)
	<u>(35,553)</u>	<u>(563,540)</u>
	<u>(1,452,141)</u>	<u>(1,789,951)</u>
Cash flows from financing activities		
12	955,000	3,969,562
	(183,316)	(346,544)
11	1,675,000	-
	680,253	1,250,000
	-	(32,499)
	<u>(119,899)</u>	<u>(127,803)</u>
	<u>3,007,038</u>	<u>4,712,716</u>
	1,138,989	1,963,225
	1,785,032	1,020,020
	<u>(6,885)</u>	<u>67,253</u>
	<u>2,917,136</u>	<u>3,050,498</u>

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

Note 1. General information

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

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

Suite 1.01b, Building B,
18-24 Ricketts Road,
Mount Waverley VIC 3149

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 28 February 2024.

Note 2. Significant accounting policy information

These general purpose financial statements for the interim half-year reporting period ended 31 December 2023 have been prepared in accordance with Australian Accounting Standard AASB 134 ‘Interim Financial Reporting’ and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 ‘Interim Financial Reporting’.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2023 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

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

New or amended Accounting Standards and Interpretations adopted

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

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

Going concern

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

The Group has incurred a loss after tax of \$3,276,561 during the half year ended 31 December 2023 (2022: loss of \$2,935,983), net cash outflows from operating and investing activities of \$1,868,049 (2022: net outflow of \$2,749,491). As at 31 December 2023 the Group had net liabilities of \$784,544 (30 June 2023 net assets: \$405,247) and had a working capital deficiency, being current assets less current liabilities, of \$3,630,338 (30 June 2023: \$3,713,064).

Note 2. Significant accounting policy information (continued)

During the period, the Group successfully completed a Placement and issue of convertible notes, raising \$2,680,000 before costs. The Group also secured a loan facility with a face value of \$720,000. Proceeds from the capital raising activities 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.

Subsequent to half year end, the Group raised \$1.5 million before costs via an Entitlement Offer and Placement and \$1.3 million from a new strategic investor. The Company expects to raise a further \$0.4 million by placing the shortfall from the Entitlement Offer. Cash flow forecasts prepared by management indicate that the Group will have sufficient funds to meet commitments over the next twelve months from the date of this report. These cashflow projections assume the Group's ability to achieve sales growth and prudent control on expenditure. If required, the Group has the ability to seek additional capital by one of, or a combination of, the following: placement of shares, pro-rata issue to shareholders and/or further issue of shares to public.

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

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

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

Note 3. Critical accounting judgements, estimates and assumptions

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

Share-based payment transactions

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

Revenue from contracts with customers

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

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

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

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.

Impairment of non-financial assets

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

Note 4. Operating segments

Identification of reportable operating segments

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

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

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

Intersegment transactions

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

Intersegment receivables, payables and loans

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

Major customers

During the half year ended 31 December 2023, four customers from South Korea contributed \$2,506,688, representing 33% of total external revenues. One customer from China contributed \$1,106,809 representing 15% of total external revenues.

Note 4. Operating segments (continued)

Operating segment information

	South Korea \$	China \$	Taiwan \$	Other \$	Total \$
Consolidated - 31 December 2023					
Revenue					
Sales to external customers	5,921,553	1,106,809	208,582	246,899	7,483,843
Intersegment sales	139,327	-	-	-	139,327
Total sales revenue	6,060,880	1,106,809	208,582	246,899	7,623,170
Other income	11,658	59	146	194,058	205,921
Total segment revenue	6,072,538	1,106,868	208,728	440,957	7,829,091
Intersegment eliminations					(158,862)
Total revenue and other income					7,670,229
Adjusted EBITDA*	315,383	(67,658)	(379,895)	(1,623,361)	(1,755,531)
Depreciation and amortisation	(70,652)	(8,161)	(20,259)	(575,588)	(674,660)
Adjusted EBIT*	244,731	(75,819)	(400,154)	(2,198,949)	(2,430,191)
<i>Unallocated</i>					
Share based payments**					(383,786)
Finance costs					(462,584)
Income tax expense					-
Loss after income tax expense					(3,276,561)
Assets					
Segment assets	2,992,429	3,263,578	654,569	7,520,536	14,431,112
Total assets					14,431,112
Liabilities					
Segment liabilities	4,987,864	3,065,458	614,898	6,547,436	15,215,656
Total liabilities					15,215,656
Consolidated - 31 December 2022					
Revenue					
Sales to external customers	6,579,249	1,623,360	495,919	275,146	8,973,674
Intersegment sales	321,527	-	-	328,125	649,652
Total sales revenue	6,900,776	1,623,360	495,919	603,271	9,623,326
Other income	62,048	5,276	89	306,531	373,944
Total segment revenue	6,962,824	1,628,636	496,008	909,802	9,997,270
Intersegment eliminations					(649,652)
Total revenue and other income					9,347,618
Adjusted EBITDA*	(339,868)	34,612	(379,681)	(1,430,074)	(2,115,011)
Depreciation and amortisation	(56,698)	(45,501)	(9,928)	(399,418)	(511,545)
Adjusted EBIT*	(396,566)	(10,889)	(389,609)	(1,829,492)	(2,626,556)
<i>Unallocated</i>					
Share based payments**					(212,555)
Finance costs					(96,511)
Income tax expense					(361)
Loss after income tax expense					(2,935,983)

Note 4. Operating segments (continued)

Consolidated - 30 June 2023

Assets					
Segment assets	3,564,637	2,758,394	618,758	7,233,685	14,175,474
Total assets					<u>14,175,474</u>
Liabilities					
Segment liabilities	5,549,062	2,583,671	654,929	4,982,565	13,770,227
Total liabilities					<u>13,770,227</u>

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

** Share based payments expense relate to non-cash options issued to employees.

Note 5. Revenue

	Consolidated	
	31	31
	December	December
	2023	2022
	\$	\$
SaaS and maintenance revenue	854,969	558,678
Hardware sales	6,628,874	8,321,678
Professional service fees	-	93,318
Revenue	<u>7,483,843</u>	<u>8,973,674</u>

Disaggregation of revenue

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

	Consolidated	
	31	31
	December	December
	2023	2022
	\$	\$
<i>Timing of revenue recognition</i>		
Goods transferred at a point in time	6,628,874	8,321,678
Services transferred over time	854,969	651,996
	<u>7,483,843</u>	<u>8,973,674</u>

Note 6. Share based payments expense

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

Note 6. Share based payments expense (continued)

	Consolidated 31 December 2023 \$	31 December 2022 \$
Unquoted options issued to key management personnel	135,220	42,273
Unquoted options issued to employees	167,594	170,282
Issue of incentive shares to employees	80,972	-
	<u>383,786</u>	<u>212,555</u>

Note 7. Other expenses

	Consolidated 31 December 2023 \$	31 December 2022 \$
Advertising and marketing	21,739	132,791
Product remediation and upgrade	404,231	385,224
Subscriptions	149,708	131,363
Communication and IT costs	235,210	170,471
Travel costs	366,400	268,819
Other administrative expenses	291,901	338,038
	<u>1,469,189</u>	<u>1,426,706</u>

Note 8. Other assets

	Consolidated 31 December 2023 \$	30 June 2023 \$
<i>Current assets</i>		
Research and development tax credit receivables	777,768	1,480,841
Prepayments	2,074,812	2,283,147
Other assets	33,046	44,299
	<u>2,885,626</u>	<u>3,808,287</u>
<i>Non-current assets</i>		
Deposits	414,239	429,738
	<u>3,299,865</u>	<u>4,238,025</u>

Note 9. Intangible assets

	Consolidated	
	31 December 2023 \$	30 June 2023 \$
<i>Non-current assets</i>		
Intellectual property, patents and copyright - at cost	5,380,239	5,384,521
Less: Accumulated amortisation	(2,088,331)	(1,550,103)
	<u>3,291,908</u>	<u>3,834,418</u>
Intellectual property in progress - at cost	<u>914,340</u>	<u>112,282</u>
	<u><u>4,206,248</u></u>	<u><u>3,946,700</u></u>

Reconciliations

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

Consolidated	Intellectual property, patents and copyright \$	Intellectual property in progress \$	Total \$
Balance at 1 July 2023	3,834,418	112,282	3,946,700
Capitalisation of expenses (net of R&D tax refund)	-	803,641	803,641
Exchange differences	(4,251)	(1,583)	(5,834)
Amortisation expense	(538,259)	-	(538,259)
Balance at 31 December 2023	<u><u>3,291,908</u></u>	<u><u>914,340</u></u>	<u><u>4,206,248</u></u>

Note 10. Trade and other payables

	Consolidated	
	31 December 2023 \$	30 June 2023 \$
<i>Current liabilities</i>		
Trade payables	4,287,004	4,761,430
Accrued expenses	1,250,499	1,594,273
Other payables	-	50,000
	<u><u>5,537,503</u></u>	<u><u>6,405,703</u></u>

Note 11. Borrowings

	Consolidated	
	31 December 2023 \$	30 June 2023 \$
<i>Current liabilities</i>		
Insurance funding	90,443	25,313
Other borrowings*	2,545,106	2,043,782
	<u>2,635,549</u>	<u>2,069,095</u>
<i>Non-current liabilities</i>		
Convertible notes	<u>1,483,771</u>	<u>-</u>

*Subsequent to the half year end, X2M fully repaid \$2.1 million outstanding loan from Brownvalley Family Trust.

Convertible notes

In August 2023, X2M completed a capital raising of \$1.7 million through entering into convertible note agreements (Convertible Notes) with professional and sophisticated investors. The key terms of the Convertible Notes are as follows:

- Face value: \$1.7 million (\$1 per note)
- Expiry date: 30 June 2025
- The Convertible Note holder can convert Notes at any time into Shares at the rate of \$0.05 per Share.
- Interest on Convertible Notes not yet converted or redeemed accrues at the rate of 18% per annum, however a minimum of 12 month's interest must be paid.
- X2M may, at its sole discretion, redeem the Convertible Notes at any time by repaying the then outstanding unconverted Convertible Notes and accrued interest, provided at that time it pays at least 12 months of interest and it notifies and provides the Convertible Note holder the opportunity to issue a Conversion Notice for 5 business days prior to any redemption.
- The Convertible Notes are partly secured parri passu against X2M's anticipated FY24 R&D tax refund amount and the Company must keep that refund in a trust account until the total amount outstanding under the Convertible Notes is less than the trust account amount.

Management assessed the recognition of the convertible notes in accordance with AASB 9 *Financial Instruments* and determined that these notes were a compound financial instrument with the equity component valued at \$419,853 on initial recognition. This has been included in Reserves as convertible notes reserve.

Accounting policy for 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.

On the issue of the convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. The remainder of the proceeds are allocated to the conversion option that is recognised and included in shareholders equity as a convertible note reserve, net of transaction costs. The carrying amount of the conversion option is not remeasured in the subsequent years. The corresponding interest on convertible notes is expensed to the statement of profit or loss and other comprehensive income.

Note 12. Issued capital

	Consolidated			
	31 December 2023 Shares	30 June 2023 Shares	31 December 2023 \$	30 June 2023 \$
Ordinary shares - fully paid	<u>228,521,905</u>	<u>204,719,828</u>	<u>25,140,407</u>	<u>24,127,410</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	1 July 2023	204,719,828		24,127,410
Issue of Placement shares	1 November 2023	18,777,784	\$0.045	845,000
Issue of shares under employee incentive plan	1 November 2023	2,024,292	\$0.040	80,972
Issue of Placement shares	1 December 2023	3,000,001	\$0.045	135,000
Share issue transaction costs		-	-	(47,975)
Balance	31 December 2023	<u>228,521,905</u>		<u>25,140,407</u>

Note 13. Contingent assets and liabilities

The Directors are not aware any contingent assets or contingent liabilities as at 31 December 2023 (2022: Nil).

Note 14. Related party transactions

Parent entity

X2M Connect Limited is the parent entity.

Transactions with related parties

During the period, X2M paid \$14,500 for social media, designer and other supporting services from Azimbo Consulting Pty Ltd (an entity associated with Keith Jelley, X2M Chief Operating Officer). The transactions were made on normal commercial terms.

Receivable from and payable to related parties

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

Loans to/from related parties

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

Note 15. Events after the reporting period

On 23 January 2024, the Company announced that it had raised \$1.1 million (before costs) from an Entitlement Offer. X2M plans to place the shortfall shares over the following three months under the terms of the Entitlement Offer.

On 29 January 2024, X2M announced strategic agreements with GreenRock Energy Co., Ltd (GreenRock). This strategic alliance has five components which are as follows:

Note 15. Events after the reporting period (continued)

- GreenRock invests \$1.3 million in X2M. Subject to meeting statutory requirements and ASX listing rules, GreenRock will have the right to appoint one Director to the Board of X2M provided it maintains at least 10% of the ordinary shares of X2M.
- X2M entered into a binding agreement to acquire \$0.52 million of GreenRock shares. X2M's holding will represent less than 1% of GreenRock's issued capital.
- GreenRock to own batteries for X2M's Australian Smart Community projects.
- The parties entered into an agreement where X2M (subject to agreeing specification and commercial terms) will be the priority energy management platform provider to GreenRock for the monitoring, control and optimisation of their renewable energy and battery storage operations.
- GreenRock to partner with X2M to develop their energy management business globally.

On 29 January 2024, X2M completed a Placement of \$0.4 million whereby approximately 9,925,559 shares were issued at \$0.0403 per Share. The funds raised from GreenRock and from the Placement will be used for platform enhancements for renewable energy, smart communities and ongoing operations.

No other matter or circumstance has arisen since 31 December 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.

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Directors' Declaration



**X2M Connect Limited
Directors' declaration
31 December 2023**

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Regulations 2001;
- the attached financial statements and notes give a true and fair view of the Consolidated Entity's financial position as at 31 December 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.

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

On behalf of the directors



Hon. Alan Stockdale AO
Non-Executive Chairman

28 February 2024

Independent Auditor's Review Report

To the Members of X2M Connect Limited

Report on the half year financial report

Conclusion

We have reviewed the accompanying half year financial report of X2M Connect Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2023, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the accompanying half-year financial report of X2M Connect Limited does not comply with the *Corporations Act 2001* including:

- a giving a true and fair view of the Group's financial position as at 31 December 2023 and of its performance for the half year ended on that date; and
- b complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Material uncertainty related to going concern

We draw attention to Note 2 in the financial report, which indicates that the Group incurred a loss after tax of \$3,276,561 during the half year ended 31 December 2023 and net cash outflows from operating and investing activities of \$1,868,049. As of that date, the Group had net liabilities of \$784,544 and had a working capital deficiency, being current assets less current liabilities, of \$3,630,338. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 2023 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.

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



Grant Thornton Audit Pty Ltd
Chartered Accountants



B A Mackenzie
Partner – Audit & Assurance

Melbourne, 28 February 2024

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