NEXION Group

www.nexiongroup.io

31 July 2023

Quarterly Activities Report

For the quarter ending 30 June 2023

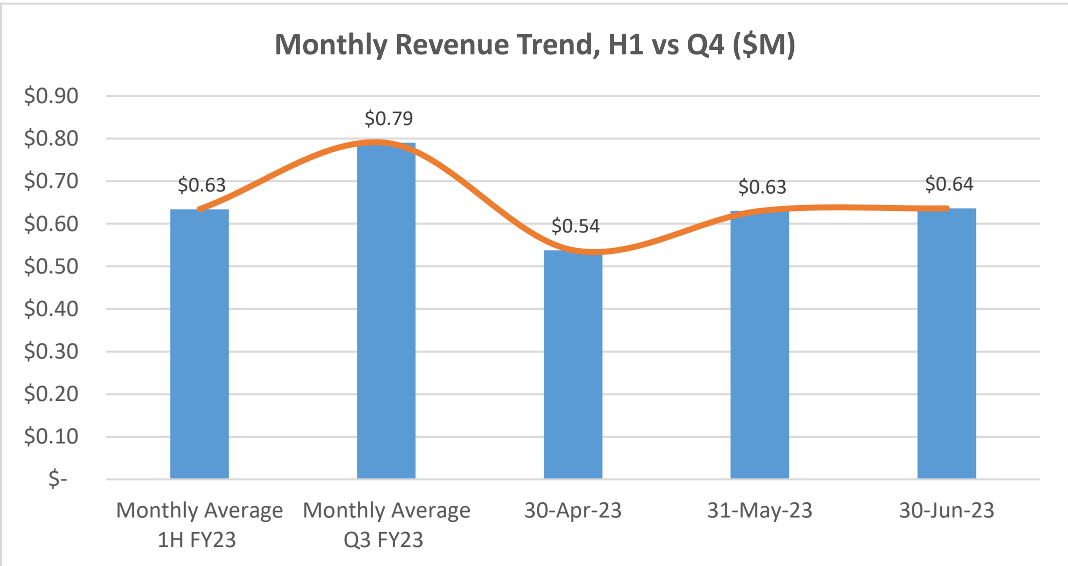
NEXION Group Ltd (**Nexion** or **Company**) (ASX: NNG) is pleased with progress of the restructuring undertaken from February this year. Costs are now aligned to revenue and contracts are delivering sustainable gross margins. The investment in new organic growth strategies and finalisation of the last expenses associated with the restructuring have been accrued and the business will move toward sustainable profitability in FY24.

Highlights

- **Employment costs and other operating expenses were reduced by 40%, representing an annualised saving of $3.5M.**
- **Revenue maintained at H1FY23 average levels of $7.7M annualised exit run-rate and growth trajectory of 24%.**
- **Substantial improvements in average gross margin to 62%, up 88% post restructuring.**
- **New organic growth initiatives implemented to deliver accelerated growth in AI, Enterprise Asset Management and ESG reporting with IBM software solutions.**

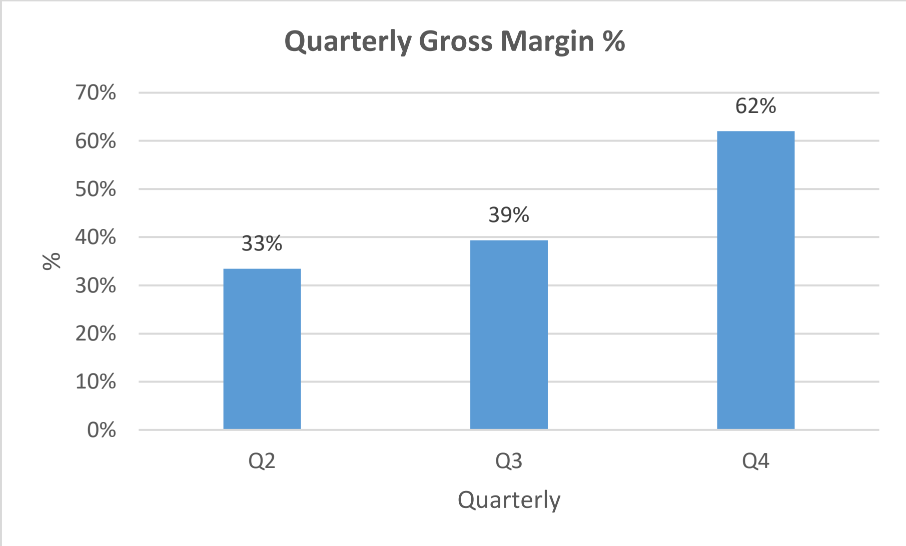
Business Update

Revenue has returned to trend and is tracking to 24% annualised growth. The combination of renewed contracts and profitable new business should see growth continue through Q1FY24.

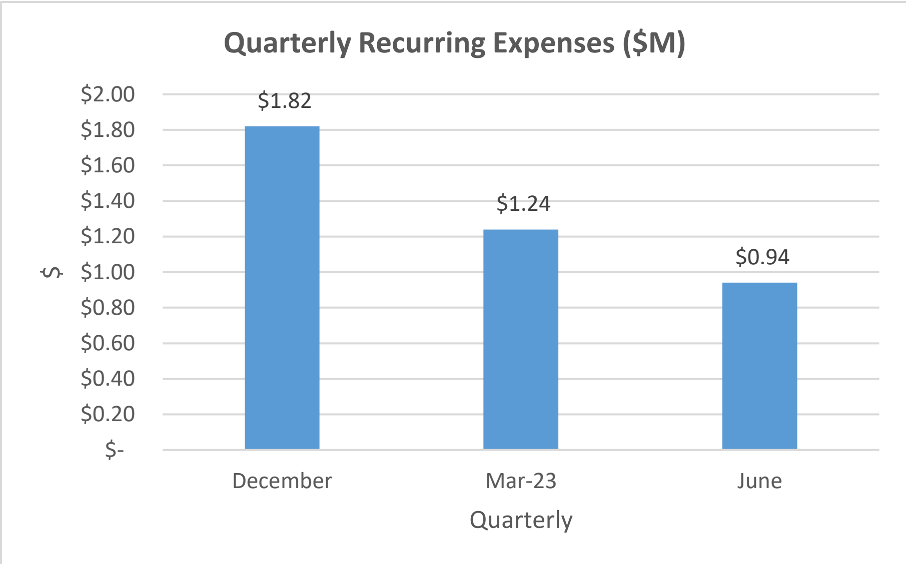


The reduction in revenue in April was due to restructuring of contracts and the shortfall will be regained in the first half of FY24. The adjustments did not lead to any substantial changes to any contracts so is not considered material.

The refocus on profitable revenue in Q4 and the adjustments to low-margin contracts in Q3 has seen gross margins increase significantly to be 88% higher than in the December quarter.



A large reduction in recurring expenses, especially in staff costs that equate to $3.5M per year delivered an improved underlying operating result, net of one-time restructuring charges.



The company reduced its liabilities balance by $725k in the June Quarter that accounts for most of the cash consumption reflected in the Appendix 4C cash Quarterly Cash Flow Report. Cash management remains a focus but strong trading outcomes in July and continued refinement of operating overheads indicate the company can trade out of its residual liabilities.

Accelerated Growth

NEXION has entered its next phase of organic growth, adding IBM's software for enterprise asset management, AI and ESG to its portfolio of products to drive faster growth and higher margins in FY24. Projects to implement and operate enterprise scale software can be significantly larger and deliver higher net margins than NEXION's traditional products and are also complimentary to our core skills in hybrid cloud management.

NEXION has formed an alliance with Fuseforward Cloud Services Ltd in Vancouver (**Fuseforward**) to source the specialist skills required to accelerate adoption of this product combination and will promote IBM Software services in Australia under the Fuseforward Australia brand. Fuseforward has a long history of delivering IBM's enterprise asset management software and also brings its own data transformation and digital twin software platform to the venture.

Mergers and Acquisitions

NEXION has not altered its M&A strategy and will continue to assess its options to structure, fund and complete acquisitions so they are value-accretive to shareholders.

The PARC debt facility remains in-place albeit with fees paused while the company focusses on returning the share price to equitable levels to be able to consider completion of the pending acquisitions.

Payments to Related Parties in Appendix 4C:

The ASX Appendix 4C for the quarter ended 30 June 2023 included payments to related parties in item 6.1. These payments relate to directors' remuneration for that quarter.

About NEXION Group Ltd

NEXION provides a vertically integrated capability to design, build and operate Enterprise Asset Management solutions using the latest Artificial Intelligence, Machine Learning and Digital Twin technologies. NEXION integrates software, compute, storage, network and cyber security to deliver reliable and robust hybrid-cloud systems.

www.nexiongroup.io

This announcement has been authorized by the Board of NEXION Group Ltd.

NEXION Group Ltd
Ground Floor, 12 Newcastle Street, WA, 6000, Australia
ABN:48 628 415 887

Should you wish to contact the company in relation to this announcement please contact:
investor.relations@nexiongroup.io

Appendix 4C
Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Nexion Group Ltd

ABN	**Quarter ended ("current quarter")**
48 628 415 887	30 June 2023

Consolidated statement of cash flows			**Current quarter $A'000**	**Year to date (12 months) $A'000**
1.	**Cash flows from operating activities**			
1.1	Receipts from customers		2,092	9,173
1.2	Payments for			
	(a)	research and development		
	(b)	product manufacturing and operating costs	(1,969) see note below	(6,171)
	(c)	advertising and marketing	(37)	(47)
	(d)	leased assets	-	-
	(e)	staff costs	(378)	(2,518)
	(f)	administration and corporate costs	(854)	(3,230)
1.3	Dividends received (see note 3)		-	-
1.4	Interest received		1	10
1.5	Interest and other costs of finance paid		-	-
1.6	Income taxes paid		-	-
1.7	Government grants and tax incentives		-	486
1.8	Other		-	-
1.9	**Net cash from / (used in) operating activities**		**(1,145)**	**(2,297)**

Note: The company reduced its trade payables and other liabilities balance by $725k in the June 2023 quarter, which is reflected in the cash payments at item 1.2 (b). Cash payments for subsequent quarters will therefore be significantly lower. The company has also reduced its on-going operating expenditure over the last quarter. In addition to this the company expects its revenue to grow during the same period. The positive impact on cashflow from these adjustments is expected to be seen over the course of the remainder of the calendar year.

2.	**Cash flows from investing activities**			
2.1	Payments to acquire or for:			
	(a)	entities	-	-
	(b)	businesses	-	-

Consolidated statement of cash flows		Current quarter $A'000	Year to date (12 months) $A'000
	(c) property, plant and equipment	(34)	(269)
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(g) entities	-	-
	(h) businesses		
	(i) property, plant and equipment	-	51
	(j) investments		
	(k) intellectual property		
	(l) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
2.6	**Net cash from / (used in) investing activities**	**(34)**	**(218)**

3.	**Cash flows from financing activities**		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	750	1,829
3.2	Proceeds from issue of convertible debt securities		
3.3	Proceeds from exercise of options		
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(40)	(40)
3.5	Proceeds from borrowings		
3.6	Repayment of borrowings	(90)	(98)
3.7	Transaction costs related to loans and borrowings	(98)	(98)
3.8	Dividends paid		
3.9	Other (cash balance of acquired entity at date of acquisition)	-	-
3.10	**Net cash from / (used in) financing activities**	**522**	**1,593**

Consolidated statement of cash flows		Current quarter $A'000	Year to date (12 months) $A'000
4.	**Net increase / (decrease) in cash and cash equivalents for the period**		
4.1	Cash and cash equivalents at beginning of period	1,021	1,286
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(1,145)	(2,297)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(34)	(218)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	522	1,593
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	**Cash and cash equivalents at end of period**	**364**	**364**

5.	**Reconciliation of cash and cash equivalents** at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	**Current quarter $A'000** **30 June 2023**	**Previous quarter $A'000** **31 March 2023**
5.1	Bank balances	364	1,021
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
5.5	**Cash and cash equivalents at end of quarter (should equal item 4.6 above)**	**364**	**1,021**

6.	**Payments to related parties of the entity and their associates**	**Current quarter $A'000**
6.1	Aggregate amount of payments to related parties and their associates included in item 1	(133)
6.2	Aggregate amount of payments to related parties and their associates included in item 2	

The amount in item 6.1 relates to directors' fees and other plant and equipment costs paid for the quarter.

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

7.	Financing facilities *Note: the term "facility' includes all forms of financing arrangements available to the entity.* *Add notes as necessary for an understanding of the sources of finance available to the entity.*	Total facility amount at quarter end $A'000	Amount drawn at quarter end $A'000
7.1	Loan facilities	4,000	-
7.2	Credit standby arrangements		
7.3	Other (please specify)		
7.4	**Total financing facilities**		

7.5	**Unused financing facilities available at quarter end**	4,000

7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.

The loan facility is with Parc Capital Fund Services Pty Ltd, at $4,000,000 commitment. Nothing had been drawn from this facility at 30 June 2023

8.	Estimated cash available for future operating activities	$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(1,145)
8.2	Cash and cash equivalents at quarter end (item 4.6)	364
8.3	Unused finance facilities available at quarter end (item 7.5)	-
8.4	Total available funding (item 8.2 + item 8.3)	364
8.5	**Estimated quarters of funding available (item 8.4 divided by item 8.1)**	0.32

Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.

8.6 If item 8.5 is less than 2 quarters, please provide answers to the following questions:

8.6.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?

Answer: The company reduced its trade payables and other liabilities balance by $725k in the June 2023 quarter, which is reflected in the cash payments at item 1.2 (b). Cash payments for subsequent quarters will therefore be significantly lower. The company has also reduced its on-going operating expenditure over the last quarter. In addition to this the company expects its revenue to grow during the same period. The positive impact on cashflow from these adjustments is expected to be seen over the course of the remainder of the calendar year.

8.6.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?

Answer: The Company is in the process of preparing and lodging its R&D claim for FY2023, for which it estimates will be circa $660K. In conjunction with this, the company is pursuing additional financing arrangements.

8.6.3	Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?
Answer:	Yes. Based on the reducing operating expenses, increasing revenue, including R&D refund, as well as the financing options available, the company expects to continue its operations.
Note:	where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.

9. Additional Disclosure

Classes A and B Performance Rights

Nexion Group Ltd ("NNG" or "Company") had 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 will 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 NNG 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 remained on issue from their date of issue until they vested on 6 December 2022. The Class B Performance Rights have remained on issue since their date of issue.

On 6 December 2022, 4,383,664 Class A Performance Rights partially met their vesting conditions and 2,245,555 ordinary shares were issued on 6 December 2022 pursuant to the vesting of all 4,383,664 Class A Performance Rights.

On 19 February 2023, 3,567,836 Class B Performance Rights, lapsed in accordance with their terms and conditions due to the holder ceasing to be an officer (and employee, if applicable) of the Company.

The remaining 1,529,072 Class B Performance Rights, remain on issue. No other 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.

Compliance statement

1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.

2 This statement gives a true and fair view of the matters disclosed.

Date: 31 July 2023

Authorised by: By the board
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [*name of board committee – e.g., Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.