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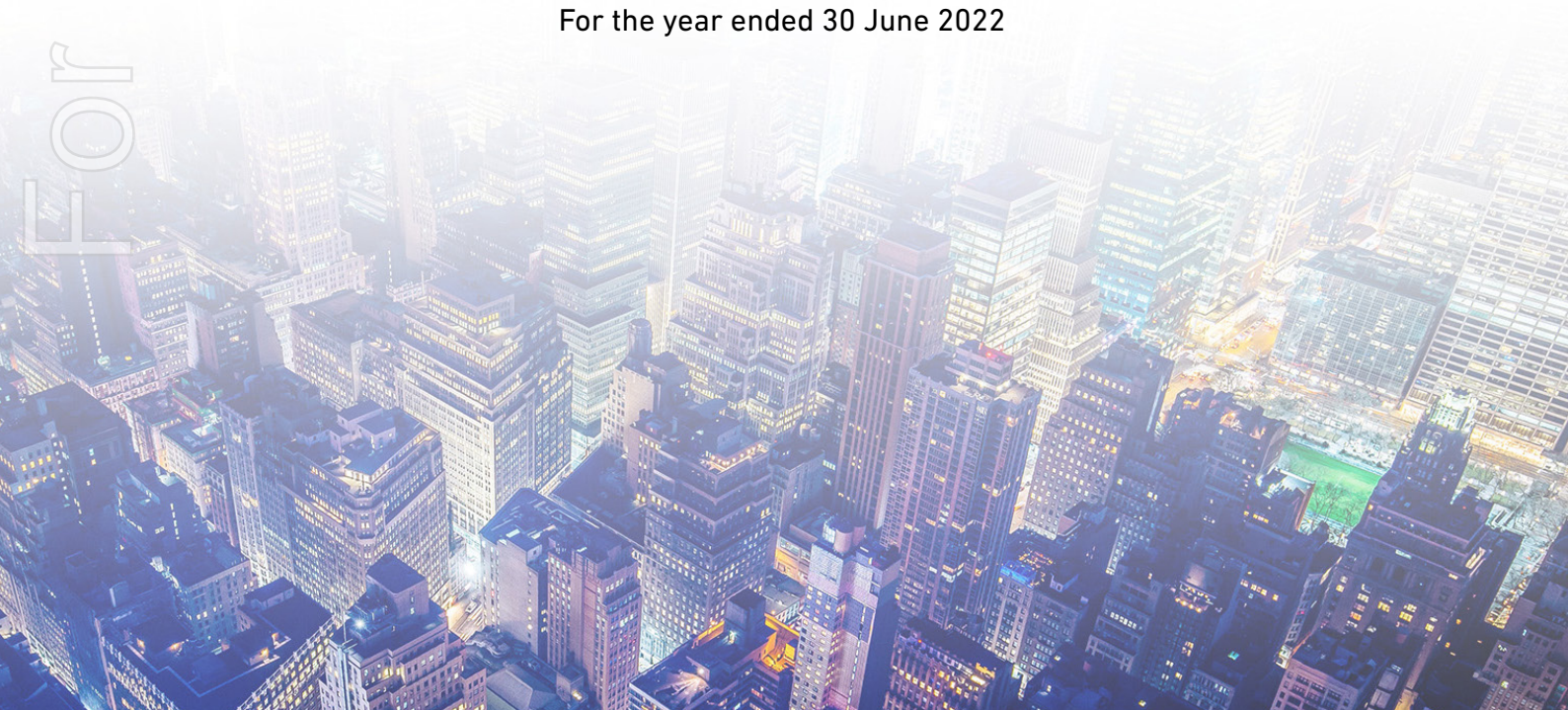


**DXN**

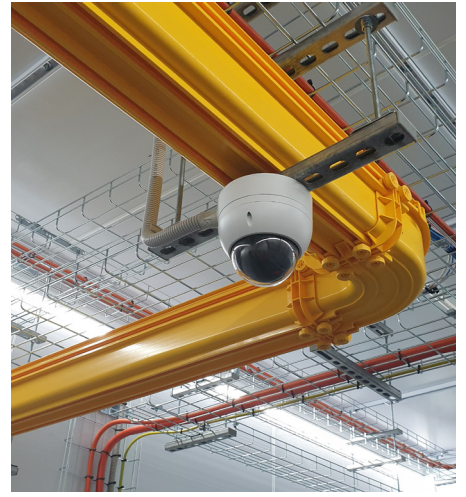
**DXN Limited**  
(ACN 620 888 548)

**ANNUAL REPORT**

For the year ended 30 June 2022







MAKING



GLOBAL



LOCAL

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# VISION AND MISSION

## OUR VISION:

To define the EDGE by bringing critical communication infrastructure closer to our customers by making global local.

## OUR MISSION:

We will be Australia's leading edge infrastructure company for colocation and turnkey solutions, building the best modular solutions safely, creating value for our customers, staff and shareholders.



## OUR KEY VALUE PROPOSITIONS:

### DESIGN

Deep domain knowledge in house skills including mechanical electrical and structural engineering.

### BUILD

Australian owned Prefabricated Modular manufacturer with the highest quality standards that the data centre industry expects.

### OPERATE

Secures, Maintains and Operates critical infrastructure.

## CERTIFICATIONS AND GLOBAL STANDARDS





# CORPORATE DIRECTORY



## DIRECTORS

**John Baillie**

*(Non-Executive Director and Chairman)*

**Richard Carden**

*(Non-Executive Director)*

**John Dimitropoulos**

*(Non-Executive Director)*

## COMPANY SECRETARY

**George Lazarou**

## REGISTERED OFFICE

5 Parkview Drive  
Sydney Olympic Park NSW 2127  
Telephone: 1300 328 239

## PRINCIPAL PLACE OF BUSINESS

3 Dampier Road  
Welshpool WA 6106  
Telephone: 1300 328 239

## SHARE REGISTER

**Automic Pty Ltd**

Level 5  
191 St Georges Terrace  
Perth WA 6000

## AUDITOR

**Moore Australia Audit (WA)**

Level 15, Exchange Tower  
2 The Esplanade  
Perth WA 6000

## SOLICITORS

**Steinepreis Paganin**

Level 4, The Read Buildings  
16 Milligan Street  
Perth WA 6000

## BANKERS

**ANZ**

15 Hutton Street  
Osborne Park WA 6017

**Westpac**

341 George Street  
Sydney NSW 2000

## STOCK EXCHANGE LISTING

DXN Limited shares are listed on the  
Australian Securities Exchange  
(ASX code: DXN (DXNOD))

## WEBSITE

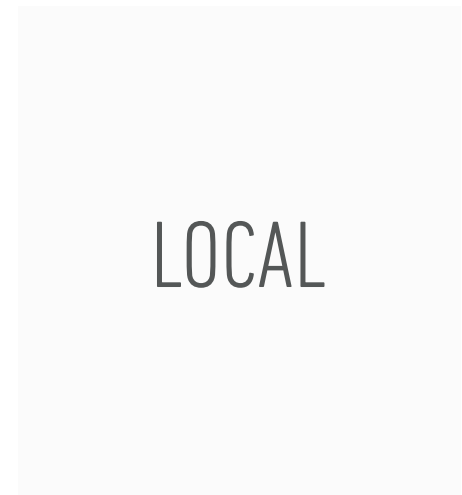
<https://dxn.solutions/>



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# CHAIRMAN'S REPORT

## Dear fellow shareholder,

FY22 was a challenging year. Revenues increased by a massive 91% year on year with most of the growth coming from our Modules business. We acquired a new DC in Darwin and had significant changes within our Executives ranks, yet despite all this, our overall financial performance was lackluster to say the least. COVID-19 impacted our ability to complete our overseas projects in a timely manner and supply chain issues adversely impacted our manufacturing timelines. On a positive note, our recently released Cloud offering in the Sydney Data Centre is attracting new customers and revenues and positive market interest.

As mentioned in last year's Chairman's report, 'future growth will come from Asia Pacific and the ASEAN countries'. This was highlighted when DC Alliance became a shareholder, and as previously announced in August 2022, we entered into a business sale agreement with FLOW. FLOW Digital Infrastructure is a leading Singapore based provider of digital infrastructure across the Asia Pacific region.

A strategic review during 2022 was undertaken by the Board. The outcome of which was that due to higher capital needs for the continued growth of DXN, and, the cost of that capital being prohibitive, it would be in the best interest of shareholders if a sale of assets was considered.

We commissioned an Independent Expert Report on the FLOW transaction that will accompany the Notice of Meeting. The report will layout the advantages and disadvantages of the transaction and whether it is fair and reasonable to shareholders.

Thank you to all stakeholders for your support over the past four years. It would be an understatement to say it's been a challenging time. The Board and the executive team will continue to work diligently to ensure we obtain the best possible outcome for all shareholders.

**John Baillie**  
Non-Executive Chairman

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**Shalini Lagrutta**  
Chief Executive Officer

# CEO REPORT

**I am pleased to present DXN's FY22 Annual Report, covering the 12-month financial reporting period ending 30 June 2022.**

In FY22 DXN continued the transformation work begun in FY21, strategically targeting the rapidly growing Edge data concept. We had good success securing new global Tier 1 modular data centre customers, designing and building new innovative products and improving project delivery and data centres operations. DXN also acquired the strategically important Secure Data Centre in Darwin.

This resulted in FY22 being a high-growth year for DXN with total sales increasing 91% from FY21 to \$15.4m and cash receipts up from \$7.26m in FY21 to \$16.63m. The company reported a net loss of \$6.9m. DXN successfully negotiated the end of its lease liability for the Melbourne data centre, releasing the company of up to \$6m in liability obligations.

**91%**  
TOTAL SALES  
INCREASE FROM FY21



# DXN DESIGNS, BUILDS, OWNS AND OPERATES DATA CENTRES.

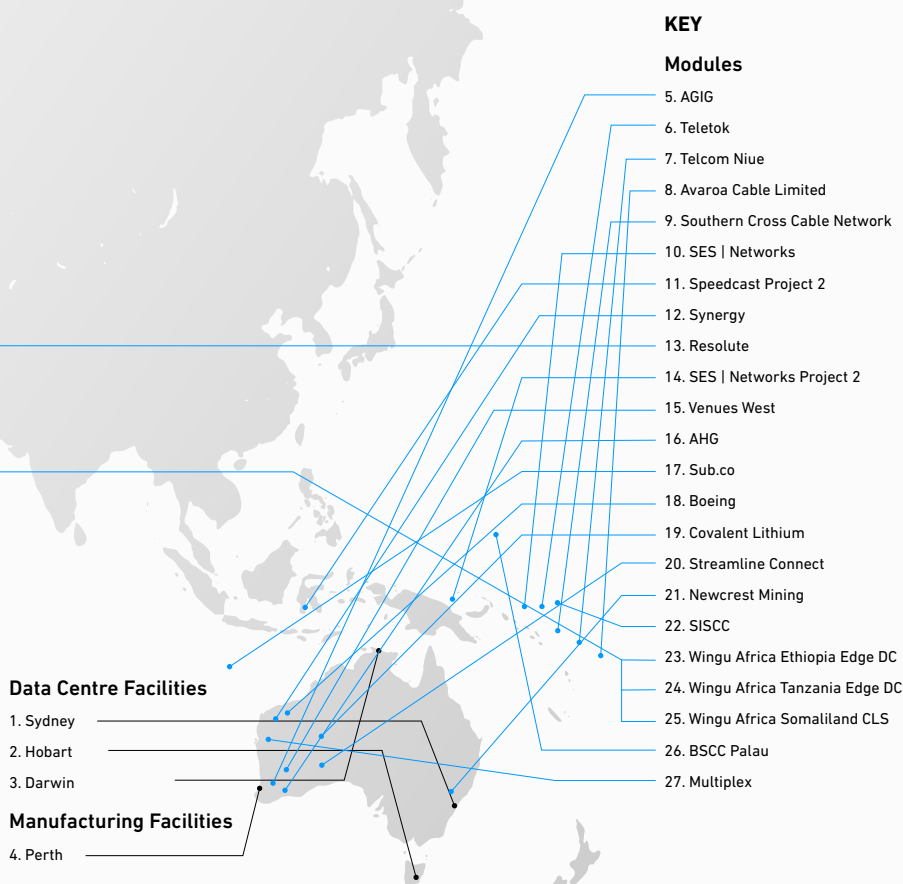
DXN has two complimentary businesses – Edge Modular Data Centre Manufacturing and Edge Data Centre Operations.

## 1. Modular manufacturing

- prefabricated modular data centre solutions that are scalable, purpose built and rapidly deployable for customers globally.

## 2. Data centre operations

- offers a highly secure environment for mission critical computing infrastructure with three operational data centres - **Sydney (SYD01)**, **Hobart (TAS01)** and our acquisition in October 2021 **SDC Darwin**.



## Modular Manufacturing

The DXN team are proud to have contracted 27 modules in FY22 (11 in FY21) and continues to target market segments that need Edge data centres including mining, gas and energy, subsea, telecommunications and government, including defence.

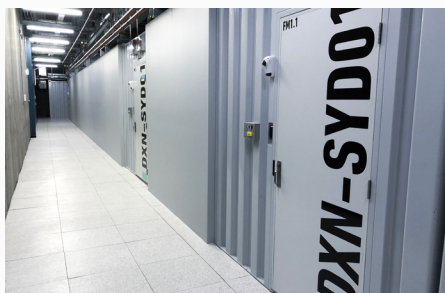
In FY22 DXN has recorded its best year to date with \$13.1m of revenue from the modules business, up 86%. The divisional profit increased 27% to \$1.1m. During the year DXN signed on and deployed design and build orders for major Tier 1 customers such as Boeing Defence, Sub.co, Belau Submarine Cable Company (BSCC), Wingu Africa, Covalent Lithium, Centre of National Resilience in Perth through Multiplex and several large global internet companies.

DXN's longer term strategy in this space is to continue to deliver the high-quality solutions that the company is renowned for globally, focusing particularly on the Asia Pacific region, and to develop new business models to suit our customer requirements, such as Edge-as-a-Service.

Towards the end of the period the impact of global supply chain constraints on the business was noticeable. This includes price inflation, parts unavailability which has required some project re-design and caused delayed deployment (with some income pushed into FY23), and cashflow pressures from payment-on-delivery demands.

# CEO REPORT

## CONTINUED



### Data Centre Operations

DXN worked to integrate our data centre businesses across the three geographies, Sydney, Hobart and the newly acquired Darwin. Operational efficiencies have been achieved, including improved processes, and we introduced innovative new cloud products into our data centres.

On 18 October 2021, the Company acquired 100% of Secure Data Centre (SDC). In 2H FY22, SDC began to contribute meaningfully to DXN's growth.

We expect the significant undersea cable infrastructure that will be built into Darwin in coming years will drive the SDC's future growth.

DXN's data centre in Tasmania TAS01 which was acquired in FY21 continues to perform consistently and to expectation.

In SYD01 in Sydney Olympic Park, DXN launched its cloud product in partnership with OrionVM, an Australian-based cloud solution provider.

DXN commenced onboarding new cloud customers in SYD01 during the final quarter of the financial year. While revenues remain below desired targets at SYD01, DXN expects these new products to bolster sales.



DXN LAUNCH NEW CLOUD PRODUCT POWERED BY ORIONVM FY21



# CEO REPORT

## CONTINUED



### Looking to the Future

With the transformation of the business over the past three years, and significant customer breakthrough globally, DXN is now recognised in the data centre industry as a leading high-quality Australian manufacturer of modular data centre solutions.

Hence, following a rigorous due diligence process, on the 5 of August 2022, DXN announced the Sale of all Business Assets of DXN to Flow2Edge Australia Pty Ltd for approximately \$26m in cash, subject to completion adjustments, a significant premium to the company's market capitalisation. The sale was conditional on satisfying various conditions precedent.

On the 12 of September 2022, DXN announced, due to the inability to satisfy conditions precedent, a further update to the sale of Business Assets of DXN. The Edge modular manufacturing business is to be sold to Flow2Edge Australia Pty Ltd for \$20m in cash while DXN retains its data centre business and is considering all strategic options.

The DXN team are proud of achievements accomplished to date and remain fully committed to pursue new customers for both the modular manufacturing and data centre divisions until the transaction is completed. We will also maintain our high standards in managing the delivery of existing modular projects as well as the operations of our data centres.

I WOULD LIKE TO TAKE THE OPPORTUNITY TO THANK OUR SHAREHOLDERS, STAFF AND CUSTOMERS FOR THEIR ONGOING SUPPORT.

**Shalini Lagrutta**  
Chief Executive Officer



# DIRECTORS' REPORT

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of DXN Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2022.

## DIRECTORS

The following persons were directors of DXN Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

John Baillie

Richard Carden

John Dimitropoulos

Matthew Madden (resigned on 14 January 2022)

## PRINCIPAL ACTIVITIES

Data centres provide space, power, cooling, and physical security for clients to house their computer servers and related storage and networking equipment. Data centres provide a recurring revenue stream and the Group's modular approach allows the matching of the Group's capital requirements with capacity sold, thereby reducing the Group's upfront capital requirements. This disruptive model is at the forefront of data centre engineering techniques. The Group's construction cost (per megawatt) is less than its industry peers.

DXN's Data centre manufacturing division engineers, constructs and commissions data centre solutions globally. The Group's data centre infrastructure has a wide range of applications, which includes edge data centres and telecommunications applications (satellite, radio centres, cable landing stations). The Group's prefabricated construction method reduces the on-site labour and time to deploy and improves quality. Solutions by DXN's Data centre manufacturing division are ideal for rapid deployments in both urban and remote locations.

## DIVIDENDS

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

## REVIEW OF OPERATIONS

FY2022 was a high-growth year for DXN with total sales to customers increasing 91% from FY2021. Cash receipts for the full year were \$16.63 million, up from \$7.26 million in FY2021. The loss for the Group after providing for income tax amounted to \$6,902,449 (30 June 2021: \$4,812,631).

Earnings before interest, taxation, depreciation and amortisation ('EBITDA') is a financial measure which is not prescribed by Australian Accounting Standards ('AAS') and represents the profit under AAS adjusted for specific items. The directors consider EBITDA to reflect the core earnings of the Group.



	2022 \$	2021 \$	Change \$	Change %
Sales to customers	15,386,453	8,035,137	7,351,316	91%
Cost of goods sold	(10,735,205)	(5,787,131)	(4,948,074)	86%
Gross margin	<b>4,651,248</b>	<b>2,248,006</b>	<b>2,403,242</b>	<b>107%</b>

Other income	995,745	4,606,247	(3,610,502)	(78%)
Less: other operating expenses	(7,461,945)	(5,905,455)	(1,556,490)	26%
<b>EBITDA</b>	<b>(1,814,952)</b>	<b>948,798</b>	<b>(2,763,750)</b>	<b>(291%)</b>

<b>EBITDA</b>	(1,814,952)	948,798	(2,763,750)	(291%)
Depreciation and amortisation expenses	(3,704,379)	(4,996,766)	1,292,387	(26%)
Foreign exchange gains/(losses)	63,475	(92,142)	155,617	(169%)
Share-based payments	(182,273)	(183,966)	1,693	(1%)
Finance expenses	(1,264,970)	(498,977)	(765,993)	154%
Finance income	650	10,422	(9,772)	(94%)
<b>Net loss after tax</b>	<b>(6,902,449)</b>	<b>(4,812,631)</b>	<b>(2,089,818)</b>	<b>43%</b>

Note:

- The current year's EBITDA included one-off expense items for the Melbourne lease resolution of \$700,104 and the expensing of previously capitalised R&D expenses of \$504,971.
- The previous year's EBITDA included one-off benefits of \$3,302,433 for the reversal of the Melbourne lease liability and \$291,000 of COVID-19 federal government grants.

Data centre operations

- Sydney (SYD01) – During this financial year, DXN launched its Cloud product in partnership with OrionVM, an Australian based cloud solution provider. DXN also commenced onboarding new cloud customers in SYD01 during the final quarter of the financial year. While revenues are still below desired targets at SYD01, DXN has introduced the above-mentioned new products in an effort to bolster revenue.
- Hobart (TAS01) – DXN's primary customer at the data centre is Tasmanet, one of only two accredited suppliers to the Tasmanian Government for the Tasmanian Cloud.
- Darwin – Secure Data Centre (SDC) is well poised for growth. SDC was purchased in October 2021 and has performed positively. The introduction of cloud services as well significant growth in cable infrastructure coming into the Northern Territory should see the centre thrive in the coming years.

Data centre manufacturing

- DXN has recorded its best year to date in FY2022 with revenue from the modules business of \$13.13 million. DXN has signed on and deployed design and build orders for major Tier 1 customers such as Boeing Defence, Sub.co, Belau Submarine Cable Company (BSCC), Wingu Africa, Covalent Lithium, Centre of National Resilience in Perth through Multiplex, and several large global internet companies.
- We see continued upside in this business. The continued growth of subsea cables within the region, as well as the increases in automation in the resources sector and new applications of technology linked Edge Data Centres, all feed the greater demand for DXN's prefabricated modular data centres for customers. As an Australian manufacturer, DXN is positioned well for national opportunities in defence and subsea.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 18 October 2021, the Company acquired 100% of the ordinary shares on issue in Secure Data Centre Pty Ltd ATF SDC Trust and 100% of the units on issue in the SDC Trust for a total purchase consideration of \$5,063,516.

The Company raised funds, through a combination of debt and equity, totalling \$7,143,967 in October 2021, comprising of a placement of \$1,643,967 to sophisticated and strategic investors (issuing 182,662,966 fully paid ordinary shares), a Share Purchase Plan (including the shortfall) of \$1,500,000 (issuing 166,666,667 fully paid ordinary shares) and a \$4,000,000 debt facility with Pure Asset Management Pty Ltd (Pure).

On 17 December 2021, the Company participated in a mediation in relation to a dispute regarding the Melbourne lease. A resolution was reached at this mediation. Refer to note 31.

On 14 January 2022, Matthew Madden resigned as Chief Executive Officer (CEO) and Managing Director. As announced to the market on 18 January 2022, Ms Shalini Lagrutta was appointed as the Company's new CEO.

On 9 March 2022, the Company announced that it was establishing an opt-out unmarketable sale facility for shareholders. The finalisation of this facility was delayed until the announcement of the potential sale of business assets of DXN was released to the market but has now been completed.

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

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 5 August 2022, DXN announced that all of the business assets of DXN shall be sold to Flow2Edge Australia Pty Ltd for approximately \$26 million in cash, subject to completion adjustments. The transaction included the sale of 100% of the shares in TAS01 Pty Ltd, 100% of shares in Secure Data Centre Pty Ltd and 100% of shares of units in SDC Trust and of the business and assets of DXN. The sale is conditional on satisfying various conditions precedent.

On 12 September 2022, DXN announced, due to the inability to satisfy a condition precedent, a further update to the sale of business assets of DXN. The Edge modular manufacturing business is to be sold to Flow2Edge Australia Pty Ltd for \$20 million in cash while DXN retains its data centre business and considers related strategic options.

In the same announcement, DXN advised that it had breached its financial covenant under its Facility Agreement entered into with Pure Asset Management Pty Ltd in October 2021. Pure agreed to waive its rights in relation to the relevant default of the financial covenant. DXN also undertook and completed a placement for \$2.125 million through the issue of up to 250 million fully paid ordinary shares at \$0.0085 per share, being priced at a 70% premium to DXN's last closing share price of \$0.005 as at 4 August 2022. The Placement was to be used to fund DXN's working capital position up until the expected completion date of the transaction.

No other matter or circumstance has arisen since 30 June 2022 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Company's immediate focus is to finalise the announced sale of the Edge modular manufacturing assets to Flow2Edge Australia Pty Ltd. The sale funds are to be used to repay the Pure debt and all outstanding liabilities, and make a distribution to shareholders. DXN will also be looking at strategic options for the Data Centre businesses.

DXN continues to pursue new customers for both modular manufacturing sales and data centre sales, as well as managing the existing operations, in advance of the transaction closing.

## ENVIRONMENTAL REGULATION

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State law.

## INFORMATION ON DIRECTORS

<b>Name:</b>	<b>John Baillie</b>
<b>Title:</b>	Independent Non-Executive Director and Chairman
<b>Period as director:</b>	Since 23 May 2019
<b>Qualifications:</b>	Graduate of the Australian Institute of Company Directors (GAICD) and Graduate Diploma (Securities) from the Securities Institute of Australia
<b>Experience and expertise:</b>	John has over 25 years' experience in financial services, including wealth management, corporate advisory, investor relations and private equity capital raisings. John was a Senior Investment Advisor with Shaw and Partners (formally Shaw Stockbroking) for 22 years, with a focus on portfolio management, trading and private equity raisings. In 2015 John established JB & Partners Corporate Advisory that specialises in strategic advice and succession planning for private companies; particularly family businesses. He has advised in a diverse range of industries, including financial services (particularly AFSL issues), FMCG companies, e-commerce and the funeral industry.
<b>Other current directorships:</b>	Wilson Alternative Assets Limited (ASX: WMA)
<b>Former directorships (last 3 years):</b>	None
<b>Special responsibilities:</b>	None
<b>Interests in shares:</b>	2,634,982 ordinary shares
<b>Interests in options:</b>	None
<b>Interests in rights:</b>	None

<b>Name:</b>	<b>Richard Carden</b>
<b>Title:</b>	Non-Executive Director
<b>Period as director:</b>	Since 4 August 2017
<b>Qualifications:</b>	None
<b>Experience and expertise:</b>	Richard is an Asia based business leader with over 25 years of experience in the telecoms, data centre and IT industry. Richard has a solid track record in driving sales productivity and revenue growth. Richard joined Speedcast in 2013 when the Company had just been acquired for circa \$40 million and as part of the Executive team developed the M&A plus organic growth strategy that allowed the Company to list in 2014 and achieve a market cap of over \$1.5 billion in 2018. Prior, Richard was the Global SVP for Pacnet and responsible for over 300 sales staff and revenues of more than \$800 million. Earlier, Richard spent almost 10 years in Japan in roles that included President & CEO of Verizon, Japan.
<b>Other current directorships:</b>	None
<b>Former directorships (last 3 years):</b>	None
<b>Special responsibilities:</b>	Chairman of the Audit & Risk Committee
<b>Interests in shares:</b>	3,312,500 ordinary shares
<b>Interests in options:</b>	None
<b>Interests in rights:</b>	None



## INFORMATION ON DIRECTORS

<b>Name:</b>	<b>John Dimitropoulos</b>
Title:	Independent Non-Executive Director
Period as director:	Since 1 October 2020
Qualifications:	Bachelor of Business (Accounting and Computer Science) Deakin University and Member of the Australian Institute of Company Directors (MAICD)
Experience and expertise:	<p>John brings over 30 years of extensive international experience in the Telecoms, Media and Technology sectors. Johns' recent stints include assisting internet security giant McAfee in the US with both Corporate Development and Sales Channel optimisation, and as a Corporate Advisor to Korea's SK Telecom's group company's CEOs within SE Asia.</p> <p>John has been involved with, and led, many international acquisitions and divestments in Europe, Asia and the US for numerous US based technology companies. At Real Networks, a Seattle based company where John spent nearly 12 years consulting, he was responsible for assisting in the development of the long term strategy for its Mobile Entertainment division as well as driving M&amp;A activity to deliver over US\$600 million in deals during his tenure.</p> <p>In Australia, John assisted in the foundational work that resulted in Run Property, and in the mid-90's was CEO of the first pre-paid mobile company in Australia. John has financial interests in an online e-commerce company as well as a small cottage manufacturing of Australian products for export.</p>
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Chairman of the Remuneration & Nomination Committee
Interests in shares:	None
Interests in options:	None
Interests in rights:	None

<b>Name:</b>	<b>Matthew Madden</b> (resigned on 18 January 2022)
Title:	Former Chief Executive Officer and Former Managing Director
Qualifications:	MBA from Macquarie Graduate School of Management and Member of the Australian Institute of Company Directors (MAICD)
Experience and expertise:	<p>Matthew is a highly experienced data centre and telecommunications executive with a solid track record of building and leading high performing teams, as well as a strategic focus on world-class customer solutions underpinning long term partnerships. Madden has broad experience in B2B telco, data centre and technology companies having held a variety of senior executive positions including General Manager Corporate and Enterprise markets at Nextgen Group, and Managing Director, Infoplex. At Nextgen, Matthew was responsible for significant sales into the Metronode data centres for the corporate, enterprise and reseller channels.</p>
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	None
Interests in shares:	Not applicable as no longer a director
Interests in options:	Not applicable as no longer a director
Interests in rights:	Not applicable as no longer a director

'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.

## COMPANY SECRETARY

George Lazarou held the position of Company Secretary during and at the end of the financial period. George is a qualified Chartered Accountant with over 25 years' experience, including 5 years as a partner of a mid-tier accounting firm, specialising in the areas of audit, advisory and corporate services. George has extensive skills in the areas of corporate services, due diligence, independent expert reports, mergers and acquisitions and valuations.

## MEETINGS OF DIRECTORS

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2022, and the number of meetings attended by each director were:

	Full Board		Nomination & Remuneration Committee		Audit & Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
John Baillie	10	10	2	2	3	3
Richard Carden	10	10	2	2	3	3
John Dimitropoulos	10	10	2	2	3	3
Matthew Madden	6	6	-	-	-	-

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

## REMUNERATION REPORT (AUDITED)

The remuneration report details the key management personnel ('KMP') remuneration arrangements for the Group, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

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 information
- Additional disclosures relating to KMP

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The KMP of the Group consisted of the following directors of DXN Limited:

- John Baillie - Independent Non-Executive Director and Chairman
- Richard Carden - Non-Executive Director
- John Dimitropoulos - Independent Non-Executive Director
- Matthew Madden - Chief Executive Officer and Managing Director (resigned on 14 January 2022)

And the following persons:

- Shalini Lagrutta - Chief Executive Officer (appointed on 18 January 2022); Global Head of Sales and Marketing (prior to 18 January 2022)
- Kristy Challingsworth - Chief Financial Officer (appointed on 19 July 2021, resigned 10 December 2021)
- Craig Beaton - Head of Finance (appointed on 18 January 2022)

## PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation; and
- transparency.

The Nomination and Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the Group depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high-quality personnel.

In consultation with external remuneration consultants as required (refer to the section 'Use of remuneration consultants' below), the Nomination and Remuneration Committee has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the Group.

The reward framework is designed to align executive reward to shareholders' interests. The Board has considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design;
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value; and
- attracting and retaining high calibre executives.

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; and
- providing a clear structure for earning rewards.

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

### **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 Nomination and Remuneration Committee. The Nomination and Remuneration Committee may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are 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. Non-executive directors do not receive share options or other incentives.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 4 August 2017, where the shareholders approved a maximum annual aggregate remuneration of \$500,000.



## **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 components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits;
- short-term performance incentives;
- share-based payments; and
- other remuneration such as superannuation and long service leave.

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

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Nomination and Remuneration Committee based on individual and business unit performance, the overall performance of the Group and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the Group and provides additional value to the executive.

The short-term incentives ('STI') program is designed to align the targets of the business units with the performance hurdles of executives. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPI's') being achieved. KPI's include profit contribution, customer satisfaction, leadership contribution and product management.

The long-term incentives ('LTI') include long service leave and share-based payments. Shares are awarded to executives over a period of three years based on long-term incentive measures. These include increase in shareholders' value relative to the entire market and the increase compared to the Group's direct competitors. The Nomination and Remuneration Committee reviewed the long-term equity-linked performance incentives specifically for executives during the year ended 30 June 2022.

### **Consolidated entity performance and link to remuneration**

Remuneration for certain individuals is directly linked to the performance of the Group. A portion of cash bonus and incentive payments are dependent on defined earnings per share targets being met. The remaining portion of the cash bonus and incentive payments are at the discretion of the Nomination and Remuneration Committee. Refer to the section 'Additional information' below for details of the earnings and total shareholders return for the last five years.

The Nomination and Remuneration Committee is of the opinion that the continued improved results can be attributed in part to the adoption of performance-based compensation and is satisfied that this improvement will continue to increase shareholder wealth if maintained over the coming years.

### **Use of remuneration consultants**

During the year ended 30 June 2022, the Group did not engage the services of any external consultants.

Voting and comments made at the Company's 2021 Annual General Meeting ('AGM')

At the 2021 AGM, 86.58% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2021. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

## DETAILS OF REMUNERATION

### Amounts of remuneration

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

2022	Short term benefits				Post-employment benefits		Share-based payments	Total
	Cash salary and fees	Cash bonus	Non-monetary	Commissions	Super-annuation	Termination payments	Equity-settled	
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Non-Executive Directors:</b>								
John Baillie	84,000	-	-	-	8,400	-	-	92,400
Richard Carden	51,900	-	-	-	-	-	-	51,900
John Dimitropoulos	51,900	-	-	-	5,190	-	-	57,090
<b>Executive Directors:</b>								
Matthew Madden <sup>(i)</sup>	158,077	30,000	-	-	16,042	145,163	-	349,282
<b>Other Key Management Personnel:</b>								
Shalini Lagrutta <sup>(ii)</sup>	272,172	2,396	-	154,110	27,478	-	81,572	537,728
Kristy Challengsworth <sup>(iii)</sup>	98,759	-	-	-	9,171	76,667	-	184,597
Craig Beatton <sup>(iv)</sup>	91,794	-	-	-	9,179	-	-	100,973
	<b>808,602</b>	<b>32,396</b>	<b>-</b>	<b>154,110</b>	<b>75,460</b>	<b>221,830</b>	<b>81,572</b>	<b>1,373,970</b>

(i) Represents remuneration from 1 July 2021 to 14 January 2022

(ii) Represents remuneration from 1 July 2021 to 30 June 2022, appointed CEO 18 January 2022

(iii) Represents remuneration from 19 July 2021 to 10 December 2021

(iv) Represents remuneration from 18 January 2022 to 30 June 2022

2021	Short term benefits				Post-employment benefits		Share-based payments	Total
	Cash salary and fees	Cash bonus	Non-monetary	Commissions	Super-annuation	Termination payments	Equity-settled	
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Non-Executive Directors:</b>								
John Baillie	62,000	-	-	-	-	-	-	62,000
Richard Carden	35,400	-	-	-	-	-	-	35,400
John Dimitropoulos <sup>(i)</sup>	27,000	-	-	-	2,565	-	-	29,565
John Duffin <sup>(ii)</sup>	4,892	-	-	-	465	-	-	5,357

<b>Executive Directors:</b>								
Matthew Madden	300,000	25,398	-	-	25,000	-	204,641	555,039

<b>Other Key Management Personnel:</b>								
Greg Blenkiron <sup>(iii)</sup>	200,777	26,453	-	-	20,127	-	-	247,357
Shalini Lagrutta <sup>(iv)</sup>	103,869	-	-	-	9,868	-	6,225	119,962
	<b>733,938</b>	<b>51,851</b>	-	-	<b>58,025</b>	-	<b>210,866</b>	<b>1,054,680</b>

(i) Represents remuneration from 1 October 2020 to 30 June 2021

(ii) Represents remuneration from 1 July 2020 to 26 August 2020

(iii) Represents remuneration from 1 July 2020 to 28 May 2021

(iv) Represents remuneration from 1 February 2021 to 30 June 2021

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2022	2021	2022	2021	2022	2021
<b>Non-Executive Directors:</b>						
John Baillie	100.0%	100.0%	-	-	-	-
Richard Carden	100.0%	100.0%	-	-	-	-
John Dimitropoulos	100.0%	100.0%	-	-	-	-
John Duffin	-	100.0%	-	-	-	-

<b>Executive Directors:</b>						
Matthew Madden	91.4%	58.5%	8.6%	-	-	41.5%

<b>Other Key Management Personnel:</b>						
Shalini Lagrutta	55.7%	94.8%	29.1%	-	15.2%	5.2%
Kristy Challingsworth	100.0%	-	-	-	-	-
Greg Blenkiron	-	89.3%	-	-	-	10.7%
Craig Beaton	100.0%	-	-	-	-	-



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

Name	Cash bonus paid/payable		Cash bonus forfeited	
	2022	2021	2022	2021
<b>Executive Directors:</b>				
Matthew Madden	100%	100%	-	-
<b>Other Key Management Personnel:</b>				
Greg Blenkiron	-	100%	-	-

## SERVICE AGREEMENTS

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

<b>Name:</b>	<b>Shalini Lagrutta</b>								
<b>Title:</b>	Chief Executive Officer (appointed on 18 January 2022); Global Head of Sales and Marketing (prior to 18 January 2022)								
<b>Agreement commenced:</b>	19 January 2022								
<b>Term of agreement:</b>	The employment is continuous until terminated in accordance with the provisions for termination, being by either party with 3 months' notice.								
<b>Details:</b>	<p>There are three components to Shalini's remuneration:</p> <p><i>(i) Gross annual remuneration package</i> Shalini will be paid a base annual remuneration of \$300,000 plus statutory superannuation contributions, which is capped at \$27,500 per annum. The employer may review the employee's performance, remuneration and benefits in accordance with the employer policy from time to time.</p> <p><i>(ii) Short term incentive benefits</i> Shalini will be entitled to receive an STI component of up to \$125,000 based on achieving agreed KPI's.</p> <p><i>(iii) Long term incentive benefits</i> The LTI component has an annual grant value of up to 25% of the executive remuneration package. The number of performance rights and/or options will depend on the share price at the allocation or grant date.</p> <p>On 22 July 2021, Shalini was issued with 8,300,000 performance rights, subject to the following vesting conditions:</p> <p>(a) 3 years of service (continued employment) with the Company from 1 July 2021 to 30 June 2024; and</p> <p>(b) the Company achieving the following Compound Growth in Total Shareholder Return (TSR CAGR) over the 3-year period from 1 July 2021 to 30 June 2024:</p> <table border="1"> <tbody> <tr> <td>TSR CAGR</td> <td>% Vesting</td> </tr> <tr> <td>Less than 35</td> <td>0%</td> </tr> <tr> <td>35 – 45%</td> <td>50 – 100% on a pro-rata basis</td> </tr> <tr> <td>Greater than 45%</td> <td>100%</td> </tr> </tbody> </table> <p>In the event of cessation of employment during the 3-year period, without cause, retirement or resignation, the Performance Rights will lapse.</p> <p>In the event of cessation of employment during the 3-year period due to retrenchment, death or disability, the Performance Rights will be pro-rated with Board discretion based on the circumstances.</p> <p>Any Performance Rights that do not vest and become exercisable in accordance with the Vesting Conditions will automatically lapse.</p>	TSR CAGR	% Vesting	Less than 35	0%	35 – 45%	50 – 100% on a pro-rata basis	Greater than 45%	100%
TSR CAGR	% Vesting								
Less than 35	0%								
35 – 45%	50 – 100% on a pro-rata basis								
Greater than 45%	100%								

<b>Name:</b>	<b>Kristy Challingsworth</b>
<b>Title:</b>	Chief Financial Officer
<b>Agreement commenced:</b>	19 July 2021 to date of resignation 10 December 2021
<b>Term of agreement:</b>	The employment is continuous until terminated in accordance with the provisions for termination, being by either party with 3 months' notice.
<b>Details:</b>	<p>There are three components to Kristy's remuneration:</p> <p><i>(i) Gross annual remuneration package</i>  Kristy will be paid a base annual remuneration of \$230,000 plus statutory superannuation contributions, which is capped at \$27,500 per annum. The employer may review the employee's performance, remuneration and benefits in accordance with the employer policy from time to time.</p> <p><i>(ii) Short term incentive benefits</i>  Subject to the Kristy's continued employment by the Group at the relevant review date, the Board may, in its absolute discretion, elect to provide the Executive with an annual bonus up to an amount equal to 25% of the base salary, plus superannuation, based on the Annual Review (STI bonus).</p> <p>Kristy (in her sole discretion) can elect to have the STI bonus (in whole or in part) paid in shares. The value of the shares shall be the 15-day volume weighted average price (VWAP) of shares calculated on the day after release of the Group's full year financial accounts.</p> <p><i>(iii) Long term incentive benefits</i>  The LTI component has an annual grant value of up to 25% of the executive remuneration package. The number of performance rights and/or options will depend on the share price at the allocation or grant date.</p>

<b>Name:</b>	<b>Craig Beaton</b>
<b>Title:</b>	Head of Finance
<b>Agreement commenced:</b>	18 January 2022
<b>Term of agreement:</b>	The employment is continuous until terminated in accordance with the provisions for termination, being 3 months' notice by the employer, or 2 months' notice by the employee.
<b>Details:</b>	<p><i>Gross annual remuneration package</i>  Craig will be paid a base annual remuneration of \$200,000 plus statutory superannuation contributions, which is capped at \$27,500 per annum. The employer may review the employee's performance, remuneration and benefits in accordance with the employer policy from time to time.</p>

<b>Name:</b>	<b>John Baillie</b>
<b>Title:</b>	Independent Non-Executive Director and Chairman
<b>Agreement commenced:</b>	1 July 2021
<b>Term of agreement:</b>	Subject to re-election every 3 years
<b>Details:</b>	Base salary of \$84,000 plus superannuation per annum (if applicable), to be reviewed annually by the Board.

<b>Name:</b>	<b>Richard Carden</b>
<b>Title:</b>	Non-Executive Director
<b>Agreement commenced:</b>	1 July 2021
<b>Term of agreement:</b>	Subject to re-election every 3 years
<b>Details:</b>	Base salary of \$50,400 plus superannuation per annum (if applicable), to be reviewed annually by the Board, plus \$1,500 per annum plus superannuation (if applicable) as Chairman of the Audit & Risk Committee.

<b>Name:</b>	<b>John Dimitropoulos</b>
<b>Title:</b>	Independent Non-Executive Director
<b>Agreement commenced:</b>	1 July 2021
<b>Term of agreement:</b>	Subject to re-election every 3 years
<b>Details:</b>	Base salary of \$50,400 plus superannuation per annum (if applicable), to be reviewed by the Board, plus \$1,500 per annum plus superannuation (if applicable) as Chairman of Remuneration & Nomination Committee.



<b>Name:</b>	<b>Matthew Madden</b>								
<b>Title:</b>	Former Chief Executive Officer								
<b>Agreement commenced:</b>	19 August 2019 to date of resignation 18 January 2022								
<b>Term of agreement:</b>	The employment shall continue until terminated in accordance with the provisions for termination, being by either party with 3 months' notice.								
<b>Details:</b>	<p>There are three components to Matthew's remuneration:</p> <p><i>(i) Gross annual remuneration package</i> Matthew was paid a base annual remuneration of \$300,000 plus statutory superannuation contributions, which was capped at \$27,500 per annum. The employer may review the employee's performance, remuneration and benefits in accordance with the employer policy from time to time.</p> <p><i>(ii) Short term incentive benefits</i> Subject to the Matthew's continued employment by the Group at the relevant Review Date, the Board may, in its absolute discretion, elect to provide the Executive with an annual bonus up to an amount equal to 30% of the Base Salary, plus superannuation, based on the Annual Review (STI Bonus).  Matthew (in his sole discretion) could elect to have the STI Bonus (in whole or in part) paid in shares. The value of the shares shall be the 15-day volume weighted average price (VWAP) of shares calculated on the day after release of the Group's full year financial accounts.</p> <p><i>(iii) Long term incentive benefits</i> Matthew has been issued the following performance rights in accordance with the terms and conditions of the Company's Employee Incentive Plan:</p> <p>(a) 6,000,000 performance rights subject to the following vesting conditions:</p> <p>(i) Milestone 1: 3,000,000 performance rights will vest on or before 30 June 2022, upon the achievement of the Sydney Data Centre owned by the Group achieving either:</p> <p>A. an annual gross revenue equal to or in excess of \$15,000,000; or</p> <p>B. filled capacity of 5 MW; or</p> <p>C. sales equal to or in excess of 500 server racks; and</p> <p>(ii) Milestone 2: 3,000,000 performance rights will vest upon DXN Modules achieving total sales equal to or in excess of \$50,000,000 or total sales equal to or in excess of \$25,000,000 are achieved over a rolling 12-month period, both on or before 30 June 2022.</p> <p>and 7,500,000 options in accordance with the terms and conditions of the Company's Employee Incentive Plan:</p> <p>(iii) to vest on achieving a share price that is at least \$0.35 for 10 consecutive trading days on ASX, calculated on a daily VWAP basis, by no later than 19 August 2022.</p> <p>(b) 14,750,000 performance rights subject to the following vesting conditions:</p> <p>(i) 3 years of service (continued employment) with the Company from 1 July 2021 to 30 June 2024; and</p> <p>(ii) the Company achieving the following Compound Growth in Total Shareholder Return (TSR CAGR) over the 3-year period from 1 July 2021 to 30 June 2024:</p> <table border="1"> <thead> <tr> <th>TSR CAGR</th> <th>% Vesting</th> </tr> </thead> <tbody> <tr> <td>Less than 35</td> <td>0%</td> </tr> <tr> <td>35 – 45%</td> <td>50 – 100% on a pro-rata basis</td> </tr> <tr> <td>Greater than 45%</td> <td>100%</td> </tr> </tbody> </table> <p>The 20,750,000 performance rights were forfeited upon Matthew's resignation on 14 January 2022.</p>	TSR CAGR	% Vesting	Less than 35	0%	35 – 45%	50 – 100% on a pro-rata basis	Greater than 45%	100%
TSR CAGR	% Vesting								
Less than 35	0%								
35 – 45%	50 – 100% on a pro-rata basis								
Greater than 45%	100%								

KMP 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 KMP as part of compensation during the year ended 30 June 2022.

### Options

There were no options over ordinary shares granted to or vested by directors and other KMP as part of compensation during the year ended 30 June 2022.

### Performance rights

The Company granted 23,050,000 performance rights under the Company Employee Incentive Plan.

The terms and conditions of each grant of performance rights over ordinary shares affecting remuneration of directors and other KMP in this financial year or future reporting years are as follows:

Name	Number of rights Number of rights granted	Grant date	Vesting date and exercisable date	Share price hurdle for vesting	Fair value per right at grant date
Shalini Lagrutta	8,300,000	22 July 2021	14 July 2024	\$0.000	\$0.013
Matthew Madden	14,750,000	26 November 2021	14 July 2024	\$0.000	\$0.010

The performance rights relating to Matthew Madden were forfeited upon his resignation on 14 January 2022.

Performance rights granted carry no dividend or voting rights.

## ADDITIONAL INFORMATION

The earnings of the Group for the five years to 30 June 2022 are summarised below:

	2022	2021	2020	2019	2018
	\$	\$	\$	\$	\$
Sales revenue	15,386,453	8,035,137	5,188,280	1,403,528	1,982,984
EBITDA	(1,814,952)	948,798	-	-	-
Loss after income tax	(6,902,449)	(4,812,631)	(12,590,529)	(7,373,444)	(5,736,986)

	2022	2021	2020	2019	2018
Share price at financial year end (\$)	0.005	0.012	0.017	0.044	0.017
Basic earnings per share (cents per share)	(0.50)	(0.45)	(2.57)	(3.50)	(5.88)
Diluted earnings per share (cents per share)	(0.50)	(0.45)	(2.57)	(3.50)	(5.88)

## ADDITIONAL DISCLOSURES RELATING TO KMP

### Shareholding

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

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/other	Balance at the end of the year
<i>Ordinary shares</i>					
John Baillie	2,634,982	-	-	-	2,634,982
Richard Carden	3,312,500	-	-	-	3,312,500
John Dimitropoulos	-	-	-	-	-
Matthew Madden*	5,000,000	-	-	(5,000,000)	-
Shalini Lagrutta	3,383,877	-	-	-	3,383,877
Craig Beaton	-	-	-	-	-
	<b>14,331,359</b>	-	-	<b>(5,000,000)</b>	<b>9,331,359</b>

\* Disposals/other represents shares held at resignation date

### Option holding

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

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<i>Options over ordinary shares</i>					
Shalini Lagrutta	2,000,000	-	-	-	2,000,000
Matthew Madden	17,500,000	-	-	(17,500,000)	-
	<b>19,500,000</b>	-	-	<b>(17,500,000)</b>	<b>2,000,000</b>

### Performance rights holding

The number of performance rights in the Company held during the financial year by each director and other members of KMP of the Group, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
<i>Performance rights over ordinary shares</i>					
Shalini Lagrutta	299,500	8,300,000	-	(299,500)	8,300,000
Matthew Madden	6,000,000	14,750,000	-	(20,750,000)	-
	<b>6,299,500</b>	<b>23,050,000</b>	-	<b>(21,049,500)</b>	<b>8,300,000</b>

	Vested	Unvested	Balance at the end of the year
<i>Performance rights over ordinary shares</i>			
Shalini Lagrutta	-	<b>8,300,000</b>	<b>8,300,000</b>

**This concludes the remuneration report, which has been audited.**



## SHARES UNDER OPTION

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

Grant date	Expiry date	Exercise price	Number under option
07/01/2020	31/12/2022	\$0.100	7,500,000
15/04/2021	30/04/2023	\$0.030	22,000,000
18/05/2020	18/05/2023	\$0.020	641,936,886
25/10/2021	22/10/2024	\$0.014	10,888,857
			<b>682,325,743</b>

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 DXN Limited issued on the exercise of options during the year ended 30 June 2022 and up to the date of this report

## SHARES UNDER PERFORMANCE RIGHTS

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

Grant date	Expiry date	Exercise price	Number under rights
22/07/2021	14/07/2024	\$0.000	8,300,000

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

## SHARES ISSUED ON THE EXERCISE OF PERFORMANCE RIGHTS

There were no ordinary shares of DXN Limited issued on the exercise of performance rights during the year ended 30 June 2022 and up to the date of this report.

## SHARES UNDER WARRANTS

Unissued ordinary shares of DXN Limited under warrants at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under rights
22/10/2021	15/10/2025	\$0.020	200,000,000

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

## SHARES ISSUED ON THE EXERCISE OF WARRANTS

There were no ordinary shares of DXN Limited issued on the exercise of warrants during the year ended 30 June 2022 and up to the date of this report.

## INDEMNITY AND INSURANCE OF OFFICERS AND AUDITOR

In accordance with the constitution, except as may be prohibited by the Corporations Act 2001 every Officer or agent of the Group shall be indemnified out of the property of the Group against any liability incurred by them in their capacity as Officer or agent of the Group or any related corporation in respect of any act or omission whatsoever and howsoever occurring or in defending any proceedings, whether civil or criminal.

The Group has paid premiums to insure each Director and officer against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in their capacity of Director or officer of the Group, other than conduct involving a wilful breach of duty in relation to the Group. The total amount of premiums paid was \$69,208.

## INDEMNITY AND INSURANCE OF AUDITOR

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, 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

In the 2021 Annual Report, a contingent liability of \$3.3 million was disclosed, relating to the lease dispute for the Melbourne data centre site. As announced to the market on 31 January 2022, this dispute was resolved on terms that included termination of the lease, and DXN surrendering the \$500,000 bank guarantee to the landlord as a payment in lieu of outstanding rent. The Company has no accrued or future liabilities or obligations to the landlord under the lease and was released from all claims under or in connection with the lease, including those made in the proceedings.

## NON-AUDIT SERVICES

The following non-audit services were provided by Moore Australia (VIC) Pty Ltd, an independent member firm of the Moore Australia network. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Moore Australia (VIC) Pty Ltd or their related or other network entities received or are due to receive the following amounts for the provision of non-audit services:

	Consolidated	
	2022	2021
	\$	\$
Tax compliance	6,600	9,280
Consulting	4,800	23,740
	<b>11,400</b>	<b>33,020</b>

## OFFICERS OF THE COMPANY WHO ARE FORMER PARTNERS OF MOORE AUSTRALIA AUDIT (WA)

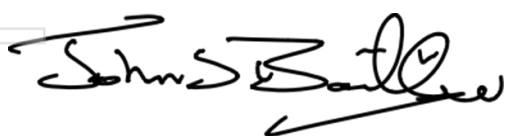
There are no officers of the Company who are former partners of Moore Australia Audit (WA).

## AUDITOR'S INDEPENDENCE DECLARATION

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

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

Signed in accordance with a resolution of the Board of Directors.



**John Baillie**  
Non-Executive Chairman

30 September 2022



**Moore Australia Audit (WA)**

Level 15, Exchange Tower,  
2 The Esplanade, Perth, WA 6000  
PO Box 5785, St Georges Terrace, WA 6831

T +61 8 9225 5355

F +61 8 9225 6181

[www.moore-australia.com.au](http://www.moore-australia.com.au)

**AUDITOR'S INDEPENDENCE DECLARATION  
UNDER S307C OF THE *CORPORATIONS ACT 2001*  
TO THE DIRECTORS OF DXN LIMITED**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2022 there have been no contraventions of:

- i. the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to read 'Suan-Lee Tan'.

SUAN-LEE TAN  
PARTNER

A handwritten signature in black ink that reads 'MOORE AUSTRALIA'.

MOORE AUSTRALIA AUDIT (WA)  
CHARTERED ACCOUNTANTS

Signed at Perth this 30<sup>th</sup> day of September 2022

Moore Australia Audit (WA) – ABN 16 874 357 907.

An independent member of Moore Global Network Limited - members in principal cities throughout the world.

Liability limited by a scheme approved under Professional Standards Legislation



# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2022

	Note	Consolidated 2022 \$	Consolidated 2021 \$
Sales to customers	5	15,386,453	8,035,137
Cost of goods sold		(10,735,205)	(5,787,131)
Gross margin		4,651,248	2,248,006
Other income	6	995,745	4,606,247
Interest revenue calculated using the effective interest method		650	10,422
<b>Expenses</b>			
Acquisition expenses		(10,615)	(54,487)
Administration expenses		(352,613)	(463,631)
Compliance and legal expenses		(559,321)	(365,217)
Consultants and contractors		(339,445)	(160,486)
Depreciation and amortisation expenses	7	(3,704,379)	(4,996,766)
Employee benefits expenses		(4,587,134)	(3,670,467)
Impairment of assets		-	(347,394)
Marketing expenses		(18,925)	(1,942)
Occupancy expenses		(973,130)	(993,353)
Research and development expenses		(504,971)	-
Telecommunication and technology expenses		(156,288)	(101,461)
Travel expenses		(78,301)	(23,125)
Finance costs	7	(1,264,970)	(498,977)
<b>Loss before income tax expense</b>		(6,902,449)	(4,812,631)
Income tax expense	8	-	-
<b>Loss after income tax expense for the year attributable to the owners of DXN Limited</b>		(6,902,449)	(4,812,631)
Other comprehensive income for the year, net of tax		-	-
<b>Total comprehensive loss for the year attributable to the owners of DXN Limited</b>		<u>(6,902,449)</u>	<u>(4,812,631)</u>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	9	(0.50)	(0.45)
Diluted earnings per share	9	(0.50)	(0.45)

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

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

	Note	Consolidated 2022 \$	2021 \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	10	1,924,767	1,663,955
Trade and other receivables	11	649,672	666,152
Inventories/work in progress	12	1,248,380	1,231,781
Other assets	14	134,460	124,854
		<u>3,957,279</u>	<u>3,686,742</u>
Non-current assets classified as held for sale		-	544,011
Total current assets		<u>3,957,279</u>	<u>4,230,753</u>
<b>Non-current assets</b>			
Property, plant and equipment	15	7,193,482	8,701,703
Right-of-use assets	16	11,184,958	8,407,598
Intangibles	17	3,796,859	1,502,016
Bank guarantees and deposits	13	528,917	1,028,917
Other assets	14	608,333	-
Total non-current assets		<u>23,312,549</u>	<u>19,640,234</u>
<b>Total assets</b>		<u>27,269,828</u>	<u>23,870,987</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	18	2,503,210	2,153,523
Contract liabilities	19	332,507	387,556
Borrowings	20	58,971	1,027,255
Lease liabilities	21	728,679	625,417
Employee benefits	22	156,743	181,290
Other financial liabilities	23	850,000	-
Total current liabilities		<u>4,630,110</u>	<u>4,375,041</u>
<b>Non-current liabilities</b>			
Borrowings	20	4,000,000	605,011
Lease liabilities	21	10,775,981	7,882,462
Employee benefits	22	16,038	-
Other financial liabilities	23	400,000	-
Total non-current liabilities		<u>15,192,019</u>	<u>8,487,473</u>
<b>Total liabilities</b>		<u>19,822,129</u>	<u>12,862,514</u>
<b>Net assets</b>		<u>7,447,699</u>	<u>11,008,473</u>
<b>Equity</b>			
Issued capital	24	43,471,842	40,345,107
Reserves	25	1,391,896	1,176,956
Accumulated losses		<u>(37,416,039)</u>	<u>(30,513,590)</u>
<b>Total equity</b>		<u>7,447,699</u>	<u>11,008,473</u>

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2022

<b>Consolidated</b>	<b>Issued capital</b> \$	<b>Reserves</b> \$	<b>Accumulated losses</b> \$	<b>Total equity</b> \$
Balance at 1 July 2020	39,604,052	1,020,705	(25,700,959)	14,923,798
Loss after income tax expense for the year	-	-	(4,812,631)	(4,812,631)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive loss for the year	-	-	(4,812,631)	(4,812,631)
<i>Transactions with owners in their capacity as owners:</i>				
Issue of shares (note 24)	732,859	-	-	732,859
Capital raising costs	(19,519)	-	-	(19,519)
Share-based payments (note 25)	-	183,966	-	183,966
Exercise of performance rights	27,715	(27,715)	-	-
Balance at 30 June 2021	<u>40,345,107</u>	<u>1,176,956</u>	<u>(30,513,590)</u>	<u>11,008,473</u>
<b>Consolidated</b>	<b>Issued capital</b> \$	<b>Reserves</b> \$	<b>Accumulated losses</b> \$	<b>Total equity</b> \$
Balance at 1 July 2021	40,345,107	1,176,956	(30,513,590)	11,008,473
Loss after income tax expense for the year	-	-	(6,902,449)	(6,902,449)
Other comprehensive income for the year, net of tax	-	-	-	-
Total comprehensive loss for the year	-	-	(6,902,449)	(6,902,449)
<i>Transactions with owners in their capacity as owners:</i>				
Issue of shares (note 24)	3,343,967	-	-	3,343,967
Capital raising costs	(217,232)	32,667	-	(184,565)
Share-based payments (note 25)	-	182,273	-	182,273
Balance at 30 June 2022	<u>43,471,842</u>	<u>1,391,896</u>	<u>(37,416,039)</u>	<u>7,447,699</u>

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



# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2022

	Note	Consolidated 2022 \$	2021 \$
<b>Cash flows from operating activities</b>			
Receipts from customers		16,630,159	7,264,873
Payments to suppliers and employees		(17,888,368)	(11,056,801)
R&D tax incentive claim		826,741	725,766
Government grants		66,162	454,000
Interest received		650	19,141
Interest paid		(16,353)	(70,520)
Other income		2,034	-
Net cash (used in) operating activities	37	(378,975)	(2,663,541)
<b>Cash flows from investing activities</b>			
Payments associated with the acquisition of business	35	(3,816,574)	-
Payments for plant and equipment		(24,334)	(140,112)
Payments for intangible assets		(25,272)	(39,036)
Proceeds from release of deposits and guarantees		-	2,058,925
Net cash (used in)/from investing activities		(3,866,180)	1,879,777
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares and options	24	3,143,967	732,860
Payment of capital raising costs	24	(202,230)	(19,520)
Finance facility drawn down	37	4,000,000	1,179,429
Repayment of finance facility	37	(1,867,716)	(3,037,522)
Transaction costs related to loans and borrowings		(567,210)	-
Net cash from/(used in) financing activities		4,506,811	(1,144,753)
Net increase/(decrease) in cash and cash equivalents		261,656	(1,928,517)
Cash and cash equivalents at the beginning of the financial year		1,663,955	3,592,472
Effects of exchange rate changes on cash and cash equivalents		(844)	-
Cash and cash equivalents at the end of the financial year	10	<u>1,924,767</u>	<u>1,663,955</u>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 June 2022

## Note 1. General information

The financial statements cover DXN Limited and the entities it controlled (together referred to as the 'Group') at the end of, or during, the year. The financial statements are presented in Australian dollars, which is DXN Limited's functional and presentation currency.

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

### REGISTERED OFFICE

5 Parkview Drive  
Sydney Olympic Park NSW 2127

### PRINCIPAL PLACE OF BUSINESS

3 Dampier Road  
Welshpool WA 6106

#### *Other business addresses*

40-50 Innovation Drive,  
Dowsing Point Tasmania 7010

27 Harvey Street  
Darwin NT 0800

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 30 September 2022. The directors have the power to amend and reissue the financial statements.

## Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. 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.

### 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').

### HISTORICAL COST CONVENTION

The financial statements have been prepared under the historical cost convention except for liabilities for cash-settled share-based payment arrangements which are measured 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 3.

### GOING CONCERN

The accounts have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the normal course of business. The Group incurred a loss of \$6,902,449 (2021: \$4,812,631) for the period ended 30 June 2022 and operating cash outflow of \$378,975 (2021: \$2,663,541). The working capital deficit at balance date is \$672,831 (2021: \$144,288).

The accounts are not prepared on a 'Break-up' basis as the transaction with Flow2Edge Australia Pty Limited remains subject to conditions precedent while the Data Centre businesses are retained.

The ability of the Group to continue to pay its debts as and when they fall due is dependent upon the Group successfully raising additional share capital, refinancing debt facilities, and generating sufficient revenue.

## Note 2. Significant accounting policies (continued)

The Directors are of the view that there is sufficient working capital in the Group to pay its debts as and when they fall due on the basis that DXN continues to generate ongoing revenues at current levels.

The directors believe it is appropriate to prepare these accounts on a going concern basis because:

- the directors have an appropriate plan to raise additional funds as and when it is required, and the directors believe that the additional capital required can be raised either in the market or via debt funding partners, as highlighted by the recent capital raise of \$2.125 million (before capital raising costs);
- the directors expect to complete the sale of the Edge manufacturing business and its related assets for \$20 million prior to 31 December 2022;
- the directors have an appropriate plan to contain certain operating expenditure such as reducing employee and administrative costs, after the expected sale of the Edge manufacturing business, as required;
- the directors have factored in the potential sale of the Data Centre businesses and assets at amounts higher than current book values;
- should the sale of the Data Centre businesses not proceed, there is sufficient positive operating cash flows from the Hobart and Darwin Data Centres, together with the proceeds of the sale of the Edge manufacturing business, to repay outstanding liabilities and continue normal operations;
- the directors have an appropriate plan to increase revenues by introducing additional cloud products and customers into the Data Centres, if required.

The accounts have been prepared on the basis that the Group can meet its commitments as and when they fall due and can therefore continue normal business activities, and the realisation of assets and liabilities in the ordinary course of business.

### PARENT ENTITY INFORMATION

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 34.

### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of DXN Limited ('Company' or 'parent entity') as at 30 June 2022 and the results of all subsidiaries for the year then ended. DXN 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.

### 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.

### FOREIGN CURRENCY TRANSLATION

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

#### **Foreign currency transactions**

Foreign currency transactions are translated into the entity's functional currency 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 year-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.

### **REVENUE RECOGNITION**

The Group recognises revenue as follows:

#### **Revenue from contracts with customers**

Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Group: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

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.

#### **Data centre services**

Revenue is recognised only when the service has been provided, the amount of revenue can be measured reliably, and it is probable that the economic benefits associated with the transaction will flow to the Group. Any upfront discounts provided to customers are amortised over the contract term. This approach is considered consistent with AASB 15 in that revenue is deferred and recognised over the term of the contract with the customer. As the performance obligation is fulfilled over time, such revenue is recognised over time.

#### **DXN module sales**

The Group custom builds turnkey data centre modules for customers. Revenue is recognised based on key milestones and in proportion to the stage of completion of the work performed at the reporting date. Revenue from these sales is based on the price stipulated in the contract and any agreed variations to the contract sum. Revenue is only recognised to the extent that there is a high probability that a significant reversal of revenue will not occur. As the performance obligation is fulfilled over time, such revenue is recognised over time.

Incremental costs of obtaining a contract that are expected to be recovered are capitalised as a contract asset and amortised over the term of the contract with the customer.

#### **Interest**

Interest revenue 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.

#### **Other revenue**

Other revenue is recognised when it is received or when the right to receive payment is established.



### RESEARCH AND DEVELOPMENT TAX INCENTIVE CLAIM

The Group recognises refundable R&D tax offset as a government grant under AASB120 Government Grants. Such refunds are recognised on an accrual basis only when the amount can be measured reliably, and it is probable that the economic benefits associated with the offset will flow to the Group. Accordingly, revenues from the receipt of refundable R&D tax offset is recognised only at a point in time.

### 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.

An income tax benefit will arise for the financial year where an income tax loss is incurred and, where permitted to do so, is carried-back against a qualifying prior period's tax payable to generate a refundable tax offset.

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.

### 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.

### 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.

### **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.

### **INVENTORIES**

Stock on hand is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

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.

### **NON-CURRENT ASSETS OR DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE**

Non-current assets and assets of disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. They are measured at the lower of their carrying amount and fair value less costs of disposal. For non-current assets or assets of disposal groups to be classified as held for sale, they must be available for immediate sale in their present condition and their sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write down of the non-current assets and assets of disposal groups to fair value less costs of disposal. A gain is recognised for any subsequent increases in fair value less costs of disposal of a non-current assets and assets of disposal groups, but not in excess of any cumulative impairment loss previously recognised.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of assets held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current assets. The liabilities of disposal groups classified as held for sale are presented separately on the face of the statement of financial position, in current liabilities.

### **IMPAIRMENT OF FINANCIAL ASSETS**

The Group recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. 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.

### **PROPERTY, PLANT AND EQUIPMENT**

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

## Note 2. Significant accounting policies (continued)

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (except asset under construction) over their expected useful lives at the following rates:

Leasehold improvements	10%-67%
Plant and equipment	13%-73%
Motor vehicles	25%
Office equipment	20%-67%
DC modules	10%-73%
ICT hardware	40%-67%

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

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

### **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.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period 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. 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 are expensed to profit or loss as incurred.

### **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.

Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment.

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.

### **Goodwill**

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

### **Research and development (Software development)**

Research costs are expensed in the period in which they are incurred. Development costs 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; and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

#### **Patents and trademarks**

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 17 - 20 years.

#### **Software**

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 3 years.

#### **Customer contracts**

Customer contracts acquired in a business combination are amortised on a straight-line basis over the period of their expected benefit, being finite life of 3 years for Tasmania and 10 years for Secure Data Centre.

#### **IMPAIRMENT OF NON-FINANCIAL ASSETS**

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other 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.

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.

#### **TRADE AND OTHER PAYABLES**

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial year 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.

#### **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.

#### **BORROWINGS**

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

#### **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.

#### **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.



## 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.

### **Defined contribution superannuation expense**

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

### **Share-based payments**

Equity-settled compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options 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.

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.

### **FAIR VALUE MEASUREMENT**

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques used to measure fair value are those that are appropriate in the circumstances and which maximise the use of relevant observable inputs and minimise the use of unobservable inputs.

### **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.

### **BUSINESS COMBINATIONS**

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value.

Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

## EARNINGS PER SHARE

### **Basic earnings per share**

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

### **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.

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

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST 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 receivable or payable. The net amount of GST 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 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 recoverable from, or payable to, the tax authority.

### **NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET MANDATORY OR EARLY ADOPTED**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2022. The Group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

## Note 3. 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 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.

### **Allowance for expected credit losses**

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

**Estimation of useful lives of assets**

The Group determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

**Goodwill and other indefinite life intangible assets**

The Group tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

**Impairment of non-financial assets other than goodwill and other indefinite life intangible assets**

The Group assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets 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. This involves assessing the value of the asset at fair value less costs of disposal and using value-in-use models which incorporate a number of key estimates and assumptions.

**Income tax**

The Group is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on the Group's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

**Recovery of deferred tax assets**

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

**Employee benefits provision**

As discussed in note 2, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

**Lease make good provision**

A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss. Make good provisions are recorded as part of the Group's lease liabilities.

**Warranty provision**

In determining the level of provision required for warranties the Group has made judgements in respect of the expected performance of the products, the number of customers who will actually claim under the warranty and how often, and the costs of fulfilling the conditions of the warranty. The provision is based on estimates made from historical warranty data associated with similar products and services.



### Business combinations / Discontinued Operations & Assets Held for Sale

As discussed in note 2, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Group taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported. Further, the Group does not consider the provisions of AASB 5 to apply to the 30 June 2022 financial statements, but this standard may be applicable in future.

## Note 4. Operating segments

### Identification of reportable operating segments

The Group is organised into two operating segments: Data centre manufacturing and Data centre operations. These operating segments are based on the internal reports that are reviewed and used by the Chief Executive Officer ('CEO') and the Group's Executive Leadership Team (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The information reported to the CODM on a monthly basis is the segment profit that represents the profit earned by each segment without allocation of the share of central administration costs including directors' salaries, finance income, non-operating gains and losses in respect of financial instruments and finance costs, and income tax expense.

### Operating segment information

#### Major customers

The Group has a number of customers to which it provides services and products.

#### Data centre manufacturing

The Group supplies 2 single external customers who account for 33% and 25% (2021: 2 customers; 25% and 22%) of the external revenue. The next most significant customer accounts for 24% (2021: 10%) of the external revenue.

#### Data centre operations

The Group supplies 1 single external customer which accounts for 42% (2021: 1 customer; 92%) of the total segment revenue.

There were no intersegment sales during the reporting periods.

### Operating segment information

	Data centre manufacturing \$	Data centre operations \$	Other (Corporate) \$	Total \$
<b>Consolidated - 2022</b>				
<b>Revenue</b>				
Revenue from external customers	13,131,413	2,255,040	-	15,386,453
Other income	17,237	36,733	941,775	995,745
<b>Total revenue</b>	<b>13,148,650</b>	<b>2,291,773</b>	<b>941,775</b>	<b>16,382,198</b>
<b>Results</b>				
Profit/(loss) before income tax	1,083,518	(4,102,686)	(3,883,281)	(6,902,449)
Income tax	-	-	-	-
<b>Profit/(loss) after income tax</b>	<b>1,083,518</b>	<b>(4,102,686)</b>	<b>(3,883,281)</b>	<b>(6,902,449)</b>
<b>Assets</b>				
Segment assets	3,320,218	21,697,912	2,251,698	27,269,828
<b>Total assets</b>				<b>27,269,828</b>
<b>Liabilities</b>				
Segment liabilities	3,599,571	11,394,313	4,828,245	19,822,129
<b>Total liabilities</b>				<b>19,822,129</b>

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2022

Note 4. Operating segments (continued)

<b>Consolidated - 2021</b>	Data centre manufacturing \$	Data centre operations \$	Other (Corporate) \$	Total \$
<b>Revenue</b>				
Revenue from external customers	7,050,936	984,201	-	8,035,137
Other income	-	43,696	4,562,551	4,606,247
<b>Total revenue</b>	<u>7,050,936</u>	<u>1,027,897</u>	<u>4,562,551</u>	<u>12,641,384</u>
<b>Results</b>				
Profit/(loss) before income tax	849,864	(5,166,389)	(496,106)	(4,812,631)
Income tax	-	-	-	-
<b>Profit/(loss) after income tax</b>	<u>849,864</u>	<u>(5,166,389)</u>	<u>(496,106)</u>	<u>(4,812,631)</u>
<b>Assets</b>				
Segment assets	2,639,828	18,463,810	2,767,349	23,870,987
<b>Total assets</b>				<u>23,870,987</u>
<b>Liabilities</b>				
Segment liabilities	1,781,997	9,631,800	1,448,717	12,862,514
<b>Total liabilities</b>				<u>12,862,514</u>

Assets used jointly by reportable segments are allocated on the basis of the revenues earned by the individual reportable segments.

All revenue is derived in Australia.

### Note 5. Revenue

	<b>Consolidated 2022 \$</b>	<b>2021 \$</b>
<i>Revenue from contracts with customers</i>		
Sales to customers	<u>15,386,453</u>	<u>8,035,137</u>

100% of the Group's revenue from external customers is recognised over time.

All revenue is derived in Australia.

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2022

## Note 6. Other income

	Consolidated	
	2022	2021
	\$	\$
Research and development tax incentive claim	826,741	725,766
Export marketing development grant	50,959	100,000
Government wage subsidies	17,237	-
Government grants (COVID-19)	-	291,000
Net foreign exchange gain	63,475	-
Other	37,333	187,048
Lease liability reversed <sup>1</sup>	-	3,302,433
	<u>995,745</u>	<u>4,606,247</u>

Other income

<sup>1</sup> Liability reversal of the carrying value of the liability for the Melbourne data centre facility.

## Note 7. Expenses

	Consolidated	
	2022	2021
	\$	\$
Loss before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Depreciation - property, plant and equipment	2,280,549	3,903,980
Depreciation - right-of-use assets	823,228	599,555
	<u>3,103,777</u>	<u>4,503,535</u>
<i>Amortisation</i>		
Amortisation - intangibles	600,602	493,231
	<u>3,704,379</u>	<u>4,996,766</u>
<i>Finance costs</i>		
Interest and finance charges paid/payable on borrowings	491,562	203,495
Interest and finance charges paid/payable on lease liabilities	773,408	295,482
	<u>1,264,970</u>	<u>498,977</u>
<i>Net foreign exchange loss (included in administration expenses)</i>		
Net foreign exchange loss	-	92,142
	<u>-</u>	<u>92,142</u>
<i>Leases</i>		
Short term lease payments	140,874	87,461
	<u>140,874</u>	<u>87,461</u>
<i>Superannuation expense</i>		
Defined contribution superannuation expense	308,008	285,133
	<u>308,008</u>	<u>285,133</u>
<i>Employee benefits expense excluding superannuation</i>		
Employee benefits expense excluding superannuation	4,279,126	3,385,334
	<u>4,279,126</u>	<u>3,385,334</u>

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2022

### Note 8. Income tax

	Consolidated	
	2022	2021
	\$	\$
<i>Income tax expense</i>		
Current tax	-	-
Deferred tax - origination and reversal of temporary differences	-	-
	<u>-</u>	<u>-</u>
Aggregate income tax expense	<u>-</u>	<u>-</u>
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Loss before income tax expense	(6,902,449)	(4,812,631)
Tax at the statutory tax rate of 25%	(1,725,612)	(1,203,158)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenditure	47,243	522,291
Non-assessable income	(206,685)	(193,942)
	(1,885,054)	(874,809)
Current year tax losses not recognised	1,900,617	1,840,686
Other deferred tax balances not recognised	(15,563)	(965,877)
	<u>-</u>	<u>-</u>
Income tax expense	<u>-</u>	<u>-</u>

#### *Income tax rate*

The tax rate used in the above reconciliation is the corporate tax rate of 25% payable by the Australian base rate corporate entities for 2022 and future financial years.

	Consolidated	
	2022	2021
	\$	\$
<i>Deferred tax assets not recognised</i>		
Deferred tax assets not recognised comprises temporary differences attributable to:		
Leases	2,875,694	2,126,970
Carried forward revenue losses	5,075,844	3,869,533
Capital raising costs	241,050	387,617
Provisions and accruals	52,761	65,497
Customer contracts	278,400	135,242
	<u>8,523,749</u>	<u>6,584,859</u>
Total deferred tax assets not recognised	<u>8,523,749</u>	<u>6,584,859</u>

The above potential tax benefit, which excludes tax losses, for deductible temporary differences has not been recognised in the statement of financial position as the recovery of this benefit is uncertain.



## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2022

Note 8. Income tax (continued)

	Consolidated 2022 \$	2021 \$
<b>Deferred tax asset</b>		
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Carried forward revenue losses	2,796,239	2,101,933
Set off deferred tax liability	(2,796,239)	(2,101,933)
Deferred tax asset	<u>-</u>	<u>-</u>

	Consolidated 2022 \$	2021 \$
<b>Deferred tax liability</b>		
Deferred tax liability comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Accrued income	-	34
Right-of-use assets	2,796,239	2,101,899
Adjusted against deferred tax asset	(2,796,239)	(2,101,933)
Deferred tax liability	<u>-</u>	<u>-</u>

*The tax benefits of the above deferred tax assets will only be obtained if:*

- (i) the Group derives future assessable income of a nature and of an amount sufficient to enable the benefits to be utilised;
- (ii) the Group continues to comply with the conditions for deductibility imposed by law; and
- (iii) no changes in income tax legislation adversely affect the Group in utilising the benefits.

### Note 9. Earnings per share

	Consolidated 2022 \$	2021 \$
Loss after income tax attributable to the owners of DXN Limited	<u>(6,902,449)</u>	<u>(4,812,631)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>1,385,110,988</u>	<u>1,069,101,004</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>1,385,110,988</u>	<u>1,069,101,004</u>
	Cents	Cents
Basic earnings per share	(0.50)	(0.45)
Diluted earnings per share	(0.50)	(0.45)

At 30 June 2022 and 30 June 2021, options and performance rights over ordinary shares were excluded from the calculation of the weighted average number of ordinary shares used in calculating diluted earnings per share due to being anti-dilutive, as the Group reported a loss for the period.

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2022

### Note 10. Cash and cash equivalents

	Consolidated 2022 \$	2021 \$
<i>Current assets</i>		
Cash at bank and on hand	1,924,767	1,663,955

### Note 11. Trade and other receivables

	Consolidated 2022 \$	2021 \$
<i>Current assets</i>		
Trade receivables	635,390	666,018
Less: Allowance for expected credit losses	-	-
	<u>635,390</u>	<u>666,018</u>
Interest receivable	-	134
GST receivable	14,282	-
	<u>649,672</u>	<u>666,152</u>

#### Allowance for expected credit losses

The Group has recognised a loss of \$nil profit or loss in respect of the expected credit losses for the year ended 30 June 2022 and 30 June 2021.

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

Consolidated	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
	2022 %	2021 %	2022 \$	2021 \$	2022 \$	2021 \$
0 to 30 days	-	-	314,975	574,598	-	-
30 to 60 days	-	-	8,416	91,420	-	-
60 to 90 days	-	-	-	-	-	-
over 90 days	-	-	311,999	-	-	-
			<u>635,390</u>	<u>666,018</u>	<u>-</u>	<u>-</u>

### Note 12. Inventories/work in progress

	Consolidated 2022 \$	2021 \$
<i>Current assets</i>		
Materials and consumables	467,366	660,956
Work in progress - Customers (contract asset) <sup>1</sup>	781,014	570,825
	<u>1,248,380</u>	<u>1,231,781</u>

<sup>1</sup> Relates to external customers.

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2022

### Note 13. Bank guarantees and deposits

	Consolidated	
	2022	2021
	\$	\$
5 Parkview Drive, Olympic Park, Sydney NSW <sup>1,2</sup>	495,000	495,000
286-292 Lorimer Street, Port Melbourne, Victoria <sup>1,3</sup>	-	500,000
3 Dampier Road, Welshpool, WA <sup>1,2</sup>	33,917	33,917
	<u>528,917</u>	<u>1,028,917</u>

<sup>1</sup> Relates to term deposits given to secure bank guarantees at 30 June 2021 over leased premises. The bank guarantees are classified as restricted cash.

<sup>2</sup> Relates to deposits given to landlords' legal representatives at 30 June 2022 over leased premises. These deposits are held in solicitor trust accounts and are classified as restricted cash.

<sup>3</sup> This bank guarantee was surrendered to the landlords as a payment in lieu of outstanding rent when the Melbourne data centre lease dispute was resolved in December 2021.

### Note 14. Other assets

	Consolidated	
	2022	2021
	\$	\$
<i>Current assets</i>		
Prepayments	120,904	111,298
Other deposits	13,556	13,556
	<u>134,460</u>	<u>124,854</u>
<i>Non-current assets</i>		
Other non-current assets (Borrowing costs capitalised net of amortisation)	608,333	-
	<u>742,793</u>	<u>124,854</u>

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2022

### Note 15. Property, plant and equipment

	Consolidated	
	2022	2021
	\$	\$
<i>Non-current assets</i>		
Leasehold improvements - at cost	3,045,118	2,285,853
Less: Accumulated depreciation	(693,259)	(469,702)
	<u>2,351,859</u>	<u>1,816,151</u>
Plant and equipment - at cost	286,054	260,685
Less: Accumulated depreciation	(151,425)	(116,195)
	<u>134,629</u>	<u>144,490</u>
Motor vehicles - at cost	26,016	26,016
Less: Accumulated depreciation	(12,050)	(8,780)
	<u>13,966</u>	<u>17,236</u>
Office equipment - at cost	61,126	61,126
Less: Accumulated depreciation	(50,558)	(37,678)
	<u>10,568</u>	<u>23,448</u>
DC modules - at cost	10,415,688	11,227,465
Less: Accumulated depreciation	(5,768,198)	(4,608,445)
	<u>4,647,490</u>	<u>6,619,020</u>
ICT hardware - at cost	340,736	340,736
Less: Accumulated depreciation	(305,766)	(259,378)
	<u>34,970</u>	<u>81,358</u>
	<u>7,193,482</u>	<u>8,701,703</u>

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2022

Note 15. Property, plant and equipment (continued)

### Reconciliations

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

<b>Consolidated</b>	Leasehold improve- ments \$	Plant and equipment \$	Motor vehicles \$	Office equipment \$	DC modules \$	ICT hardware \$	Asset under construction \$	Total \$
Balance at 1 July 2020	2,201,131	2,432,691	20,488	49,074	8,182,437	237,086	16,880	13,139,787
Additions	-	11,137	-	-	144,325	-	-	155,462
Classified as held for sale	-	(680,017)	-	-	-	-	-	(680,017)
Disposals	(362)	-	-	(8,081)	-	(1,106)	-	(9,549)
Transfers in/(out)	-	(1,576,537)	-	-	1,593,417	-	(16,880)	-
Depreciation expense	(384,618)	(42,784)	(3,252)	(17,545)	(3,301,159)	(154,622)	-	(3,903,980)
Balance at 30 June 2021	1,816,151	144,490	17,236	23,448	6,619,020	81,358	-	8,701,703
Additions	1,865	22,468	-	-	-	-	-	24,333
Additions through business combinations (note 35)	757,400	2,900	-	-	753,110	-	-	1,513,410
Disposals	-	-	-	-	(765,415)	-	-	(765,415)
Depreciation expense	(223,557)	(35,229)	(3,270)	(12,880)	(1,959,225)	(46,388)	-	(2,280,549)
Balance at 30 June 2022	<u>2,351,859</u>	<u>134,629</u>	<u>13,966</u>	<u>10,568</u>	<u>4,647,490</u>	<u>34,970</u>	<u>-</u>	<u>7,193,482</u>

### Note 16. Right-of-use assets

	Consolidated 2022 \$	Consolidated 2021 \$
<i>Non-current assets</i>		
Land and buildings - right-of-use	12,178,466	13,948,160
Less: Accumulated depreciation	(993,508)	(1,797,307)
Less: Impairment	-	(3,743,255)
	<u>11,184,958</u>	<u>8,407,598</u>

Additions to the right-of-use assets during the year were \$3,125,008 (30 June 2021: \$826,401).

Right-of-use assets relate to leased properties in Perth, Darwin, Sydney and Hobart.

The Group leases land and buildings under agreements of between three to fifteen years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

All account balances associated with the Melbourne property were reversed during the year following resolution of the dispute with the landlord.



## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2022

Note 16. Right-of-use assets (continued)

For AASB 16 Lease disclosures refer to:

- note 6 for lease liability reversal income;
- note 7 for depreciation on right-of-use assets, interest on lease liabilities and short term leases;
- note 21 for lease liabilities; and
- consolidated statement of cash flows for repayment of lease liabilities.

### Note 17. Intangibles

	Consolidated 2022 \$	2021 \$
<i>Non-current assets</i>		
Goodwill - at cost	1,986,421	25,541
Software development - at cost	38,970	494,031
Patents and trademarks - at cost	36,480	36,480
Less: Accumulated amortisation	(8,390)	(6,430)
	<u>28,090</u>	<u>30,050</u>
Software - at cost	232,167	203,855
Less: Accumulated amortisation	(141,443)	(93,282)
	<u>90,724</u>	<u>110,573</u>
Customer contracts - at cost	2,703,418	1,342,104
Less: Accumulated amortisation	(1,050,764)	(500,283)
	<u>1,652,654</u>	<u>841,821</u>
	<u><u>3,796,859</u></u>	<u><u>1,502,016</u></u>

#### Reconciliations

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

Consolidated	Goodwill \$	Software develop- ment \$	Patents and trademarks \$	Software \$	Customer contracts \$	Total \$
Balance at 1 July 2020	25,541	272,526	32,000	115,450	1,289,189	1,734,706
Additions	-	221,505	-	39,036	-	260,541
Amortisation expense	-	-	(1,950)	(43,913)	(447,368)	(493,231)
Balance at 30 June 2021	25,541	494,031	30,050	110,573	841,821	1,502,016
Additions	-	-	-	25,921	-	25,921
Additions through business combinations (note 35)	1,960,880	-	-	2,391	1,361,314	3,324,585
Transfers in/(out)	-	(455,061)	-	-	-	(455,061)
Amortisation expense	-	-	(1,960)	(48,161)	(550,481)	(600,602)
Balance at 30 June 2022	<u>1,986,421</u>	<u>38,970</u>	<u>28,090</u>	<u>90,724</u>	<u>1,652,654</u>	<u>3,796,859</u>

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2022

### Note 17. Intangibles (continued)

Goodwill	Goodwill on the acquisition of assets and revenue of Data Centre 3 Pty Ltd from TasmaNet Pty Ltd, and acquisition of Secure Data Centre – Darwin during FY22.
Software development	Relates to the development costs spent to date on IoT software.
Patents and trademarks	Relates to patents and is amortised over the estimated useful life of the patents.
Software	Relates to acquired software.
Customer contracts	Relates to the minimum contracted revenues/EBITDA in relation to the acquisition of DC module assets of Data Centre 3 Pty Ltd from TasmaNet Pty Ltd and customer contracts acquired from the purchase of Secure Data Centre – Darwin during FY22.

#### Impairment disclosures

The Group's total goodwill balance predominantly relates to the Data Centre segment operations of Secure Data Centre, Darwin (SDC).

	Consolidated 2022	2021
	\$	\$
SDC	1,960,880	-

As required under AASB 136 Impairment, the carrying amount of the SDC goodwill has been tested for impairment as at 30 June 2022. The recoverable amount of the above goodwill is based on a value-in-use calculation using the present value of cash flow projections over a 5-year period. The following assumptions were used in the value-in-use calculations:

Assumption	How determined
Forecast revenue & expenses	Annual growth rate of 0% and long-term terminal growth rate of 0%
Discount rate	Pre-tax discount rate of 11.69%

#### Sensitivity to changes in assumptions

The directors and management have considered and assessed reasonably possible changes for other key assumptions and have not identified any instances that could cause the carrying amount of the SDC CGU to exceed its recoverable amount.

### Note 18. Trade and other payables

	Consolidated 2022	2021
	\$	\$
<b>Current liabilities</b>		
Trade payables	2,152,202	1,354,906
GST payable	-	102,614
Payroll liabilities	162,552	424,402
Other payables and accruals <sup>1</sup>	188,456	271,601
	<u>2,503,210</u>	<u>2,153,523</u>

#### Terms and conditions

Refer to note 27 for further information on financial instruments.

<sup>1</sup>Other payables are non-interest bearing have no fixed repayment terms.

### Note 19. Contract liabilities

	Consolidated 2022	2021
	\$	\$
<b>Current liabilities</b>		
Contract liabilities <sup>1</sup>	<u>332,507</u>	<u>387,556</u>

<sup>1</sup>Relates to amounts received in advance from external customers for the custom-built DXN data centre and cable landing station modules.

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2022

### Note 20. Borrowings

	Consolidated	
	2022	2021
	\$	\$
<i>Current liabilities</i>		
Export finance loan <sup>1</sup>	-	639,364
Insurance premium funding	60,855	54,765
Chattel mortgage <sup>2</sup>	-	366,145
Less: Unexpired charges	(1,884)	(33,019)
	58,971	1,027,255
<i>Non-current liabilities</i>		
Chattel mortgage <sup>2</sup>	-	628,384
Less: Unexpired charges	-	(23,373)
Pure Asset Management Pty Ltd <sup>3</sup>	4,000,000	-
	4,000,000	605,011
	4,058,971	1,632,266

Refer to note 27 for further information on financial instruments.

<sup>1</sup> \$500,000 loan with Export finance facility was fully repaid on 1 November 2021. The interest rate on this facility was 6.53% per annum (30 June 2021: 6.53%).

<sup>2</sup> This secured principal and interest chattel finance facility with ANZ Bank to finance generators and chillers was fully repaid on 1 November 2021. The interest rate on this facility was 4.47% per annum (30 June 2021: 4.47% per annum).

<sup>3</sup> \$4,000,000 secured facility with Pure Asset Management Pty Ltd is to finance working capital and acquisitions. The interest rate on this facility (including line fee) is 11.25% per annum. In addition, there was a 2.5% establishment fee. This facility is due to mature on 14 October 2025 and is secured by a General Security Agreement over the assets of the Company. This facility is subject to financial covenants, where a breach of a covenant can lead to an 'Event of Default'. As at 30 June 2022, there was no 'Event of Default'.

However, in late July 2022, DXN reported a breach of a financial covenant to Pure, where the Group's cash balance had fallen below \$1,250,000. On 5 August 2022, Pure provided a waiver for the breach of the covenant, subject to DXN executing the following agreements:

- i) a business purchase agreement in relation to the main assets and undertaking of the Group; and
- ii) an underwriting agreement between the Borrower and the Lender in connection with the proposed \$2,125,000 share placement by the Borrower, each in a form satisfactory to the Lender.

As announced to the market on 5 August 2022, both agreements were successfully executed. Additionally, Pure amended the Facility Agreement by increasing the level of cash required under its financial covenant to \$1,600,000.

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2022

Note 20. Borrowing (continued)

### Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated 2022 \$	2021 \$
Total facilities		
Export finance loan	-	1,003,000
Insurance premium funding	60,855	54,765
Chattel mortgage	-	971,000
Pure Asset Management Pty Ltd	4,000,000	-
	<u>4,060,855</u>	<u>2,028,765</u>
Used at the reporting date		
Export finance loan	-	639,364
Insurance premium funding	60,855	54,765
Chattel mortgage	-	994,529
Pure Asset Management Pty Ltd	4,000,000	-
	<u>4,060,855</u>	<u>1,688,658</u>
Unused at the reporting date		
Export finance loan	-	363,636
Insurance premium funding	-	-
Chattel mortgage	-	-
Pure Asset Management Pty Ltd	-	-
	<u>-</u>	<u>363,636</u>

### Note 21. Lease liabilities

	Consolidated 2022 \$	2021 \$
<i>Current liabilities</i>		
Lease liability	<u>728,679</u>	<u>625,417</u>
<i>Non-current liabilities</i>		
Lease liability	<u>10,775,981</u>	<u>7,882,462</u>
	<u><u>11,504,660</u></u>	<u><u>8,507,879</u></u>

Refer to note 27 for maturity analysis of lease liabilities.

### Note 22. Employee benefits

	Consolidated 2022 \$	2021 \$
<i>Current liabilities</i>		
Annual leave	<u>156,743</u>	<u>181,290</u>
<i>Non-current liabilities</i>		
Long service leave	<u>16,038</u>	<u>-</u>
	<u><u>172,781</u></u>	<u><u>181,290</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2022

### Note 22. Employee benefits (continued)

#### Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

The following amounts reflect leave that is not expected to be taken within the next 12 months:

	Consolidated 2022 \$	Consolidated 2021 \$
Employee benefits obligation expected to be settled after 12 months	16,038	-

### Note 23. Other financial liabilities

	Consolidated 2022 \$	Consolidated 2021 \$
<i>Current liabilities</i>		
Other financial liabilities <sup>1</sup>	850,000	-
<i>Non-current liabilities</i>		
Other financial liabilities <sup>2</sup>	400,000	-
	<u>1,250,000</u>	<u>-</u>

<sup>1</sup> This amount was withheld from the purchase price of SDC to cover any warranty claims associated with the acquisition. Subject to any warranty claims, this withheld amount will be paid on 18 October 2022.

<sup>2</sup> 200 million warrants were issued to Pure Asset Management Pty Ltd as part of the New Debt Facility arrangement, as announced to the market on 9 September 2021. These warrants have a 48 month term and expire on 15 October 2025.

### Note 24. Issued capital

	2022 Shares	Consolidated 2021 Shares	Consolidated 2022 \$	Consolidated 2021 \$
Ordinary shares - fully paid	<u>1,471,314,836</u>	<u>1,105,318,536</u>	<u>43,471,842</u>	<u>40,345,107</u>



## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2022

Note 24. Issued capital (continued)

### Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	1 July 2020	1,050,552,642		39,604,052
Issue of shares - exercise of options	15 July 2020	5,000,000	\$0.020	100,000
Issue of shares - exercise of options	25 August 2020	159,120	\$0.020	3,182
Issue of shares - exercise of options	8 September 2020	5,000,000	\$0.020	100,000
Issue of shares - exercise of options	18 September 2020	18,850	\$0.020	377
Issue of shares - exercise of options	28 September 2020	65,000	\$0.020	1,300
Issue of shares - exercise of performance rights	24 December 2020	111,111	\$0.000	5,889
Issue of shares - exercise of performance rights	12 March 2021	411,813	\$0.000	21,826
Issue of shares - placement	15 April 2021	44,000,000	\$0.012	528,000
Capital raising costs		-		(19,519)
Balance	30 June 2021	1,105,318,536		40,345,107
Issue of shares - placement	10 September 2021	182,662,966	\$0.009	1,643,967
Issue of shares - share purchase plan	6 October 2021	134,666,622	\$0.009	1,212,000
Issue of shares - purchase consideration	18 October 2021	16,666,667	\$0.012	200,000
Issue of shares - share purchase plan shortfall	22 October 2021	32,000,045	\$0.009	288,000
Capital raising costs		-		(184,565)
Capital raising costs - share based payments		-		(32,667)
Balance	30 June 2022	<u>1,471,314,836</u>		<u>43,471,842</u>

### Ordinary shares

Ordinary shares entitle the holder to participate in any dividends declared and any proceeds attributable to shareholders should the Company be wound up in proportions that consider both the number of shares held and the extent to which those shares are paid up. 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

Management controls the capital of the Group in order to maintain a prudent debt to equity ratio, provide the shareholders with adequate returns and ensure the Group can fund its operations and continue as a going concern.

The Group's debt and capital includes ordinary share capital and financial liabilities supported by financial assets.

Management effectively manages the Group's capital by assessing the Groups financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There are no externally imposed capital requirements other than as disclosed in Note 20.

The capital risk management policy remains unchanged from the 2021 Annual Report.

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2022

## Note 25. Reserves

	Consolidated	
	2022	2021
	\$	\$
Share-based payments reserve	1,081,594	866,654
Option reserve	310,302	310,302
	<u>1,391,896</u>	<u>1,176,956</u>

### 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.

### Option reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration.

### Movements in reserves

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

Consolidated	Share-based payments \$	Option \$	Total \$
Balance at 1 July 2020	710,403	310,302	1,020,705
Share-based payments	183,966	-	183,966
Reclassified to issued capital	(27,715)	-	(27,715)
Balance at 30 June 2021	866,654	310,302	1,176,956
Capital raising costs	32,667	-	32,667
Share-based payments	182,273	-	182,273
Balance at 30 June 2022	<u>1,081,594</u>	<u>310,302</u>	<u>1,391,896</u>

## Note 26. Dividends

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

## Note 27. 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.

Risk management is carried out by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. The Board identifies, evaluates financial risks within the Group's operating units on a monthly basis.

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2022

### Note 27. Financial instruments (continued)

The Group's principal financial instruments comprise cash and cash equivalents. The Group also has other financial instruments such as receivables and payables which arise directly from its operations. For the period under review, it has been the Group's policy not to trade in financial instruments.

	Consolidated	
	2022	2021
	\$	\$
<b>Financial assets</b>		
Cash and cash equivalents	1,924,767	1,663,955
Trade and other receivables	649,672	666,152
Bank guarantees	528,917	1,028,917
	<u>3,103,356</u>	<u>3,359,024</u>
<b>Financial liabilities</b>		
At amortised cost:		
Trade and other payables	2,503,210	2,153,523
Borrowings	4,058,971	1,632,266
Lease liabilities	11,504,660	8,507,879
Other financial liabilities	1,250,000	-
	<u>19,316,841</u>	<u>12,293,668</u>

### 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. The risk is measured using sensitivity analysis and cash flow forecasting.

The Group has not entered into forward foreign exchange contracts during the current financial year.

#### Price risk

The Group is not exposed to any significant price risk.

#### Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Current financial assets and financial liabilities are generally not exposed to interest rate risk because of their short-term nature. At 30 June 2022, the Group's cash/cash equivalents (note 10) and borrowings (note 20) are fixed interest rate instruments. Therefore, they are not subject to 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 adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and above.

The Group's exposure and the credit ratings of its counterparties are continuously monitored. Credit exposure is controlled by counterparty limits that are reviewed and approved by the Board annually.

The Group does not have any significant credit risk exposure.

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2022

Note 27. Financial instruments (continued)

### Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities and by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities.

### Financing arrangements

Unused borrowing facilities at the reporting date:

	Consolidated 2022 \$	2021 \$
Export finance loan	-	363,636

### 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.

	Weighted average interest rate %	1 year or less \$	Between 1 and 2 years \$	Between 2 and 5 years \$	Over 5 years \$	Remaining contractual maturities \$
<b>Consolidated - 2022</b>						
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade and other payables	-	2,503,210	-	-	-	2,503,210
Other financial liabilities	-	850,000	-	400,000	-	1,250,000
<i>Interest-bearing - variable</i>						
Lease liability	-	1,549,242	1,549,242	4,647,727	9,171,052	16,917,263
<i>Interest-bearing - fixed rate</i>						
Borrowings	11.25%	450,000	450,000	4,580,685	-	5,480,685
Borrowings	8.43%	58,971	-	-	-	58,971
Total non-derivatives		5,411,423	1,999,242	9,628,412	9,171,052	26,210,129
<b>Consolidated - 2021</b>						
<b>Non-derivatives</b>						
<i>Non-interest bearing</i>						
Trade and other payables	-	2,153,523	-	-	-	2,153,523
<i>Interest-bearing - variable</i>						
Lease liability	-	625,417	758,793	2,047,790	5,075,879	8,507,879
<i>Interest-bearing - fixed rate</i>						
Borrowings	-	1,027,255	350,248	254,763	-	1,632,266
Total non-derivatives		3,806,195	1,109,041	2,302,553	5,075,879	12,293,668

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

# NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2022

Note 27. Financial instruments (continued)

## Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

## Note 28. Fair value measurement

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short term nature.

## Note 29. Key management personnel disclosures

### Compensation

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

	Consolidated 2022 \$	2021 \$
Short term employee benefits	962,712	733,938
Bonus payments	32,396	51,851
Post-employment benefits	297,290	58,025
Share-based payments	81,572	210,866
	<u>1,373,970</u>	<u>1,054,680</u>

## Note 30. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Moore Australia Audit (WA), the auditor of the Company, and its network firms:

	Consolidated 2022 \$	2021 \$
<i>Audit services - Moore Australia Audit (WA)</i>		
Audit or review of the financial statements	<u>59,408</u>	<u>50,000</u>
<i>Other services - network firms</i>		
Tax compliance	6,600	9,280
Consulting	4,800	23,740
	<u>11,400</u>	<u>33,020</u>

## Note 31. Contingent liabilities

	Consolidated 2022 \$	2021 \$
5 Parkview Drive, Olympic Park, Sydney NSW <sup>1, 2</sup>	495,000	495,000
286-292 Lorimer Street, Port Melbourne, Victoria <sup>1</sup>	-	500,000
3 Dampier Road, Welshpool, WA <sup>1, 2</sup>	33,917	33,917
	<u>528,917</u>	<u>1,028,917</u>



## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2022

### Note 31. Contingent liabilities (continued)

- <sup>1</sup> *Relates to term deposits as at 30 June 2021 given to secure bank guarantees over leased premises. The bank guarantees are restricted cash.*
- <sup>2</sup> *Relates to deposits given to landlords' legal representatives at 30 June 2022 over leased premises. These deposits are held in solicitor trust accounts and are classified as restricted cash.*

In the 2021 Annual Report, a contingent liability of \$3,300,000 was disclosed, relating to the lease dispute for the Melbourne data centre site. As announced to the market on 31 January 2022, this dispute was resolved on terms that included termination of the lease, and DXN surrendering the \$500,000 bank guarantee to the landlord as a payment in lieu of outstanding rent. The Company has no accrued or future liabilities or obligations to the landlord under the lease and was released from all claims under or in connection with the lease, including those made in the proceedings.

### Note 32. Commitments

There were no capital commitments as at 30 June 2022 and 30 June 2021.

### Note 33. Related party transactions

#### *Parent entity*

DXN Limited is the parent entity.

#### *Subsidiaries*

Interests in subsidiaries are set out in note 36.

#### *Key management personnel*

Disclosures relating to key management personnel are set out in note 29 and the remuneration report included in the directors' report.

#### *Transactions with related parties*

There were no transactions with related parties during the current and previous financial year.

#### *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 34. Parent entity information

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

#### *Statement of profit or loss and other comprehensive income*

	Parent	
	2022	2021
	\$	\$
Loss after income tax	(6,970,609)	(4,735,836)
Total comprehensive loss	(6,970,609)	(4,735,836)

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2022

Note 34. Parent entity information (continued)

### Statement of financial position

	2022	Parent 2021
	\$	\$
Total current assets	3,685,138	4,587,496
Total assets	24,644,145	23,082,605
Total current liabilities	4,399,581	4,129,722
Total liabilities	17,161,867	11,971,393
Equity		
Issued capital	43,471,842	40,345,107
Share-based payments reserve	1,081,594	866,654
Option reserve	310,302	310,302
Accumulated losses	(37,381,460)	(30,410,851)
Total equity	<u>7,482,278</u>	<u>11,111,212</u>

#### *Guarantees entered into by the parent entity in relation to the debts of its subsidiaries*

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2022 and 30 June 2021.

#### *Contingent liabilities*

Apart from the deposits disclosed at note 31, the parent entity had no contingent liabilities as at 30 June 2022 and 30 June 2021.

#### *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 2021.

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2022

### Note 35. Business combinations

#### Acquisitions during the year ended 30 June 2022

On 18 October 2021, the Company acquired 100% of the ordinary shares on issue in Secure Data Centre Pty Ltd ATF SDC Trust and 100% of the units on issue in the SDC Trust for a total purchase consideration of \$5,063,516. This is a data centre business and operates in the 'Data centre operations' division of the Group.

The acquired business contributed revenues of \$1,159,159 and profit after tax of \$110,353 to the Group for the period from 18 October 2021 to 30 June 2022. If the acquisition occurred on 1 July 2021, the full year contributions would have been revenues of \$1,725,407 and profit after tax of \$317,059. The values identified in relation to the acquisition are final as at 30 June 2022.

Details of the acquisition are as follows:

	Fair value \$
Cash and cash equivalents	196,942
Trade receivables	139,727
Leasehold improvements	757,400
Plant and equipment	2,900
DC Modules	753,110
Software	2,391
Customer contracts	1,361,314
Trade and other payables	(111,148)
Net assets acquired	3,102,636
Goodwill	1,960,880
Acquisition-date fair value of the total consideration transferred	<u>5,063,516</u>
Representing:	
Cash paid or payable to vendor	4,013,516
DXN Limited shares issued to vendor	200,000
Warranty retention	850,000
	<u>5,063,516</u>
Acquisition costs expensed to profit or loss	<u>20,615</u>
Cash used during the period ended 30 June 2022 to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	5,063,516
Less: cash and cash equivalents	(196,942)
Less: shares issued by Company as part of consideration	(200,000)
Less: warranty retention	(850,000)
Net cash used	<u>3,816,574</u>

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2022

### Note 35. Business combinations (continued)

During the year ended the 30 June 2022, the valuation was completed and the acquisition date fair value of the assets was adjusted as follows:

	30 June 2022 \$	31 December 2021 \$	Increase/ (decrease) \$
Leasehold improvements	757,400	466,916	290,484
Plant and equipment	2,900	159,530	(156,630)
DC Modules	753,110	637,805	115,305
Goodwill	1,960,880	2,210,039	(249,159)
	<u>3,474,290</u>	<u>3,474,290</u>	<u>-</u>

### Note 36. 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 2:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2022 %	2021 %
Tas01 Pty Ltd	Tasmania, Australia	100%	100%
Secure Data Centre Pty Ltd	Northern Territory, Australia	100%	-
SDC Trust	Northern Territory, Australia	100%	-

### Note 37. Cash flow information

#### Reconciliation of loss after income tax to net cash (used in) operating activities

	Consolidated	
	2022 \$	2021 \$
Loss after income tax expense for the year	(6,902,449)	(4,812,631)
Adjustments for:		
Depreciation and amortisation	3,704,379	4,996,766
Impairment of property, plant and equipment	-	347,394
Share-based payments	182,273	183,966
Lease liability reversal	-	(3,302,433)
Interest - non cash	1,130,244	426,337
Borrowing costs	134,781	-
Write off capitalised R&D costs	504,972	-
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	16,480	(173,232)
Decrease/(increase) in prepayments	(9,606)	386,554
Decrease/(increase) in inventory	527,412	(238,497)
Increase/(decrease) in trade and other payables	396,097	(168,875)
Increase/(decrease) in employee benefits	(8,509)	38,128
Decrease in contract liabilities	(55,049)	(347,018)
Net cash (used in) operating activities	<u>(378,975)</u>	<u>(2,663,541)</u>

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2022

Note 37. Cash flow information (continued)

### Non-cash investing and financing activities

	Consolidated		
	2022	2021	
	\$	\$	
Additions to the right-of-use assets	3,125,008	826,401	
<b>Changes in liabilities arising from financing activities</b>			
Consolidated	Finance facility \$	Lease liability \$	Total \$
Balance at 1 July 2020	3,359,506	11,894,815	15,254,321
Finance facility drawn down	1,179,429	-	1,179,429
Repayment of finance facility	(3,037,522)	(910,904)	(3,948,426)
Acquisition of leases	-	826,401	826,401
Other changes	130,853	(3,302,433)	(3,171,580)
Balance at 30 June 2021	1,632,266	8,507,879	10,140,145
Finance facility drawn down	4,000,000	-	4,000,000
Repayment of finance facility	(1,867,716)	(1,117,455)	(2,985,171)
Acquisition of leases	-	3,125,108	3,125,108
Other changes	294,421	989,128	1,283,549
Balance at 30 June 2022	4,058,971	11,504,660	15,563,631

### Note 38. Share-based payments

#### Options

The Company granted 10,888,857 options during the year in relation to a corporate mandate with TMT Partners Pty Ltd for corporate services in relation to equity debt raising.

Set out below are summaries of options:

#### 2022

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/forfeited/other	Balance at the end of the year
19/08/2019	19/08/2021	\$0.100	5,000,000	-	-	(5,000,000)	-
19/08/2019	19/08/2022	\$0.100	7,500,000	-	-	(7,500,000)	-
07/01/2020	31/12/2022	\$0.100	7,500,000	-	-	-	7,500,000
15/04/2021	30/04/2023	\$0.030	22,000,000	-	-	-	22,000,000
18/05/2020	18/05/2023	\$0.020	641,936,886	-	-	-	641,936,886
22/10/2021	22/10/2024	\$0.014	-	10,888,857	-	-	10,888,857
			683,936,886	10,888,857	-	(12,500,000)	682,325,743
Weighted average exercise price			\$0.023	\$0.014	\$0.000	\$0.100	\$0.021

In the table above 641,936,886 represent quoted options.



## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2022

Note 38. Share-based payments (continued)

2021

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
19/08/2019	19/08/2020	\$0.100	3,750,000	-	-	(3,750,000)	-
19/08/2019	19/08/2021	\$0.100	5,000,000	-	-	-	5,000,000
19/08/2019	19/08/2022	\$0.100	7,500,000	-	-	-	7,500,000
28/10/2019	28/10/2020	\$0.100	750,000	-	-	(750,000)	-
28/10/2019	28/10/2021	\$0.100	1,000,000	-	-	(1,000,000)	-
28/10/2019	28/10/2022	\$0.100	1,500,000	-	-	(1,500,000)	-
11/11/2019	11/11/2020	\$0.100	105,568,130	-	-	(105,568,130)	-
30/11/2017	30/11/2020	\$0.300	32,500,000	-	-	(32,500,000)	-
05/04/2018	05/04/2021	\$0.300	6,828,125	-	-	(6,828,125)	-
07/01/2020	31/12/2022	\$0.100	7,500,000	-	-	-	7,500,000
15/04/2021	30/04/2023	\$0.030	-	22,000,000	-	-	22,000,000
18/05/2020	18/05/2023	\$0.020	641,936,886	-	-	-	641,936,886
22/10/2020	22/10/2024	\$0.020	10,242,970	-	(10,242,970)	-	-
			<u>824,076,111</u>	<u>22,000,000</u>	<u>(10,242,970)</u>	<u>(151,896,255)</u>	<u>683,936,886</u>
Weighted average exercise price			\$0.046	\$0.030	\$0.020	\$0.152	\$0.023

In the table above 641,936,886 represent quoted options.

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

Grant date	Expiry date	2022 Number	2021 Number
19/08/2019	19/08/2021	-	5,000,000
19/08/2019	19/08/2022	-	7,500,000
07/01/2020	31/12/2022	7,500,000	7,500,000
15/04/2021	30/04/2023	22,000,000	22,000,000
18/05/2020	18/05/2023	641,936,886	641,936,886
22/10/2021	22/10/2024	10,888,857	-
		<u>682,325,743</u>	<u>683,936,886</u>

The weighted average remaining contractual life of options outstanding at the end of the financial year was 0.9 years (2021: 1.86 years).

### Performance rights

Set out below are summaries of performance rights:

2022

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
09/12/2019	30/06/2022	\$0.000	6,000,000	-	-	(6,000,000)	-
29/06/2019	30/06/2022	\$0.000	411,813	-	-	(411,813)	-
22/07/2021	14/07/2024	\$0.000	-	8,300,000	-	-	8,300,000
26/11/2021	14/07/2024	\$0.000	-	14,750,000	-	(14,750,000)	-
			<u>6,411,813</u>	<u>23,050,000</u>	-	<u>(21,161,813)</u>	<u>8,300,000</u>

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2022

Note 38. Share-based payments (continued)

2021

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/forfeited/other	Balance at the end of the year
09/12/2019	30/06/2022	\$0.000	7,872,924	-	(522,924)	(1,350,000)	6,000,000
29/06/2019	30/06/2022	\$0.000	-	411,813	-	-	411,813
			<u>7,872,924</u>	<u>411,813</u>	<u>(522,924)</u>	<u>(1,350,000)</u>	<u>6,411,813</u>

Set out below are the performance rights exercisable at the end of the financial year:

Grant date	Expiry date	2022 Number	2021 Number
29/06/2019	30/06/2022	-	411,813
09/12/2019	30/06/2022	-	6,000,000
22/07/2021	14/07/2024	8,300,000	-
		<u>8,300,000</u>	<u>6,411,813</u>

The weighted average remaining contractual life of performance rights outstanding at the end of the financial year was 2.04 years (2021: 2.12 years).

For the performance rights granted during the current financial year, 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
22/07/2021	14/07/2024	\$0.000	\$0.000	50.00%	-	0.13%	\$0.013
26/11/2021	14/07/2024	\$0.000	\$0.000	50.00%	-	0.13%	\$0.010

### Recognised employee share-based payment expenses

The expense recognised for employee services received during the period are as follows:

	Consolidated 2022	Consolidated 2021
Performance rights and options	182,273	221,354
Reversal of prior period expense following departures/terminations	-	(37,388)
	<u>182,273</u>	<u>183,966</u>

### Note 39. Events after the reporting period

On 5 August 2022, DXN announced that all of the business assets of DXN shall be sold to Flow2Edge Australia Pty Ltd for approximately \$26 million in cash, subject to completion adjustments. The transaction included the sale of 100% of the shares in TAS01 Pty Ltd, 100% of shares in Secure Data Centre Pty Ltd and 100% of shares of units in SDC Trust and of the business and assets of DXN. The sale is conditional on satisfying various conditions precedent.

On 12 September 2022, DXN announced, due to the inability to satisfy a condition precedent, a further update to the sale of business assets of DXN. The Edge modular manufacturing business is to be sold to Flow2Edge Australia Pty Ltd for \$20 million in cash while DXN retains its data centre business and considers related strategic options.

## NOTES TO THE FINANCIAL STATEMENTS

30 JUNE 2022

*Note 39. Events after the reporting period (continued)*

In the same announcement, DXN advised that it had breached its financial covenant under its Facility Agreement entered into with Pure Asset Management Pty Ltd in October 2021. Pure agreed to waive its rights in relation to the relevant default of the financial covenant. DXN also undertook and completed a placement for \$2.125 million through the issue of up to 250 million fully paid ordinary shares at \$0.0085 per share, being priced at a 70% premium to DXN's last closing share price of \$0.005 as at 4 August 2022. The Placement was to be used to fund DXN's working capital position up until the expected completion date of the transaction.

No other matter or circumstance has arisen since 30 June 2022 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

# DIRECTORS' DECLARATION

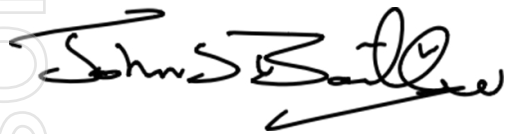
In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 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 2022 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company 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.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors



**John Baillie**  
Non-Executive Chairman

30 September 2022

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**Report on the Audit of the Financial Report****Opinion**

We have audited the financial report of DXN Ltd (the "Company") and its controlled entity (the "Group") which comprises the consolidated statement of financial position as at 30 June 2022, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the 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:

- i. giving a true and fair view of the Group's financial position as at 30 June 2022 and of its financial performance for the year then ended; and
- ii. 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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* (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 confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

**Emphasis of Matter - Material Uncertainty Related to Going Concern**

Without modification to our opinion expressed above, we draw attention to Note 2 "Going Concern" of the financial statements which states that the financial statements have been prepared on a going concern basis. Should the Company be unable to achieve the funding and operational outcomes described in Note 2 and continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts other than as stated in the financial report.

**Emphasis of Matter - Material Uncertainty Regarding Carrying Value of Plant/Equipment Assets and Intangible Assets relating to the Group's Data Centres**

We draw attention to Notes 15 and 17 of the financial statements and specifically to the recoverability of the Group's fixed assets (of \$7 million) and intangibles (\$3.8 million) pertaining to the Data Centre (DC) operations. The ability of the Group to recover these carrying values is dependent on the Group's ability to either to divest the DC assets/businesses or to generate sufficient revenues to recognise future economic benefit at amounts higher than existing book values. There is material uncertainty over the carrying values of these assets following the revised term sheet with an unrelated buyer, announced on 12 September 2022 (Note 39), which placed an implied total fair value of \$6 million against these assets. Our opinion is not modified in relation to 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 year. 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.

### Customer contracts – Revenue Recognition, Valuation of works in progress (WIP), trade accounts receivable and contract liabilities

Refer to Note 2 Revenue Recognition, Note 3 Critical Accounting Judgements, Estimates and Assumptions, Note 11 Trade & Other Receivables, Note 12 Work in Progress & Note 19 Contract Liabilities

For the year ended 30 June 2022, a significant portion of the Group's revenue is derived from the sales of DXN Modules. At balance date, DXN Module-related balances were Works in Progress (WIP) - \$0.78 million ("mill"), trade debtors - \$0.635 mill and contract liabilities - \$0.33 mill.

The accurate recording of revenue is highly dependent upon the following key factors:

- Knowledge of the individual characteristics and status of contracts.
- Management's invoicing process including
  - Accurate measurement of work done based on the Module build's stage of completion
  - Invoices prepared in compliance with contract terms and conditions described in the contract, provided they fulfil the criteria of AASB 15 Revenue from Contracts with Customers.
  - Recognition of any variations in accordance with contractual terms and based on an assessment as to when the Group believes it is highly probable that a significant reversal in revenue recognised will not occur.

We focused on this matter as a key audit matter due to the significance of contract-based revenue to the Group combined with the need to comply with a variety of contractual conditions, leading to judgemental risk associated with revenue recognition.

Our procedures included among others:

- Obtained an understanding of the processes and relevant controls relating to accounting for customer contracts to ensure compliance with AASB 15
- Read significant customer contracts to understand the terms/conditions and their revenue recognition impact, & accuracy of contract liabilities (or income in advance).
- Tested the accuracy and completeness of contracting revenue and related cost of sales to supporting documentation on a sample basis
- Performed cut-off testing on revenue and income in advance to ensure they were recorded accurately and in the appropriate reporting period
- Examined costs included within WIP balances on a sample basis by verifying the amounts to source documentation and tested its recoverability through subsequent invoicing (if applicable), discussions with management & review of other supporting evidence
- Reviewed ageing of trade receivables and & testing its recoverability to subsequent receipts. We also considered Board minutes and the expected credit loss assessment performed by management and other documents concerning any expected credit loss in regards to trade receivables and works in progress.
- Reviewed the relevant disclosures contained in the financial statements.

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## Key Audit Matters (continued)

### Plant & Equipment – Carrying values of Plant & Equipment

Refer to Note 3 Critical Accounting Judgements, Estimates and Assumptions, Note 15 Property, Plant & Equipment & Note 39 Events after the reporting period

At 30 June 2021, total Property, Plant and Equipment (“PPE”) amounted to \$7.19 mill representing 26% of the Group’s total assets. PE comprises of 2 core categories with a combined value of \$7 mill:

- DC Modules \$4.65 mill &
- Leasehold improvements \$2.35 mill

Of the DC Modules carrying value of \$4.65 mill, \$3 mill relates to DXN-SYD01, \$1 mill to TAS01 and \$0.65 mill to Secure Data Centre Darwin (“SDC”). Of total leasehold improvements of \$2.35 mill, \$1.8 mill relate to the DXN-SYD01 Data Centre.

Given the relative infancy of DXN-SYD01, we were unable to rely on forecast cash flows as a reliable estimate of this asset’s value-in-use. The fixed assets of DXN-SYD01 were subject to an updated professional independent valuation during the year to ensure their carrying book values were not higher than their recoverable amounts (market value) pursuant to AASB 136 Impairment.

The carrying values of these assets were considered key audit matters given the significance of these assets to the Group and the judgement involved in the assessment of impairment.

In addition, we assessed whether facts and circumstances existed to suggest that the carrying value of these assets may exceed their recoverable amounts.

Our procedures included the following:

- Testing expenditures related to capitalised costs during the year on a sample basis against supporting documentation such as supplier invoices to ensure expenditures are appropriately recorded in accordance with AASB 116 Property Plant & Equipment
- Evaluation of the independent professional valuation of DXN-SYD01 including the external expert’s competence, capabilities, and objectivity. We also assessed the methodology adopted by the expert to estimate market values and considered the appropriateness of any critical assumptions adopted by the expert.
- Checking, on a sample basis, the accuracy and relevance of the input data provided by management to the external valuer.
- It is noted the Sydney and Darwin Data Centres were physically inspected by the independent valuer during the year.
- Considered the terms of the sales agreement with an unrelated third-party to dispose 100% of the Group’s business and related assets for \$26 mill first announced on 5 August 2022 and subsequently revised on 12 September 2022 per Note 39. The revised term sheet of \$20 mill excludes the sale of the Group’s Data Centres, which implies a fair value of \$6 million for the assets associated with the Data Centre businesses. The Group has not adjusted the carrying values of the Data Centre assets, which when combined with the DC intangible assets of \$3.8 mill, exceed a total of \$10 mill at balance date. The Directors are of the opinion that the carrying values of the DC assets are not impaired. This matter has been separately reported in our Emphasis of Matter paragraph.
- Reviewed the relevant disclosures contained in the financial statements

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## Key Audit Matters (continued)

### Accounting for business acquisitions/goodwill impairment & related borrowings

Refer to Notes 3 Critical Accounting Judgements, Estimates and Assumptions, Note 17 Intangibles, Note 20 Borrowings & Note 35 Business Combinations,

During the year, the Group completed its acquisition of Secure Data Centre Darwin (“SDC”) for \$5 mill. The consideration was partly financed by a business loan from Pure Asset Management (“PAM”). The acquisition comprised of leasehold improvements, plant & equipment, trade & other assets, customer contracts, trade payables, associated employee entitlement liabilities and the resulting goodwill.

Accounting for this transaction is complex, requiring management to exercise judgment to determine the fair value of acquired assets and liabilities, including determining the allocation of purchase consideration to separately identifiable intangible assets such as customer contracts & assessing goodwill for impairment under AASB 136 Impairment.

We focused on this area as a key audit matter due to:

- the size of the acquisition
- judgment involved in accounting for this transaction & related borrowing costs (including warrants granted to PAM)
- significance of borrowings & compliance with financial covenants.
- significant judgement and estimation arising from goodwill impairment

Our procedures included, amongst others:

- We reviewed the purchase agreement to understand the key terms of the acquisition
- With respect to the gross \$1.36 mill Customer Contract intangible, critically evaluating the assumptions and methodology in management’s value-in-use model, such as forecast revenues, useful life & operating costs used to determine the value of the customer contracts intangible
- With respect of tangible assets acquired, assessing the reliability of a third-party valuation utilised by management in their determination of fair value of the major assets acquired including assessing credentials of the valuer.
- With respect to the SDC goodwill of \$1.96 mill, we reviewed the impairment assessment prepared by management including appropriateness of the relevant inputs built into the cashflow model together with the underlying assumptions used in determining the recoverable amount of this cash generating unit. We also performed recalculations to verify the mathematical accuracy of the impairment model.
- With respect to the external borrowings, we reviewed the loan facility agreement and confirmed the loan balance directly with PAM & considered the accounting classification profile of the loan in light of the subsequent covenant breach & waiver obtained. We also sought confirmation from our National Head of Technical Accounting on the appropriate accounting of the warrants granted to the lender as a liability.
- Assessing the appropriateness of the relevant disclosures in the financial statements

### Other Information

The directors are responsible for the other information. The other information comprises the information included in the Company’s annual report for the year ended 30 June 2022, 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 accordingly we do not express any form of assurance conclusion thereon.

### Other Information (continued)

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 ability of the Company 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 Company or to cease operations, or has 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: [https://www.auasb.gov.au/admin/file/content102/c3/ar1\\_2020.pdf](https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf). This description forms part of our audit report.

### Report on the Remuneration Report

#### Opinion on the Remuneration Report

We have audited the Remuneration Report as included in the directors' report for the year ended 30 June 2022.

In our opinion, the Remuneration Report of DXN Limited, for the year ended 30 June 2022 complies with section 300A of the *Corporations Act 2001*.

#### 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.



SUAN LEE TAN  
PARTNER

Signed at Perth on the 30<sup>th</sup> day of September 2022



MOORE AUSTRALIA AUDIT (WA)  
CHARTERED ACCOUNTANTS

## SHAREHOLDER INFORMATION

30 JUNE 2022

The shareholder information set out below was applicable as at 6 September 2022.

### Distribution of equitable securities

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

	Ordinary shares		Quoted options over ordinary shares	
	Number of holders	% of total shares issued	Number of holders	% of total shares issued
1 to 1,000	27	0.0001	7	0.0001
1,001 to 5,000	8	0.0010	8	0.0046
5,001 to 10,000	8	0.0034	2	0.0021
10,001 to 100,000	496	2.1043	107	0.8585
100,001 and over	1,048	97.8912	277	99.1347
	<u>1,587</u>	<u>100.0000</u>	<u>401</u>	<u>100.0000</u>
Holding less than a marketable parcel	<u>142</u>	<u>-</u>	<u>247</u>	<u>-</u>

### 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	
	Number held	% of total shares issued
JP Morgan Nominees Australia Pty Limited	216,918,352	12.6019
DC Alliance Pte Ltd	138,888,889	8.0688
Mr Andrew Walsh	129,798,807	7.5407
BNP Paribas Nominees Pty Ltd ACF Clearstream	42,119,865	2.4470
Mr Brendan Erin Joseph Power	40,666,666	2.3625
Norfolk Enchants Pty Ltd (Trojan Retirement Fund A/C)	40,213,200	2.3362
BNP Paribas Nominees Pty Ltd (DRP)	34,263,750	1.9906
National Nominees Limited	27,387,037	1.5911
Mercantile General Pty Ltd	26,750,000	1.5540
Mr Thiam Huat Low	22,000,000	1.2781
Mr Malcolm John McClure	20,000,000	1.1619
Chelseref Pty	20,000,000	1.1619
Klip Pty Ltd (The Beirne Super Fund A/C)	18,048,060	1.0485
Proactive Solutions Pty Ltd (Grist Family A/C)	16,666,667	0.9683
Citicorp Nominees Pty Ltd	16,464,033	0.9565
Japem Pty Ltd (McGrath Investment A/C)	15,511,060	0.9011
Whiley Close Investments Pty Ltd (Sims Super Family A/C)	15,000,000	0.8714
Rotherwood Enterprises Pty Ltd	13,056,262	0.7585
Mr Craig Graeme Chapman (Nampac Discretionary A/C)	12,084,542	0.7021
Mr Jason Andrew Chan	12,000,000	0.6971
	<u>877,837,190</u>	<u>50.9982</u>

## SHAREHOLDER INFORMATION

30 JUNE 2022

### Twenty largest quoted option holders

The names of the twenty largest quoted option holders are listed below:

	Quoted options over ordinary shares	Quoted options over ordinary shares % of total quoted options issued
	Number held	
National Nominees Pty Ltd	85,000,000	13.2400
HSBC Custody Nominees (Australia) Limited	47,546,013	7.4100
Mr Bilal Ahmad	33,000,000	5.1400
Mr Brendan Erin Joseph Power	25,000,000	3.8900
Jorac Pty Ltd	23,475,249	3.6600
Mr Malcolm John McClure	17,522,162	2.7300
Thang Pty Ltd	17,500,000	2.7300
Mr Aaron Yuk Leung Chan	16,925,152	2.6400
Mr Ian Daniel Victor Dias	14,820,000	2.3100
Smart Capital Investments Pty Ltd (Smart Capital Invest A/C)	13,702,420	2.1300
Aligned Capital Partnership Pty Ltd (Aligned C Partnership A/C)	11,934,134	1.8600
Mr Andrew Walsh	10,356,622	1.6100
Mr Vimal Ramesh Adnani	8,124,975	1.2700
Mr Mobeen Iqbal	7,800,000	1.2200
Mr Salim Punjwani & Miss Shaille Oza	7,300,079	1.1400
Light Family Holdings Pty Ltd (Light Family Super Fund A/C)	7,100,000	1.1100
Mr Agha Shahzad Pervez & Mrs Sadaf Zahra (Agha Family Superfund A/C)	7,000,000	1.0900
A&E Dias Superannuation Fund Pty Ltd (A&E Dias Superfund A/C)	6,890,000	1.0700
Thang Pty Ltd (BCY Hui Super Fund A/C)	6,800,000	1.0600
Ms Limei Chen	6,500,000	1.0100
	<u>374,296,806</u>	<u>58.3200</u>

### Quoted options

The Company had 641,936,886 quoted options over ordinary shares (exercise date 18 May 2023).

### Unquoted equity securities

	Number on issue	Number of holders
Options over ordinary shares issued - 100% held by Canaccord Genuity (Australia) Limited	7,500,000	1
Options over ordinary shares issued - 100% held by Armytage Private Pty Ltd	22,000,000	1
Options over ordinary shares issued - 100% held by TMT Partners Pty Ltd	10,888,857	1
Performance rights - 100% held by Ms Shalini Lagrutta	8,300,000	1
Warrants - held by Pure Asset Management Pty Ltd (The Income and Growth Fund)	200,000,000	1

### Substantial shareholders

Substantial shareholders in the Company are set out below:

	Ordinary shares % of total shares issued
	Number held
DC Alliance Pte Ltd	138,888,889
Mr Andrew Walsh	129,798,807
Pure Asset Management Pty Ltd (The Income and Growth Fund)	129,492,753
	8.0688
	7.5407
	7.5229



## SHAREHOLDER INFORMATION

30 JUNE 2022

### 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.

There are no other classes of equity securities.

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# CORPORATE GOVERNANCE STATEMENT

## CORPORATE GOVERNANCE SUMMARY

### 1.1. ROLES AND RESPONSIBILITIES OF BOARD AND MANAGEMENT

#### ***The Role of the Board and Delegations***

The Board is accountable to shareholders for the activities and performance of DXN by overseeing the creation of sustainable shareholder value within an appropriate risk framework and having regard for stakeholder interests and community expectations.

The Board is responsible for setting DXN's vision and strategy. DXN's vision is to bring critical communication infrastructure closer to our customers. The Board sets strategic priorities each year to work towards fulfilling this vision.

Directors are actively involved in setting, approving and regularly monitoring DXN's strategic priorities and holding management accountable for progress.

This process includes one annual Board strategy offsite, regular Board reporting and meetings, and discussion and review with management. Similarly, the Board ensures that rigorous governance processes operate effectively to guide decision making across the business.

The Board's responsibilities are set out in the Board Charter, which is available at: Corporate Governance Plan

- establishing, promoting and maintaining the strategic direction of DXN;
- approving business plans, budgets and financial policies;
- considering management recommendations on strategic business matters;
- establishing, promoting and maintaining proper processes and controls to maintain the integrity of accounting and financial records and reporting;
- fairly and responsibly rewarding executives, having regard to the performance of the executives, DXN's risk management framework and culture, the interests of shareholders, market conditions and DXN's overall performance;
- adopting and overseeing of implementation of corporate governance practices;
- overseeing the establishment, promotion and maintenance of effective risk management policies and processes;
  - reviewing Board composition and performance;
- appointing, evaluating and remunerating the Chief Executive Officer (CEO) and approving the appointment of the Chief Financial Officer (CFO) and Company Secretary; and
- determining the CEO's delegated authority.

The Board has established committees to assist in carrying out its responsibilities and to consider certain issues and functions in detail.

The Board committees are discussed at section 1.3.

#### ***Management responsibility***

The Board has delegated to the CEO the authority and powers necessary to implement the strategies approved by the Board and to manage the business affairs of DXN within the policies and delegation limits specified by the Board from time to time. The CEO may delegate authority to management but remains accountable for all authorities delegated to management.

## 1.2. DIRECTORS' SKILLS MATRIX

The Board has determined that its current members have an appropriate collective mix of skills, experience and expertise to:

- exercise independent judgement;
- have a proper understanding of, and competence to deal with, current and emerging issues of the business;
- encourage enhanced DXN performance; and
- effectively review and challenge the performance of management.

The Board's competencies are assessed annually and the results of the most recent (August 2022) assessment are shown in the table below.

Areas of expertise/leadership qualities	Average Self-Assessment Rating*
Administration	3
Capital raising expertise	3.67
Early stage companies/start-ups	4.33
Financial oversight/audit expertise	3.33
Government	2
Leadership skills	4.33
Legal	2.67
Marketing, public relations	3
Mergers & acquisitions	4
Human resources/compensation expertise	3.33
Industry knowledge/expertise	3
Operational expertise	3.33
Risk management expertise	3
Strategic planning	4.33
Sales	4.33
Technology	3.33

\* Self-assessment rating from 1 to 5, with 1 being the lowest and 5 being the highest.

Given the relatively small size of the Board at present the Board skills matrix shows some skill gaps. The Board will consider adding Non-Executive Directors with complementary skills to augment, add perspective and to help improve diversity on the Board.

### 1.3. BOARD COMMITTEES

To assist it in undertaking its duties, the Board has established the following standing committees:

- Audit & Risk Committee; and
- Nomination & Remuneration Committee.

Each committee has its own charter, copies of which are available at: Corporate Governance Plan

The charters specify the composition, responsibilities, duties, reporting obligations, meeting arrangements, authority and resources available to the committees and the provisions for review of the charter.

Details of Directors' membership of each committee and those eligible members' attendance at meetings throughout the period from 1 July 2021 to 30 June 2022 are set out below.

During the period, 10 meetings of directors were held. Attendances by each director during the period were as follows:

Directors	Full Board Attended	Full Board Held	Nomination & Remuneration Committee Attended	Nomination & Remuneration Committee Held	Audit & Risk Committee Attended	Audit & Risk Committee Held
John Baillie	10	10	2	2	3	3
Richard Carden <sup>1</sup>	10	10	2	2	3	3
John Dimitropoulos <sup>2</sup>	10	10	2	2	3	3
Matthew Madden (resigned 14 January 2022)	6	6				

<sup>1</sup> Chairman of Audit & Risk Committee

<sup>2</sup> Chairman of the Nomination & Remuneration Committee

## 1.4. RISK MANAGEMENT FRAMEWORK

DXN's Board is responsible, in conjunction with senior management, for the management of risks associated with the business and implementing structures and policies to adequately monitor and manage these risks.

The Board has established the Audit & Risk Committee (ARC) to assist in discharging its risk management responsibilities. In particular, this committee assist the Board in setting the appropriate risk appetite and for ensuring that there is an effective risk management framework that is able to manage, monitor and control the various risks to which the business is exposed.

On a day-to-day basis, the CEO, has the responsibility for monitoring the implementation of the risk framework, including the monitoring, reporting and analysis of the various risks faced by the business, and providing effective challenges to activities and decisions that may materially affect DXN's risk profile.

DXN has a robust risk management framework which supports its operating segments, and its risk appetite distinguishes risks from which DXN will seek to make an economic return from those which it seeks to minimise and which it does not consider will provide a return. The management of these risks is fundamental to DXN's business, customers and to building long-term shareholder value.

In addition to having a separate risk management function, DXN recognises that a requirement for an effective risk management framework is for there to be a strong risk culture throughout the organisation, where risk is everybody's business. The foundation of this risk culture is a set of values, the DXN values. All employees are assessed against the DXN values as part of the annual performance review process, and this outcome contributes to the overall performance rating and remuneration outcomes. In addition to this, DXN regularly assesses its risk culture through external audits to ensure that the management of risk and day-to-day compliance remains entrenched within the way in which DXN operates. The Board is responsible for setting and monitoring the risk appetite for DXN when pursuing its strategic objectives. The Board's approach to, and appetite for risk provides that, subject to earning acceptable economic returns, it can retain exposure to credit risk, liquidity risk and market risk.

- Credit default risk - is the risk of loss in the value of an asset due to a counterparty failing to discharge its contractual obligations when they fall due;
- Liquidity risk - is the potential impact of DXN's short, medium and long-term funding and liquidity management requirements; and
- Market risk - is the risk that changes in the market prices such as foreign exchange rates, interest rates and equity prices will affect DXN's income or value of its holdings of financial instruments.

DXN seeks to minimise or hedge the risks for which it does not consider an appropriate return can be generated.

These risks include:

- Foreign exchange risk - is the risk of a change in asset values as a result of movements in foreign exchange rates;
- Inflation risk - is the risk of a change in asset values and DXN's earnings as a result of movements in inflation both in Australia and jurisdictions in which DXN owns assets;
- Operational risk - is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events; and
- Regulatory and compliance risk - is the risk of legal or regulatory sanctions or loss as a result of DXN's failure to comply with laws, regulations or regulatory policy applying to its business.

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LOCAL**

