NEXION Group

NEXION GROUP LTD

ACN 628 415 887

ASX APPENDIX 4D AND INTERIM FINANCIAL REPORT

FOR THE PERIOD ENDED 31 DECEMBER 2022

Results for announcement to the market

Reporting Periods

- Current period: Six-month period ended 31 December 2022
- Previous corresponding period: Six-month period ended 31 December 2021

Revenue and net profit	Percentage Change		31 December 2022 $	31 December 2021 $
▪ Revenue from ordinary activities	29%	to	3,801,955	2,944,909
▪ Loss from ordinary activities after tax attributable to members	(21%)	to	(1,801,309)	(2,285,399)
▪ Loss after tax attributable to members	(21%)	to	(1,802,688)	(2,285,399)

Dividends
No dividends have been paid or declared since the start of the financial half-year by the Company. The directors do not propose to pay either a final or an interim dividend. The Company does not have a dividend reinvestment plan.

Net Tangible Assets (NTA) per Security Dividends	Percentage Change		31 December 2022 (cents)	31 December 2021 (cents)
NTA backing per ordinary share *	100%	to	(0.648)	1.744

* Right of use assets and lease liabilities are included in the calculation.

Operating results

Commentary of the half year financial results for the six months ended 31 December 2022 is contained on page 4 of the Interim Report included with this announcement. The half-year report should be read in conjunction with the most recent annual report.

Gain or Loss of Control over other Entities

The Company did not gain or lose control over any other entities during the half year ended 31 December 2022.

Details of associates

The Company did not have any associates or participate in any joint ventures during the half year ended 31 December 2022.

Compliance Statement

This report is based on the attached half-year financial report which has been reviewed by our auditors.

NEXION Group

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INTERIM CONSOLIDATED FINANCIAL REPORT

31 December 2022

Contents

Corporate Directory

Current Directors

Peter Alister Charles Christie	*Executive Chairman*
John Bell	*Executive Director*
Christopher Lynn Daly	*Non-executive Director*

Company Secretary

Jack Toby

Registered Office

Street:	Ground Floor 12 Newcastle St Perth WA, 6000
Telephone:	+61 8 9441 4835
Website:	www.nexiogroup.io

Principal Place of Business

Street:	Ground Floor 12 Newcastle St Perth WA, 6000

Share Registry

Computershare Investor Services Pty Limited

Street:	172 St Georges Terrace Perth WA, 6000

Securities Exchange

Australian Securities Exchange

Street:	20 Bridge St Sydney NSW 2000
NSX Code:	NNG

Auditor

Stantons

Street:	Level 2 40 Kings Park Road Perth WA 6005
Telephone:	+61 (0)8 9481 3188

Directors' report

Your directors present their report on the Consolidated entity, consisting of Nexion Group Ltd (**Nexion** or **the Company**) and its controlled entities (collectively **the Group**), for the half-year ended 31 December 2022. The half-year report should be read in conjunction with the most recent annual report.

Nexion is listed on the Australian Securities Exchange (**ASX**).

1. Directors

The names of Directors in office at any time during or since the end of the period are:

- Peter Christie — Executive Chairman
- Chris Daly — Non-executive Director
- Paul Glass — Managing Director and Chief Executive Officer (resigned 2 February 2023)
- Kevin Read — Alternate Director and Chief Operating Officer (resigned 2 February 2023)
- John Bell — Executive Director (appointed 2 February 2023)

Directors have been in office since the start of the period to the date of this report unless otherwise stated.

2. Company Secretary

The following person held the position of Company Secretary at the end of the financial period:

- Jack Toby

3. Dividends paid or recommended

There were no dividends paid or recommended during the period ended 31 December 2022 (31 December 2021: Nil).

4. Significant events and transactions during the year

Just prior to the close of FY22, the company signed binding term sheets to acquire the technology services businesses AIScorp Limited and Silicon Systems Limited based in Wellington, New Zealand that had a combined revenue of $11.7 million and EBITDA of $1.12 million in FY22 . The company is seeking funds to complete these transactions using debt and equity.

On 25 November 2022 the company announced a 1:1 rights issue at $0.05 per share plus a free attaching option exercisable at $0.10 and expiring on 31 December 2025. On 28 December 2022, the company issued 21,581,338 ordinary shares and 21,581,338 options pursuant to the rights issue to raise approximately $1.1 million from existing shareholders which, given the market conditions, was an outstanding result.

The prospectus shortfall offer remains open and with the debt component of the funding plan continuing, the company plans to complete the transactions with a placement in early March 2023.

5. Operating and financial review

5.1. Nature of Operations Principal Activities

NEXION provides core compute, storage, network, and security services that are essential for enterprises to operate. We deliver a Hybrid-cloud solution that blends public cloud services from Amazon's AWS and Microsoft's Azure with our own cloud platform to deliver the best price/performance solution for our customers.

Nexion operates in the multi-trillion-dollar global market of information technology services. We deliver core technology and technical support to enterprise customers that rely on us to keep their software operating, their networks working and their data available 24 hours a day, 7 days a week.

5.2. Operations Review

NEXION's aggregate reported revenue in the Q1 2023 and Q2 2023 Appendix 4C quarterly reports totalled $4.55 million, up 22% on H2FY22 and up 55% on the previous corresponding period. Upon auditor's review of the half-year report, $711,260 of that revenue, although received in Q2 was deferred to Q3. The goods and services for the sales that comprised the deferred amount had not been delivered and therefore did not meet the revenue recognition criteria. Adjusted revenue for the half-year period was therefore flat compared to the previous half at $3.8 million but up 29% from the previous corresponding period.

Directors' report

Since listing on the ASX, NEXION has been pursuing top-line revenue growth in order to achieve the scale required to deliver positive cash flow over and above the costs of being an ASX listed company. With 18 February marking our second anniversary as a listed company, we are turning our focus from rapid revenue growth to improved and sustainable profit margins in the second half.

NEXION has signed term sheets for the acquisitions of Silicon Systems Limited and AIScorp Limited in Wellington, New Zealand with plans for further acquisition growth into Canada and beyond.

The combined impact of rapid organic growth and greater international reach from acquisitions delivers a scalable, profitable Hybrid-cloud business.

5.3. **Financial Review**

a. **Operating results**

For the period ended 31 December 2022 the consolidated entity delivered a loss before income tax of $2,405,787 (31 December 2021: $2,285,399).

b. **Financial position**

The net assets of the consolidated entity have decreased from 30 June 2022 by $852,590 to $(156,764) at 31 December 2022 (30 June 2022: $695,826).

The consolidated entity's cash and cash equivalents increased from 30 June 2022 by $368,029 to $1,609,701 at 31 December 2022 (30 June 2022: $1,241,672) and had a working capital deficit of $1,166,861 (30 June 2022: $58,168 working capital).

6. Events Subsequent to Reporting Date

On 18 February 2023, 49,855,510 ordinary shares (including 32,176,948 shares held by directors), 5,096,908 Class B Performance Rights and 6,038,702 options exercisable at $0.40 and expiring on 31 January 2024 were released from escrow.

Paul Glass' contract as CEO and Kevin Read's contract as COO concluded in February and as a result they retired as a director and alternate director respectively. A new CEO is being sought with some excellent candidates under consideration.

On 19 February 2023, 3,567,836 Class B Performance Rights ceased pursuant to the terms and conditions, as Paul Glass and Kevin Read ceased to be officers or employees of the Company.

Nexion's CFO, John Bell, was appointed as an executive director on 2 February 2023.

Except for the above, there are no other significant after balance date events that are not covered in this Directors' Report or within the financial statements at Note 17 Events subsequent to reporting date.

7. Environmental Regulations

The consolidated entity's operations are not subject to significant environmental regulations in the jurisdictions it operates in, namely Australia.

8. Auditor's independence declaration

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 (Cth) for the half-year ended 31 December 2022 has been received and can be found on page 5 of the interim financial report.

PETER CHRISTIE
Director
Dated this Tuesday, 28 February 2023

Stantons

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Australia

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28 February 2023

Board of Directors
Nexion Group Ltd
Ground Floor
12 Newcastle Street
Perth WA 6000

Dear Sirs

RE: NEXION GROUP LIMITED

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Nexion Group Limited.

As Audit Director for the review of the financial statements of Nexion Group Limited for the half-year ended 31 December 2022, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours faithfully

STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD
(An Authorised Audit Company)

Martin Michalik
Director

Consolidated Statement of profit or loss and other comprehensive income

for the half year ended 31 December 2022

	Note	31 Dec 2022 $	31 Dec 2021 $
Revenue from contracts with customers	5	3,801,955	2,944,909
Cost of goods sold	6	(2,039,331)	(1,693,535)
Gross Profit		1,762,624	1,251,374
Other income	7	4,444	11,246
Expenses			
Consulting and accounting expenses		(1,005,170)	(621,693)
Employee benefits expenses		(2,009,825)	(1,600,681)
Occupancy expenses		(68,533)	(104,275)
Share based payments	9	99,132	(266,306)
Finance costs		(89,107)	(80,917)
Foreign currency (loss)/profit		(229)	-
Depreciation and amortisation		(517,994)	(252,529)
Other expenses		(581,129)	(621,618)
Loss before income tax		(2,405,787)	(2,285,399)
Income tax benefit		604,478	-
Net loss after tax for the period		(1,801,309)	(2,285,399)
Other comprehensive income for the period, net of tax		-	-
Foreign exchange differences	*	(1,379)	-
Total comprehensive income attributable to owners of Nexion Group Ltd		(1,802,688)	(2,285,399)
Earnings per share:			
Basic loss per share (cents)	8	(0.014)	(0.020)
Diluted loss per share (cents)	8	(0.014)	(0.020)

The consolidated statement of profit or loss and other comprehensive income is to be read in conjunction with the accompanying notes.

* Refers to translation of Nexion Pacific whose functional currency is NZD.

Consolidated Statement of financial position

as at 31 December 2022

	Note	31 Dec 2022 $	30 Jun 2022 $
Current assets			
Cash and cash equivalents		1,609,701	1,241,672
Trade and other receivables		1,216,707	1,474,695
Prepayments		108,934	8,470
Inventories		24,244	24,243
Total current assets		2,959,586	2,749,080
Non-current assets			
Property Plant, Plant and equipment	10	829,825	906,178
ROU Assets	11	1,373,421	1,504,840
Intangible assets	12	830,576	1,120,726
Other non-current assets		77,176	70,163
Total non-current assets		3,110,998	3,601,907
Total assets		6,070,584	6,350,987
Current liabilities			
Trade and other payables	13	3,496,535	2,060,928
Lease Liabilities	11	203,219	214,788
Provision for employee benefits		178,927	144,955
Loans Payable	14	247,766	270,241
Total current liabilities		4,126,447	2,690,912
Non-current liabilities			
Provision for make good		23,216	22,814
Lease liabilities	11	1,293,676	1,397,678
Loans payable	14	229,454	340,203
Other payables	13	554,555	599,076
Deferred tax liability		-	604,478
Total non-current liabilities		2,100,901	2,964,249
Total liabilities		6,227,348	5,655,161
Net (liabilities)/assets		(156,764)	695,826
Equity			
Contributed equity	15	14,275,088	13,225,858
Share based payment reserve		1,271,903	1,371,035
Forex reserves		(1,379)	-
Accumulated losses		(15,702,376)	(13,901,067)
Total equity		(156,764)	695,826

The consolidated statement of financial position is to be read in conjunction with the accompanying notes

Consolidated statement of changes in equity
for the half-year ended 31 December 2022

	Contributed Equity $	Share Based Payment Reserve $	Foreign Exchange Reserve	Accumulated Losses $	Total $
Balance at 1 July 2021	10,680,601	802,088	-	(6,727,424)	4,755,265
Loss after income tax expense / benefit	-	-	-	(2,285,399)	(2,285,399)
Total comprehensive loss for the half-year attributable to the owners of the parent	-	-	-	(2,285,399)	(2,285,399)
Share based payment	-	266,306	-	-	266,306
Issue of shares (net of costs)	2,622,182	-	-	-	2,622,182
Balance at 31 December 2021	13,302,783	1,068,394	-	(9,012,823)	5,358,354
Balance at 1 July 2022	13,225,858	1,371,035	-	(13,901,067)	695,826
Loss after income tax expense / benefit	-	-	-	(1,801,309)	(1,801,309)
Other comprehensive income / (loss) net of tax	-	-	(1,379)	-	(1,379)
Total comprehensive loss for the half-year attributable to the owners of the parent	-	-	(1,379)	(1,801,309)	(1,802,688)
Share based payment	-	(99,132)	-	-	(99,132)
Issue of shares (net of costs)	1,049,230	-	-	-	1,049,230
Balance at 31 December 2022	14,275,088	1,271,903	(1,379)	(15,702,376)	(156,764)

The consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

Consolidated Statement of cash flows

for the half year ended 31 December 2022

	31 Dec 2022 $	31 Dec 2021 $
Cash flows from operating activities		
Receipts from customers	3,938,587	3,197,949
Payments to suppliers and employees	(4,381,000)	(4,419,776)
Interest income received	4,444	-
Finance costs	(63,393)	(104,600)
Net cash used in operating activities	(501,362)	(1,326,427)
Cash flows from investing activities		
Payment for acquisition of subsidiary (net of cash acquired)	-	(1,963,687)
Proceeds from sale of property, plant, and equipment	-	92,000
Payment for property, plant, and equipment	(20,075)	(40,498)
Proceeds from loan to third parties	-	137,500
Deposits refunded	114,342	-
Net cash provided/(used in) investing activities	94,267	(1,774,685)
Cash flows from financing activities		
Issue of shares (net of issue costs)	1,049,230	2,622,182
Payments for loans to third parties (equipment loan)	(133,224)	(195,761)
Payment of lease liabilities	(140,882)	(283,801)
Net cash provided by financing activities	775,124	2,142,620
Net increase/(decrease) in cash and cash equivalents	368,029	(958,492)
Cash and cash equivalents at the beginning of the period	1,241,672	4,892,627
Cash and cash equivalents at the end of the period	1,609,701	3,934,135

The consolidated statement of cash flows is to be read in conjunction with the accompanying notes.

Condensed notes to the consolidated financial statements

for the half-year ended 31 December 2022

Note 1. Basis of preparation

These are the consolidated financial statements and notes of Nexion Group Ltd (**Nexion** or **the Company**) and its controlled entities (collectively **the Group**). Nexion is a company limited by shares, domiciled and incorporated in Australia.

The registered office and the principal office of the Company is Ground Floor 12 Newcastle St. Perth WA, 6000. The financial statements were authorised for issue on 28 February 2023 by the directors of the Company.

a. Basis of preparation

This consolidated interim financial report is intended to provide users with an update on the latest annual financial statements of Nexion Group Ltd and its controlled entities. As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in combination with the annual financial statements of the Nexion for the year ended 30 June 2022, together with any public announcements made during the half-year.

All amounts are presented in Australian Dollars, unless otherwise noted. For the purposes of preparing the report, the half year has been treated as a discrete reporting period.

i. Statement of compliance

The half-year financial report is a general-purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 ‘Interim Financial Reporting’. The half-year financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the most recent annual financial report.

The financial statements have been prepared on an accruals basis and are based on historical costs modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

ii. Accounting Policies

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements.

b. Going Concern assessment

The financial report has been prepared on a going concern basis, which assumes the Group will be able to realise its assets and discharge its liabilities in the normal course of business. As at 31 December 2022, the Group had net liabilities of $156,764 and net current liabilities of $1,166,861, and in the half-year then ended incurred a loss of $1,801,309 and net operating cash outflows of $501,361.

During the half year to 31 December 2022, management has mitigated the going concern risk by:

- securing additional funding through the issue of shares, raising approximately $1.1 million after costs.
- ongoing product innovation

The Directors have a reasonable expectation that the Group will continue as a going concern, and therefore have adopted the going concern basis in preparing this financial report.

In the event that the Group is unable to obtain sufficient funding for on-going operational and capital requirements, there is material uncertainty that may cast significant doubt as to whether the Group will continue as a going concern and therefore proceed with realizing its assets and discharging its liabilities in the normal course of business at the amounts stated in the financial report.

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

Note 2. Significant accounting policies

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

a. Use of estimates and judgements

Judgement is required in assessing whether the carrying value of goodwill arising from business combinations is impaired. There have been no other material revisions to the nature and amount of estimates reported in prior periods.

Condensed notes to the consolidated financial statements

for the half-year ended 31 December 2022

Note 2. Significant accounting policies (cont.)

b. Revenue Recognition

AASB 15 establishes principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers and requires application of a five-step process to identify the contract with the customer, identify performance obligations in the contract, determine transaction price, allocate the transaction price to the performance obligations and recognise revenue when performance obligations are satisfied.

Revenue is recognised for the major business activities as follows:

(i) Software, subscriptions and virtual products

For software, subscription and virtual products, the performance obligation is satisfied when access is facilitated.

(ii) Data centre services

Data centre services revenue primarily consist of recurring monthly service fees and upfront project fees. Revenue from the provision of recurring monthly service fees is recognised in the accounting period in which the services are rendered. Project fees primarily comprise installation services relating to a customer's initial deployment. As this is not considered to be a distinct service, revenue is deferred and recognised over the term of the contract with the customer, taking into account renewal options that are held by the customer.

The Group applies the practical expedient in the revenue standard and does not disclose information about the transaction price allocated to remaining performance obligations on contracts that are unsatisfied, as the Group has the right to consideration from its customers in an amount that corresponds directly with the value to the customer of the Group's services to date. This is applied to all its data centre services revenue, on the basis that the upfront project fees are not a significant portion of each contract.

The Group enters into contracts with customers that guarantee certain performance measures such as uptime and on time delivery of services. If these guarantees of service performance are not achieved, the Group reduces revenue for any credits or cash payments that may be due to customers under contract. Key areas of estimation include the amount of the service credits, the likelihood that the service credits will be claimed, and the time period over which they impact revenue.

(iii) Voice and satellite services

Revenue from hardware sales provided as part of the voice and satellite services is recognised when the hardware is delivered to the customer. For voice and satellite services, the performance obligation is satisfied when the services have been provided at a point in time, usually on a monthly basis.

All revenue is stated net of the amount of goods and services tax (GST).

(iv) Interest income

Interest income is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

(v) Research and development rebates, and other government incentives

Research and development rebates and other government incentives are recognised on a accruals basis.

a. Leases

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a term of 12 months or less

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the group's incremental borrowing rate on commencement of the lease is used.

Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the group if it is reasonably certain to assess that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Note 2. Significant accounting policies (cont.)

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the group is contractually required to dismantle, remove or restore the leased asset (typically leasehold dilapidations)

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

When the Group renegotiates the contractual terms of a lease with the lessor, the accounting depends on the nature of the modification:

- if the renegotiation results in one or more additional assets being leased for an amount commensurate with the standalone price for the additional rights-of-use obtained, the modification is accounted for as a separate lease in accordance with the above policy
- in all other cases where the renegotiated increases the scope of the lease (whether that is an extension to the lease term, or one or more additional assets being leased), the lease liability is remeasured using the discount rate applicable on the modification date, with the right-of-use asset being adjusted by the same amount.

For contracts that both convey a right to the group to use an identified asset and require services to be provided to the group by the lessor, the group has elected to account for the entire contract as a lease, i.e. it does allocate any amount of the contractual payments to, and account separately for, any service provided by the supplier as part of the contract.

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

Where the business combination is achieved in stages, the consolidated entity 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.

Condensed notes to the consolidated financial statements

for the half-year ended 31 December 2022

Note 2. Significant accounting policies (cont.)

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.

New or amended Accounting Standards and Interpretations adopted

The Consolidated Entity 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.

Note 3. Significant events and transactions

On 25 November 2022 the company announced a 1:1 rights issue at $0.05 per share plus a free attaching option exercisable at $0.10 and expiring on 31 December 2025. On 28 December 2022, the company issued 21,581,338 ordinary shares and 21,581,338 options pursuant to the rights issue to raise approximately $1.1 million from existing shareholders which, given the market conditions, was an outstanding result.

The prospectus shortfall offer remains open and with the debt component of the funding plan closing, the company plans to complete the transactions with a placement in early March 2023.

Note 4. Operating segments

Identification of reportable operating segments

For management purposes, the Group is organised into one main operating segment, being the provision of Hybrid Cloud infrastructure and telecommunication services used by corporations to host and operate their core business systems. The chief operating decision makers of the Group are the Executive Directors and Officers.

All the Group’s activities are interconnected and all significant operating decisions are based on analysis of the Group as one segment. The financial results of the segment are the equivalent of the financial statements as a whole. At 31 December 2022, all revenues and material assets are considered to be derived and held in one geographical area being Australia.

Condensed notes to the consolidated financial statements

for the half-year ended 31 December 2022

Note 5. Revenue from contracts with customers

(a) Disaggregation of revenue from contracts with customers

The Group has disaggregated revenue into various categories in the following table which is intended to depict how the nature, amount, timing and uncertainty of revenue and cashflows are affected by economic data. All of the revenue for the Group is derived at a point in time.

	31 December 2022 $	31 December 2021 $
Product Categories		
Networking	1,608,557	523,046
Security	-	29,418
Data and managed solutions	-	503,099
Data Centre	-	235,869
Consulting	608,999	415,213
Voice	-	743,997
Cloud	681,500	494,267
Product	46,476	-
Services	833,230	-
General	23,193	-
	3,801,955	2,944,909

Note 6. Cost of goods sold

	31 December 2022 $	31 December 2021 $
Product Categories		
Networking	929,099	438,995
Security	-	43,020
Data and managed solutions	-	241,478
Data Centre	-	115,638
Consulting	19,208	16,160
Voice	-	516,211
Cloud	434,510	322,033
Product	42,572	-
Services	584,531	-
General	29,411	-
	2,039,331	1,693,535

Condensed notes to the consolidated financial statements

for the half-year ended 31 December 2022

Note 7. Other income

	31 December 2022 $	31 December 2021 $
Interest received	4,444	1
Gain on sale of non-current assets	-	5,461
Other	-	5,784
	4,444	11,246

Note 8. Earnings per share (EPS)

	31 Dec 2022 $	31 Dec 2021 $
a. Reconciliation of earnings to profit or loss		
Loss for the period	(1,801,309)	(2,285,399)
Loss used in the calculation of basic and diluted EPS	(1,801,309)	(2,285,399)

	31 Dec 2022 No.	31 Dec 2021 No.
b. Weighted average number of ordinary shares used as the denominator in calculating basic loss per share	129,137,933	114,642,158

	31 Dec 2022 $	31 Dec 2021 $
c. Earnings (Loss) per share		
Basic EPS (cents)	(0.014)	(0.020)
Diluted EPS (cents)	(0.014)	(0.020)

Note 9. Classes A and B Performance Rights

On 20 November 2020, the Company issued 4,383,664 Class A Performance Rights and 5,096,908 Class B Performance Rights (together “Performance Rights”). All Class A Performance Rights expire on 29 January 2025 and all Class B Performance Rights expire on 30 January 2025. On vesting, each Performance Right converts into one ordinary share in the Company.

Class A Performance Rights vest on the Company achieving a Total Pro-forma Revenue of $15,000,000 for a financial year ending on or before 30 June 2022 (“Class A Deadline”). Class B Performance Rights will vest on the Company achieving a Total Pro-forma Revenue of $30,000,000 for a financial year ending on or before 30 June 2023 (“Class B Deadline”). Where the Total Pro-forma Revenue achieved by the Class A and B Deadlines as a percentage of the respective Total Pro-forma Revenue targets is less than 50% then no Performance Rights will vest; or 50% or more then the relevant Performance Rights will vest pro-rata equal to the percentage of Total Pro-forma Revenue achieved by the respective Class A and B Deadlines.

Total Pro-forma Revenue for a financial year means the total consolidated revenue for that financial year of the Group plus the pre-acquisition revenue for that financial year of any subsidiaries acquired during that financial year. Any Performance Rights not vested before their expiry date, will lapse.

The Class A Performance Rights vested on 30 June 2022 upon achieving 51.23% of the Pro-forma revenue in 30 June 2022. The Class B Performance Rights have remained on issue since their date of issue.

On 6 December 2022 2,455,555 of the 4,383,664 Class A Performance Rights vested and 2,245,555 ordinary shares were issued on 6 December 2022 pursuant to the partial vesting of Class A Performance Rights.

No Class B Performance Rights have been vested, converted or cancelled since their date of issue. None of the Class B Performance Rights vesting conditions have been met since their date of issue.

Share based payments expense recognised for the half year ended 31 December 2022 amounted to ($99,132) (31 December 2021: $266,306).

Condensed notes to the consolidated financial statements

for the half-year ended 31 December 2022

Note 10. Property, plant and equipment	31 Dec 2022 $	30 Jun 2022 $
Vehicles – at cost	108,899	108,899
Vehicles - accumulated depreciation	(54,679)	(51,033)
	54,220	57,866
Plant & equipment – at cost	1,511,242	1,491,167
Plant & equipment - accumulated depreciation	(735,637)	(642,855)
	775,605	848,312
Total Property, plant and equipment	829,825	906,178

Note 11. ROU assets and liabilities

i) AASB 16 related amounts recognised in the consolidated statement of financial position.

	31 Dec 2022 $	30 Jun 2022 $
Right-of-use asset		
Land and Building – right-of-use	1,961,914	2,136,291
Less: Accumulated depreciation	(588,493)	(631,451)
Carrying value	1,373,421	1,504,840

	31 Dec 2022 $	30 Jun 2022 $
Lease liabilities		
Current	203,219	214,788
Non-current	1,293,676	1,397,678
Total lease liabilities	1,496,895	1,612,466

A lease agreement was entered into on 29 March 2018 for a building at 37-39 Robinson Avenue, Belmont, Western Australia. The lease has a 3 year term with an option to extend for 10 years. Where the option to extend is reasonably certain, this has been included in the calculations.

A lease agreement was entered into by BlueSky Telecom Pty Ltd on 7 April 2021, prior to its acquisition by the Group, for a building at 12 Newcastle Street, Perth. The lease has a 3 year term commencing 1 September 2021 with no option to extend. The Group has recognised the net present value of the lease liability for the new lease as at acquisition date in accordance with accounting standards.

ii) **AASB 16 related amounts recognised in the consolidated statement of profit or loss and other comprehensive income.**

	31 Dec 2022 $	31 Dec 2021 $
Depreciation charge	131,418	148,743
Interest	25,713	22,532
	157,131	171,275

iii) Option to extend or terminate

The Group uses hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Condensed notes to the consolidated financial statements

for the half-year ended 31 December 2022

Note 12. Intangible assets	Note	31 Dec 2022 $	30 Jun 2022 $
Customer List and contracts – at fair value		2,901,499	2,901,499
Accumulated amortisation		(773,733)	(483,583)
Impairment	(i)	(1,297,190)	(1,297,190)
		830,576	1,120,726
Goodwill		227,243	952,617
Less: Impairment		(227,243)	(952,617)
		-	-

i) A net present value (NPV) valuation of expected cashflows from Blue Sky customers was recalculated at the reporting date, and it was determined that no further impairment was necessary for the current reporting period.

Note 13. Trade and other payables	Note	31 Dec 2022 $	30 Jun 2022 $
Current			
Trade payables		1,330,634	926,264
Deferred Revenue		749,516	13,728
ATO Payment Plan		638,400	211,444
Accrued Expenses		429,757	365,291
Other Payables		348,228	544,201
		3,496,535	2,060,928
Non-Current			
ATO Payment Plan		554,555	599,076
		554,555	599,076
		4,051,090	2,660,004

i) Trade payables are non-interest bearing and usually settled within the lower of terms of trade or 30 days.

Note 14. Loans payable	Note	31 Dec 2022 $	30 Jun 2021 $
Current			
Loans payable to third parties	(i)	217,490	232,046
Hire purchase – vehicles		30,276	38,195
		247,766	270,241
Non-Current			
Loans payable to third parties	(i)	229,454	340,203
		229,454	340,203

i) Loans payable to third parties includes equipment finance for IT property, plant and equipment used in the Data Centre and for some client contracts. The terms of these finance arrangements are as follows:

Condensed notes to the consolidated financial statements
for the half-year ended 31 December 2022

Note 14. Loans payable (cont.)

Loan terms	Loan #1	Loan #2	Loan #3	Loan #4	Loan #5	Loan #6	Loan #7
Amount financed	$246,209	$55,745	$403,177	$80,555	$105,018	$16,772	$20,448
Commencement date	5-Jun-19	27-Jun-19	28-Feb-20	2-Jun-21	30-Nov-21	1-Feb-22	1-Feb-22
Monthly repayments	$5,040	$1,160	$8,001	$1,591	$3,217	$498	$618
Finance term	5 years	5 years	5 years	5 years	3 years	3 years	3 years
Interest rate	8.41%	9.10%	7.09%	7.16%	6.86%	4.38%	5.60%

Note 15. Equity - issued capital

	31 Dec 22 No.	30 Jun 22 No.	31 Dec 22 $	30 Jun 22 $
Fully paid ordinary shares	152,307,854	128,480,961	14,275,088	13,225,858

	No.	$
Movements in ordinary share capital		
Balance as at 1 July 2022	128,480,961	13,225,858
Conversion of performance rights	2,245,555	-
Issue of shares – Rights issue entitlement @ $0.05	20,875,066	1,043,753
Shares issued – Rights shortfall @ $0.05	706,272	35,314
Share issue costs	-	(29,837)
	152,307,854	14,275,088

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At shareholder's meetings, each ordinary share is entitled to one vote when a poll is called.

Note 16. Key management personnel disclosures

The aggregate compensation paid or payable to Directors and Key Management Personnel of the consolidated entity is set out below:

	31 Dec 2022 $	31 Dec 2021 $
Short-term employee benefits	417,000	362,000
Share based payments	(99,132)	266,306
	317,868	628,306

Note 17. Events subsequent to reporting date

On 18 February 2023, 49,855,510 ordinary shares (including 32,176,948 shares held by directors), 5,096,908 Class B Performance Rights and 6,038,702 options exercisable at $0.40 and expiring on 31 January 2024 were released from escrow.

Paul Glass' contract as CEO and Kevin Read's contract as COO concluded in February and as a result they retired as a director and alternate director respectively. A new CEO is being sought with some excellent candidates under consideration.

On 19 February 2023, 3,567,836 Class B Performance Rights ceased pursuant to the terms and conditions, as Paul Glass and Kevin Read ceased to be officers or employees of the Company.

Nexion's CFO, John Bell, was appointed as an executive director on 2 February 2023.

Other than the above, there are no other significant events that have arisen since the end of the reporting period which may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group.

Directors' declaration

The Directors of the Company declare that:

1. The consolidated financial statements and notes, as set out on pages 6 to 18, are in accordance with the *Corporations Act 2001* (Cth) and:

   (a) comply with Accounting Standard AASB 134: Interim Financial Reporting;

   (b) are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board, as stated in Note 1 to the financial statements;

   (c) give a true and fair view of the financial position as at 31 December 2022 and of the performance for the half-year ended on that date of the consolidated entity.

2. the Directors have been given the declarations required by s.295A of the *Corporations Act 2001* (Cth);

3. in the directors' opinion there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:

PETER CHRISTIE
Director
Dated this Tuesday, 28 February 2023

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**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF
NEXION GROUP LIMITED**

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Nexion Group Limited (the "Company") and its subsidiaries (collectively, the "Group"), which comprises the consolidated statement of financial position as at 31 December 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 half-year ended on that date, condensed notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

(a) giving a true and fair view of the Group's financial position as at 31 December 2022 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual 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* has been given to the directors of the Company on 28 February 2023.

Material Uncertainty in Relation to Going Concern

As referred to in Note 1(b) of the financial reports, the consolidated financial statements have been prepared on a going concern basis. As at 31 December 2022, the Group had cash and cash equivalents totalling \$1,609,701, net current liabilities of \$1,166,861, had net asset deficiency of \$156,764 and incurred a loss before income tax for the financial period of \$2,405,787. These factors indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

The ability of the Group to continue as a going concern and meet its on-going operational and capital requirements is subject to the future profitability of the Group and/or the Group being successful in raising funds through the issuance of capital. If the Group is unable to become profitable and/or obtain sufficient funding, the Group may not be able to meet its liabilities as and when they fall due, and the realisable value of the Group's current and non-current assets may be significantly less than book values.

Our opinion is not modified in respect of this matter.

Responsibility of the Directors for the Financial Report

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

Auditor's Responsibility for the Review of the Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Company's financial position as at 31 December 2022 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD
(An Authorised Audit Company)

Stantons International Audit & Consulting Pty Ltd

Martin Michalik
Director

West Perth, Western Australia
28 February 2023