

X2M Connect Limited
Appendix 4E
Preliminary final report

1. Company details

Name of entity:	X2M Connect Limited
ACN:	637 951 154
Reporting period:	For the period ended 30 June 2021
Previous period:	For the period 9 December 2019 to 30 June 2020

X2M Connect Limited (the "Company" or "X2M") is a company domiciled in Australia. It was originally incorporated on 9 December 2019. As such, the comparative reporting period is from the date of incorporation to 30 June 2020. In turn this makes prior period financial comparisons less meaningful.

2. Results for announcement to the market

			\$
Revenues from ordinary activities	up	333.8% to	5,700,396
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	up	361.7% to	(4,393,007)
Loss from ordinary activities after tax attributable to the owners of X2M Connect Limited	up	498.5% to	(8,308,066)
Loss for the period attributable to the owners of X2M Connect Limited	up	498.5% to	(8,308,066)

Dividends

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

Key points

The 2021 financial year was a strong one for X2M with all core business metrics performing well. Key operational metrics for the period delivered the following results compared to the period ended 30 June 2020:

- Revenues from ordinary activities are up 334% to \$5,700,396.
- 9 new enterprise and government customers were added during the year bringing the total customer base up to 34, an increase of 36% on the prior period.
- Total connected devices increased to 123,000 up from 64,000 at the end of the last period.
- Earnings Before Interest, Tax, Depreciation and Amortisation for the year was a loss of \$4,393,007.
- Loss for the period attributable to the owners of X2M was \$8,308,066.

Group Commentary

The loss for the Group after providing for income tax amounted to \$8,308,066 (9 December 2019 to 30 June 2020: \$1,388,198).

Revenue for the period was \$5,700,396 (9 December 2019 to 30 June 2020: \$1,314,138), reflecting strong organic growth and a full year of trading. The Group saw strong growth in its South Korean operations, driven by hardware sales to new municipalities and generated reoccurring platform subscription revenue from these sales. The Group also entered China and earned revenue of \$1,088,774 for the period. The Group added approximately 60,000 connected devices to its patented software platform over the period, representing 93% year-on-year growth.

Other income increased to \$819,279 for the year, predominantly consisting of government assistance of \$393,381 in response to the COVID-19 pandemic, research and development tax credits of \$322,101 and an export market development grant of \$100,000.

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Total expenses for the year was \$15,073,263 (9 December 2019 to 30 June 2020: \$2,944,802). The increase in operating expenses in 2021 reflect a full year of operations and the corresponding increase in the cost of sales as a result of revenue growth. The total expenses were driven by:

- Full year cost of sales of \$4,091,280, increased in line with revenue growth.
- \$4,935,291 Employee benefits and staff costs that include the appointment of the Board and additional employees added to meet demands.
- \$2,072,156 non-cash share based payments expense.
- \$1,245,807 depreciation and amortisation.
- \$681,534 one off costs associated with the IPO.

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

	Consolidated	9 December
	2021	2019 to 30
	\$	June 2020
		\$
Loss after income tax	(8,308,066)	(1,388,198)
Less: Income tax benefit	(245,522)	(62,554)
Add: Depreciation and amortisation	1,245,807	386,283
Add: Finance costs	161,084	113,007
Add: Share based payments expense	2,072,156	-
Add: One off IPO costs	681,534	-
EBITDA	<u>(4,393,007)</u>	<u>(951,462)</u>

3. Net tangible assets

	Reporting	Previous
	period	period
	Cents	Cents
Net tangible assets per ordinary security	<u>(2.72)</u>	<u>(5.90)</u>

The net tangible assets per ordinary shares is calculated based on 88,062,050 ordinary shares on issue as at 30 June 2021 and 50,800,480 ordinary shares that would have been in existence had the share split occurred as at 30 June 2020.

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

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

Previous period

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

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

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

Not applicable.

10. Audit qualification or review

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

The financial statements are in the process of being audited and an unqualified opinion is expected to be issued.

11. Attachments

Details of attachments (if any):

The Preliminary Financial Report of X2M Connect Limited for the period ended 30 June 2021 is attached.

12. Signed

Signed  _____

Date: 19 September 2021

Hon. Alan Stockdale AO
Non-Executive Chairman

X2M Connect Limited

ACN 637 951 154

Preliminary Financial Report - 30 June 2021

X2M Connect Limited
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X2M Connect Limited
Statement of profit or loss and other comprehensive income
For the period ended 30 June 2021

		Consolidated	9 December
		2021	2019 to 30
	Note	\$	June 2020
		\$	\$
Revenue	3	5,700,396	1,314,138
Other income	4	819,279	179,912
Total revenue and other income		<u>6,519,675</u>	<u>1,494,050</u>
Expenses			
Cost of sales		(4,091,280)	(551,734)
Employee benefits expense		(4,935,291)	(1,281,823)
Share based payments		(2,072,156)	-
Depreciation and amortisation expense		(1,245,807)	(386,283)
Finance costs		(161,084)	(113,007)
Telephone expenses		(211,968)	(89,688)
Short-term lease expenses		(101,779)	(65,925)
Other expenses		(688,919)	(272,645)
Professional fees		(883,445)	(183,697)
IPO expenses		(681,534)	-
Total expenses		<u>(15,073,263)</u>	<u>(2,944,802)</u>
Loss before income tax benefit		(8,553,588)	(1,450,752)
Income tax benefit		<u>245,522</u>	<u>62,554</u>
Loss after income tax benefit for the period attributable to the owners of X2M Connect Limited		(8,308,066)	(1,388,198)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		<u>(184,667)</u>	<u>23,813</u>
Other comprehensive income for the period, net of tax		<u>(184,667)</u>	<u>23,813</u>
Total comprehensive income for the period attributable to the owners of X2M Connect Limited		<u><u>(8,492,733)</u></u>	<u><u>(1,364,385)</u></u>
		Cents	Cents
Basic earnings per share		(12.29)	(3.25)
Diluted earnings per share		(12.29)	(3.25)

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 30 June 2021

	Note	Consolidated 2021 \$	2020 \$
Assets			
Current assets			
Cash and cash equivalents		1,952,842	302,092
Trade and other receivables		204,826	520,856
Contract assets		359,319	437,759
Inventories		76,317	269,043
Other assets		1,506,599	638,976
Total current assets		<u>4,099,903</u>	<u>2,168,726</u>
Non-current assets			
Property, plant and equipment and right-of-use assets		632,856	1,306,672
Intangible assets		2,196,687	1,761,502
Other assets		128,021	256,118
Total non-current assets		<u>2,957,564</u>	<u>3,324,292</u>
Total assets		<u>7,057,467</u>	<u>5,493,018</u>
Liabilities			
Current liabilities			
Trade and other payables	5	2,044,068	1,108,204
Contract liabilities		1,070,696	7,798
Borrowings		2,408,423	4,483,548
Lease liabilities		129,056	62,943
Derivative financial instruments		31,488	112,000
Employee benefits	6	1,327,762	266,479
Provisions		28,540	87,847
Total current liabilities		<u>7,040,033</u>	<u>6,128,819</u>
Non-current liabilities			
Lease liabilities		113,232	64,273
Deferred tax liabilities		98,785	346,066
Employee benefits	6	249,577	317,985
Total non-current liabilities		<u>461,594</u>	<u>728,324</u>
Total liabilities		<u>7,501,627</u>	<u>6,857,143</u>
Net liabilities		<u>(444,160)</u>	<u>(1,364,125)</u>
Equity			
Issued capital		9,412,958	260
Foreign currency translation reserve		(160,854)	23,813
Accumulated losses		(9,696,264)	(1,388,198)
Total deficiency in equity		<u>(444,160)</u>	<u>(1,364,125)</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 30 June 2021

Consolidated	Issued capital \$	Foreign currency translation reserve \$	Accumulated losses \$	Total deficiency in equity \$
Balance at 9 December 2019	-	-	-	-
Loss after income tax benefit for the period	-	-	(1,388,198)	(1,388,198)
Other comprehensive income for the period, net of tax	-	23,813	-	23,813
Total comprehensive income for the period	-	23,813	(1,388,198)	(1,364,385)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs	260	-	-	260
Balance at 30 June 2020	260	23,813	(1,388,198)	(1,364,125)

Consolidated	Issued capital \$	Foreign currency translation reserve \$	Accumulated losses \$	Total deficiency in equity \$
Balance at 1 July 2020	260	23,813	(1,388,198)	(1,364,125)
Loss after income tax benefit for the period	-	-	(8,308,066)	(8,308,066)
Other comprehensive income for the period, net of tax	-	(184,667)	-	(184,667)
Total comprehensive income for the period	-	(184,667)	(8,308,066)	(8,492,733)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs	2,013,000	-	-	2,013,000
Share-based payments	1,419,725	-	-	1,419,725
Issue of shares on conversion of convertible notes	5,979,973	-	-	5,979,973
Balance at 30 June 2021	9,412,958	(160,854)	(9,696,264)	(444,160)

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 30 June 2021

		Consolidated	9 December
		2021	2019 to 30
	Note	\$	June 2020
		\$	\$
Cash flows from operating activities			
Receipts from customers and other sources		7,654,942	1,418,515
Payments to suppliers and employees		<u>(10,895,759)</u>	<u>(2,325,216)</u>
Net cash used in operating activities		<u>(3,240,817)</u>	<u>(906,701)</u>
Cash flows from investing activities			
Payment for purchase of business, net of cash acquired	2	-	(2,825,080)
Payments for intangibles		(776,738)	(258,037)
Proceeds from release of security deposits		<u>128,097</u>	<u>-</u>
Net cash used in investing activities		<u>(648,641)</u>	<u>(3,083,117)</u>
Cash flows from financing activities			
Proceeds from issue of shares		2,070,000	260
Cost of capital raising		(57,000)	-
Proceeds from convertible notes		2,800,000	4,200,000
Proceeds from borrowings		952,221	113,050
Repayment of lease liabilities (including interest)		<u>(225,013)</u>	<u>(18,893)</u>
Net cash from financing activities		<u>5,540,208</u>	<u>4,294,417</u>
Net increase in cash and cash equivalents		1,650,750	304,599
Cash and cash equivalents at the beginning of the financial period		302,092	-
Effects of exchange rate changes on cash and cash equivalents		<u>-</u>	<u>(2,507)</u>
Cash and cash equivalents at the end of the financial period		<u><u>1,952,842</u></u>	<u><u>302,092</u></u>

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

Note 1. Significant accounting policies

This preliminary final report has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of X2M Connect Limited ('Company' or 'parent entity') as at 30 June 2021 and the results of all subsidiaries for the period then ended. X2M Connect Limited and its subsidiaries together are referred to in these financial statements as the 'Group'.

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.

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Note 2. Business combinations

The Group consists of X2M Connect Limited and the following companies:

Freestyle Energy Two Pty Ltd
 Freestyle Technology Taiwan Limited
 Freestyle Technology Co., Ltd*
 Golden Sino Hong Kong Limited
 Freestyle Technology (Shanghai) Co., Ltd
 Freestyle Technology Japan KK
 Beijing Freestyle Technology Co., Ltd

*South Korean operations

The above mentioned companies, excluding Beijing Freestyle Technology Co., Ltd, were acquired by X2M Connect Limited on 26 February 2020 from Freestyle Technology Limited.

Details of the acquisition are as follows:

	Fair value
	\$
Cash and cash equivalents	174,920
Trade & other receivables	421,699
Contract assets	415,774
Inventories	212,493
Other assets	239,710
Property, plant and equipment and right-of-use assets	1,525,202
Trade & other payables	(897,714)
Employee benefits	(102,211)
Provisions (onerous contract)	(107,368)
Lease liabilities	(84,740)
Identifiable intangible assets recognised on acquisition (intellectual property, patents and copyright)	1,610,855
Deferred tax liability on intellectual property, patents and copyright	(408,620)
Net assets acquired	3,000,000
Goodwill	-
Acquisition-date fair value of the total consideration transferred	<u>3,000,000</u>
Representing:	
Cash paid or payable to vendor	3,000,000
Less: Cash and cash equivalents acquired	(174,920)
Net cash and cash equivalents on purchase of business	<u>2,825,080</u>

Note 3. Revenue

	Consolidated	9 December
	2021	2019 to 30
	\$	June 2020
	\$	\$
Platform subscriptions revenue	1,443,801	741,546
Hardware sales	4,139,630	572,592
Proof of concepts and development services revenue	116,965	-
Revenue	<u>5,700,396</u>	<u>1,314,138</u>

Note 3. Revenue (continued)

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.

Type of product/service	Nature and timing of satisfaction of performance obligations
Platform subscription revenue	The nature and timing of revenue recognition can differ between customers based on the deliverables and pricing of each customer's contract. 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.
Proof of concepts and development service revenue	Where a contract requires the completion of milestones related to proof of concept and development service revenue, revenue is recognised when the objectives of the milestones are achieved.

Note 4. Other income

	Consolidated	9 December
	2021	2019 to 30
	\$	June 2020
		\$
Research and development tax credits	322,101	44,849
Government assistance	393,381	135,000
Export market development grant	100,000	-
Interest income	612	63
Other income	3,185	-
	<u>819,279</u>	<u>179,912</u>
Other income	<u>819,279</u>	<u>179,912</u>

Note 5. Trade and other payables

	Consolidated	2020
	2021	2020
	\$	\$
<i>Current liabilities</i>		
Trade payables	695,746	562,809
Accrued expenses	1,348,322	545,395
	<u>2,044,068</u>	<u>1,108,204</u>
	<u>2,044,068</u>	<u>1,108,204</u>

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Note 6. Employee benefits

	Consolidated	
	2021	2020
	\$	\$
<i>Current liabilities</i>		
Employee benefits	675,331	266,479
Other employee benefits*	652,431	-
	<u>1,327,762</u>	<u>266,479</u>
<i>Non-current liabilities</i>		
Employee benefits	249,577	317,985
	<u>1,577,339</u>	<u>584,464</u>

*On 2 July 2021, the Company issued 5,219,448 fully paid ordinary shares at a deemed issue price of \$0.125 (12.5 cents) to a key management personnel under the employee incentive scheme. As there was shared understanding established before year end, a share based payment expense of \$652,431 was recognised in the statement of profit or loss and other comprehensive income.