

xReality Group Limited

ACN 154 103 607

APPENDIX 4E PRELIMINARY FINAL REPORT

For the year ended 30 June 2022

Reported	30 June 2022 \$000's	30 June 2021 \$000's	Change \$000's	Change %
Revenue from ordinary activities	6,575	7,265	(690)	(9.5%)
Profit/(Loss) from ordinary activities after tax attributable to members	(6,932)	4,062	(10,994) *	(271%)
Loss attributable to members	(6,932)	4,062	(10,994)	(271%)
Dividends	Nil	Nil		n/a

* This change reflects the write-off of the liability of \$5.86m with the Debt Restructure in FY21, combined with the write-down of the carrying value of the Gold Coast facility of \$3.35m in FY22. Underlying EBITDA and non-cash expenses for FY22 \$1.32m.

This report is based on accounts which are currently being audited.

Dividends

No dividends have been declared or are payable for the year ended 30 June 2022.

Net Tangible Asset Information

	30 June 2022 (cents)	30 June 2021 (cents)	Change %
Net tangible assets per share	2.3	4.5	(48%)

Derived by dividing the net tangible assets less intangible assets attributable to equity holders of the Company by the total ordinary shares at 30 June 2022 (421,245,554) and 30 June 2021 (336,700,099) respectively.

Commentary and results for the year

FY2022 was a year of delivering on strategy for xReality Group. Throughout the year the company executed multiple key strategic initiatives including diversification across market segments culminating in a company name change, the launch of several new products within the Defence and Law Enforcement Industry, growth of FREAK Entertainment, and the appointment of two experienced non-executive directors to the Board. Despite a challenging start to the year with 14 weeks of COVID closures across our Entertainment portfolio, the company successfully achieved all strategic objectives.

The key highlights include:

- Operating Revenue of \$6.58m
- Cash receipts from customers \$8.24m
- Underlying positive EBITDA \$1.32m
- Strong recovery post COVID lockdowns with Q3 and Q4 exceeding FY21 results
- Cash at Bank \$2.05m vs \$1.76m FY21
- \$753k invested in development of military and law enforcement products
- Completed acquisition of Red Cartel, Virtual Reality production studio
- Continued growth of FREAK Entertainment

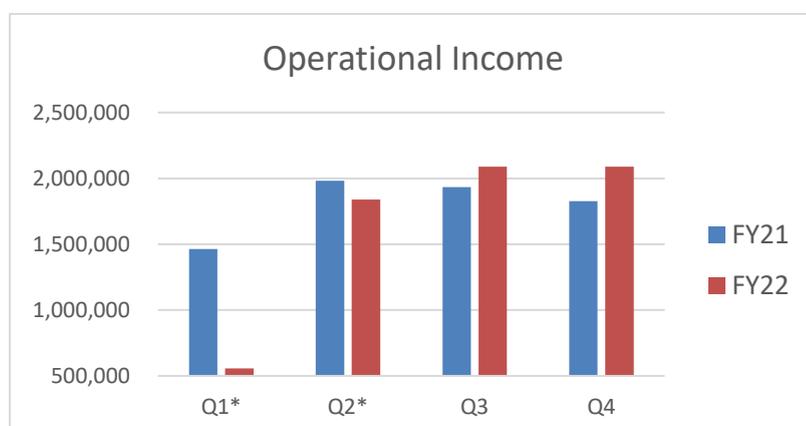
2022 Financial Performance

In FY22 the company achieved a total income of \$6.58m with 80% of this coming through in the final 7 months of the year due to closures and disruption during the first half. The EBITDA for the year was (\$3.30m) which includes a write down of \$3.35m in assets and expense of the Operator product development of \$753K in order to achieve the benefit of Research and Development Grants through its proprietary software and hardware developed throughout the year. These cash grants will be realised in Q1 of FY23. The EBITDA also includes \$566K of non-cash expenses.

The reconciliation of these non-cash and one-off expenses results in an underlying EBITDA of \$1.32m for the financial year.

Strong recovery in Q3 and Q4 exceeding FY21 results

Entertainment operations experienced 14 weeks of Government enforced COVID lockdowns, impacting local and domestic tourism markets. Despite this environment, the Company made a strong recovery in the second half of the year, exceeding FY21 results for comparative periods.



*Q1 & Q2 FY22 impacted by COVID Lockdowns across all NSW locations

Growth Capital

Throughout the year the company continued with its balance sheet improvement initiatives including a successful capital raise completed on the 6th June 2022. Along with a placement of \$1.26m to institutional and sophisticated investors, the company received an additional \$900k from the exercise of 45m options held by Birkdale Holdings. Birkdale Holdings exercised the options more than two years in advance of their 2024 expiry date. The additional injection of growth capital from the two transactions combined totalled \$2.16m.

Name change completed

In-line with the growth strategy and the broadening of the target market, the company changed its name to XReality Group Ltd, which was approved at the FY21 AGM. XR stands for eXtended Reality, and is a catch-all term for Virtual Reality, Augmented Reality, and Mixed Reality. Extended Reality combines physical and digital simulation for both consumer and enterprise market segments.

Changes In Group Corporate Structure

During the year, a new subsidiary company Red Cartel Pty Ltd was registered, while two dormant companies, ISAG Holdings D Pty Ltd and ISAG Café Pty Ltd were deregistered.

Significant investment in development of military and law enforcement products

The company invested \$753K during the year on the advancement of our virtual reality based product line for the Defence and Law Enforcement Industry - culminating in a series of demonstrations and trials to multiple specialised military units, state and federal police agencies across Australia and overseas. The unique, portable virtual reality based products have been well received by the end users and are well advanced for imminent commercialisation.

The company has recently signed an International Distribution agreement with US Company, Endurance Group, a well-established, service-disabled veteran owned and operated business, comprising trained and experienced US and international Tier one military, law enforcement and intelligence organisations. Endurance Group currently provides specialised training and consulting services to all manner of military and law enforcement agencies in North America, Canada and Europe.

The company is currently in discussions with other potential customers and distributors in other parts of the world.

Successful Acquisition of VR Studio

The Red Cartel, Virtual Reality Studio acquisition completed in late August 2021, has proved successful and vital in the development of sovereign software and hardware utilised in both XRG's Enterprise and Consumer products. The ability to create all products in-house has enabled the company to create products efficiently and dynamically, increasing company owned Intellectual Property and lowering Cost of Goods.

Growth of FREAK Entertainment

XRG's Virtual Reality Entertainment brand, FREAK Entertainment, opened its fourth venue at Macquarie Centre in Sydney in November 21. Macquarie Centre, based in North Ryde, is a leading Sydney shopping centre, servicing corporate headquarters, Macquarie University and a large local area population.

The Company is continuing to build a roadmap of additional sites throughout NSW and QLD for rollout in FY23 and beyond.

FREAK successfully launched its first in house developed multiplayer VR game in December, "Androids and Outlaws" and will continue to rollout more games through FY23 opening up the potential for additional revenue streams through turnkey systems, content licensing and franchising.

Subsequent Events

FREAK Entertainment announces opening of fifth venue

On the 12th August 2022, the Company announced that FREAK Entertainment will open its fifth VR gaming venue in December 2022. Located at an exciting new site on Cavill Avenue in the heart of Surfers Paradise, the new site will be a similar size to FREAK Westfield Bondi Junction which allows for increased throughput. The location of the new business will be supported by XRG's other businesses located nearby. Cross marketing activities and other synergies exist between the venues.

Dividend reinvestment plan

xReality Group does not operate a dividends or distribution reinvestment plan.

Control gained or lost over entities having a material effect

There were no transactions during the year ended 30 June 2022 having a material effect.

Accounting standards

The financial information contained in this Appendix 4E has been prepared in accordance with Australian Accounting Standards

Audit of the Financial Report

This report is based on the consolidated financial statements for the year ended 30 June 2022 which is being audited by Felsers, Chartered Accountants.



Wayne Jones
Chief Executive Officer & Director

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2022

	Note	Consolidated Group	
		2022	2021
		\$	\$
Revenues	2(a)	6,574,705	7,265,175
Cost of Sales		(1,502,843)	(1,664,555)
Gross Profit		<u>5,071,862</u>	<u>5,600,620</u>
Other income	2(a)	618,635	6,356,168
Selling and marketing expenses	2(b)	(3,091,831)	(3,243,757)
Administration expenses	2(c)	(907,362)	(683,051)
Depreciation and amortisation	2(d)	(2,121,541)	(1,727,418)
Legal expenses		(43,731)	(15,410)
Other expenses		(1,595,679)	(993,394)
Impairment of asset	1(i)	(3,352,000)	-
Profit/Loss before interest and tax		<u>(5,421,647)</u>	<u>5,341,334</u>
Finance expense		(1,510,567)	(1,228,878)
Profit/Loss before tax from continuing operations		<u>(6,932,214)</u>	<u>4,112,456</u>
Loss before tax from discontinuing operations		-	(50,000)
Total Profit/Loss from operations		<u>(6,932,214)</u>	<u>4,062,456</u>
Income tax benefit		-	-
Profit/Loss after tax		<u>(6,932,214)</u>	<u>4,062,456</u>
Other comprehensive income			
Exchange differences on translation of foreign operations		-	-
Other comprehensive income		-	-
Total comprehensive income		<u>(6,932,214)</u>	<u>4,062,456</u>
Earnings per share			
From continuing operations:			
- Basic earnings per share (cents)		(2.02)	1.22
- Diluted earnings per share (cents)		(1.92)	1.19

The Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the Notes to the Financial Statements.

Consolidated Statement of Financial Position

As at 30 June 2022

	Consolidated Group	
	2022	2021
	\$	\$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	2,053,208	1,761,186
Trade and other receivables	160,530	551,363
Inventories	81,832	18,225
Other financial asset	566,188	566,184
TOTAL CURRENT ASSETS	<u>2,861,758</u>	<u>2,896,958</u>
NON-CURRENT ASSETS		
Property, plant and equipment	19,912,724	24,042,488
Right-of-use asset	12,644,638	9,543,523
Other financial asset	818,665	1,296,409
Intangible	572,110	-
TOTAL NON-CURRENT ASSETS	<u>33,948,137</u>	<u>34,882,420</u>
TOTAL ASSETS	<u>36,809,895</u>	<u>37,779,378</u>
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	1,215,568	1,548,650
Lease Liability	914,802	178,627
Deferred revenue	975,049	1,051,843
Borrowings	300,000	225,000
Provisions	221,656	200,475
TOTAL CURRENT LIABILITIES	<u>3,627,075</u>	<u>3,204,595</u>
NON-CURRENT LIABILITIES		
Trade and other payables	1,094,392	1,312,542
Lease Liability	12,700,461	9,903,327
Borrowings	7,362,249	7,316,709
Provisions	1,584,866	754,234
TOTAL NON-CURRENT LIABILITIES	<u>22,741,968</u>	<u>19,286,812</u>
TOTAL LIABILITIES	<u>26,369,044</u>	<u>22,491,407</u>
NET ASSETS	<u>10,440,852</u>	<u>15,287,971</u>
EQUITY		
Share capital	44,605,529	42,513,283
Reserves	34,287	41,438
Accumulated losses	(34,198,964)	(27,266,750)
TOTAL EQUITY	<u>10,440,852</u>	<u>15,287,971</u>

The Consolidated Statement of Financial Position should be read in conjunction with the Notes to the Financial Statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2022

	Issued Capital	Reserves	Retained Earnings	Total
	\$	\$	\$	\$
Balance at 1 July 2021	42,513,283	41,438	(27,266,750)	15,287,971
Shares issued during the year	2,092,246	-	-	2,092,246
Change in share based payment reserve	-	7,151	-	7,151
Comprehensive income				
Profit for the year	-	-	(6,932,214)	(6,932,214)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	-	-	(6,932,214)	(6,932,214)
Balance at 30 June 2022	44,605,529	34,287	(34,198,964)	10,440,852
Balance at 1 July 2020	42,513,283	9,467	(31,329,206)	11,193,544
Employee share based payment	-	34,327	-	34,327
Foreign currency translation reserve	-	(2,356)	-	(2,356)
Comprehensive income				
Profit for the year	-	-	4,062,456	4,062,456
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	-	-	4,062,456	4,062,456
Balance at 30 June 2021	42,513,283	41,438	(27,266,750)	15,287,971

The Consolidated Statement of Changes in Equity should be read in conjunction with the Notes to the Financial Statements.

Consolidated Statement of Cash Flows

For the year ended 30 June 2022

	Consolidated Group	
	2022	2021
	\$	\$
Cash Flows from Operating Activities		
Receipts from customers	8,241,642	8,033,643
Payments to suppliers and employees	(7,219,160)	(6,074,609)
	1,022,482	1,959,034
Grant income received	618,635	491,493
Transactions costs debt restructure	-	(340,000)
Operator development costs	(752,905)	-
Finance costs	(506,035)	(9,444)
Payments to suppliers from prior periods	(690,660)	(678,086)
Net cash inflows from operating activities	(308,483)	1,422,997
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(699,765)	(682,476)
Sale of property, plant and equipment	-	20,000
Net cash outflows from investing activities	(699,765)	(662,476)
Cash Flows from Financing Activities		
Proceeds from issue of securities	2,160,000	-
Proceeds from borrowings	-	4,000,000
Repayment of borrowings	(150,000)	(2,585,693)
Share issue costs	(67,755)	-
AASB leases repayment	(641,975)	(647,792)
Net cash inflows from financing activities	1,300,270	766,515
Net increase in cash held	292,022	1,527,036
Cash and cash equivalents at beginning of year	1,761,186	234,150
Cash and cash equivalents at end of year	2,053,208	1,761,186

The Consolidated Statement of Cash Flows should be read in conjunction with the Notes to the Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR YEAR ENDING 30 JUNE 2022

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*. xReality Group Ltd is the Group's ultimate parent company. xReality Group Ltd is a public company listed on the Australian Stock Exchange and domiciled in Australia. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the Australian Accounting Standards Board has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

Except for cash flow information, 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.

Basis of Accounting

The Group incurred a loss for the year after tax of \$6,932,214 (2021: profit of \$4,062,456) and has a net current deficiency in assets of \$765,317 (2021: \$307,637). Included within current liabilities are deferred revenue of \$975,049 that will be realised as revenue once the service has been delivered to the customer. Therefore, excluding this balance, the Group has an adjusted positive current asset position of \$209,732 at 30 June 2022 (2021: positive net current assets of \$744,206).

A cash flow forecast for the next 12 months prepared by management has indicated that the consolidated entity will have sufficient cash assets to be able to meet its debts as and when they fall due. The directors are satisfied that the consolidated entity is able to meet its working capital liabilities through the normal cyclical nature of receipts and payments.

As a result, the financial report has been prepared on a going concern basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Critical Accounting Estimates and Judgements

i. Impairment of Asset AASB 136

Following extensive analysis of the NPV of the anticipated EBITDA from the Gold Coast facility over the remaining period of the 40-year lease, it was determined that the carrying value of the asset should be impaired by \$3,352,000 to ensure that it is reported at no more than its recoverable value. Non-Current Assets now total \$33.9m.

ii. Useful lives, Residual Values and Classification of Property, Plant and Equipment

There is a degree of judgement required in estimating the residual values and useful lives of the Property, Plant and Equipment. There is also a degree of judgement required in terms of the classification of such Property, Plant and Equipment. The Group's main assets at present comprise the Vertical Wind Tunnel (**VWT**) Equipment and its related Building Infrastructure. The construction of these assets are typically foreseen in the lease agreements, however the Board has exercised their judgement in determining that the nature of these assets are that of buildings and equipment, rather than leasehold improvements. To this extent, the Board has confirmed the useful life of the Buildings to be 40 years and VWT equipment to be 20 years and the residual values of both these classes of assets to be nil.

iii. Gift Card Revenue

Gift card revenue from the sale of gift cards is recognised when the card is redeemed for the purchase of flight time (Flight Revenue), or when the gift card is no longer expected to be redeemed (Gift Card Revenue). At 30 June 2022, \$520,741 of Gift Card Revenue is recognised (2021: \$313,003). The key assumption in measuring the liability for gift cards and vouchers is the expected redemption rates by customers with a portion recognised upfront, which are reviewed based on historical information. Any reassessment of expected redemption rates in a particular period impacts the revenue recognised from expiry of gift cards and vouchers (either increasing or decreasing). Any foreseeable change in the estimate is unlikely to have a material impact on the financial statements.

iii. Site Restoration

Provisions for site restoration obligations are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

In the current year, the Group has recognised a provision for site restoration for its two tunnels. To this extent, an estimate of the costs to remove the VWT's and its related Building Infrastructure has been determined based on current costs using existing technology at current prices. Management used the services of an expert and determined the cost to restore the sites. These costs were projected forward at a 2.5% inflationary escalation and then discounted back at 7.86% (2021: 11.59%), which is a change in estimate from the prior year, after consideration of the associated risks. The discount rate has been amended to reflect the time value of money and risks specific to the operation of the tunnels. The site restoration asset is depreciated over the remainder of each extended lease period being 40 years in the case of each of iFLY Downunder (Penrith) and iFLY Gold Coast. The unwinding of the effect of discounting on the site restoration provision is included within finance costs in the statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: REVENUE AND EXPENSES

	Consolidated Group	
	2022	2021
	\$	\$
a) Revenue		
VWT revenue - rendering of services	5,350,656	6,159,023
Freak revenue	746,566	710,935
Enterprise revenue	98,425	-
Other sales	379,058	395,216
	6,574,705	7,265,175
Other Income		
Grant Income	557,252	491,493
Write-down of liabilities with debt restructure*	-	5,864,675
Other	61,383	-
	618,635	6,356,168
b) Selling and Marketing Expenses		
Marketing Expenses	479,903	464,070
Employment Expenses	2,611,928	2,779,687
	3,091,831	3,243,757
c) Administration Expenses		
Occupancy Expenses	46,855	126,425
Employment Expenses	797,273	556,626
Directors' fees – current year	63,234	-
Directors' fees – prior year	-	(47,576)
	907,362	683,051
d) Administration Expenses		
Depreciation and Amortisation Expenses	1,437,314	1,280,941
Depreciation – AASB16	684,227	446,477
	2,121,541	1,727,418

*Write-down of Westpac liability and other creditors with debt restructure

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: INTEREST IN SUBSIDIARIES

Set out below are the Group's subsidiaries at 30 June 2022. The subsidiaries listed below have share capital consisting solely of ordinary shares, which are held directly by the Group and the proportion of ownership interests held equals the voting rights held by the Group. Each subsidiary's country of incorporation or registration is also its principal country of business.

Subsidiaries	Country of Incorporation	2022 %	2021 %
Indoor Skydiving Penrith Holdings Pty Ltd	Australia	100	100
Indoor Skydiving Penrith Pty Ltd	Australia	100	100
Indoor Skydiving Gold Coast Pty Ltd	Australia	100	100
ISA FLIGHT Club Pty Ltd	Australia	100	100
Indoor Skydiving Perth Pty Ltd	Australia	100	100
ISAG Holdings D Pty Ltd *	Australia	N/A	100
ISAG Café Pty Ltd *	Australia	N/A	100
ISA Asia Holdings Pty Ltd	Australia	100	100
ISA Asia Operations Pty Ltd	Australia	100	100
Freak Entertainment Pty Ltd	Australia	100	100
Operator TS Pty Ltd	Australia	100	100
Red Cartel Pty Ltd **	Australia	100	N/A

* Deregistered 13th October 2021

** Registered 16th August 2021

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: SEGMENT INFORMATION

General Information

Identification of reportable segments

The Group's operations are primarily involved in two market segments, being the provision of simulated experiences through indoor skydiving facilities and virtual reality centres, and the provision of virtual reality solutions to enterprises. These are known as Entertainment and Enterprise respectively. While there are synergies between the two operating segments, the Company views them as two autonomous operational segments.

As well as these two operational segments, the Company also reports on the Corporate segment, being the overall management and centralised services supporting the operating segments.

Types of Products and Services by Segment

(i) Entertainment

This segment is comprised of the indoor skydiving operations run under the iFLY brand, and the virtual reality operations run under the FREAK brand. All of these operations are conducted within Australia.

(ii) Enterprise

The Enterprise segment is the developing business of virtual reality solutions to enterprises, consisting of the Red Cartel virtual reality production studio and the development and marketing of the Operator products.

(iii) Corporate

The Corporate segment provides personnel and business infrastructure to the operational segments, including management, marketing and capital.

	Entertainment	Enterprise	Corporate	Total
Segment Revenue	6,476,280	98,425	-	6,574,705
Segment EBITDA	(2,757,807)	(742,397)	200,098	(3,300,106)
Depreciation and amortisation	(1,929,044)	(1,021)	(191,476)	(2,121,541)
Interest	(504,884)	-	(1,005,683)	(1,510,567)
Segment NPAT	(5,191,735)	(743,418)	(997,061)	(6,932,214)

The segment EBITDA above has been impacted by the following specific items:

Net impairment of PP&E	(3,352,000)	-	-	(3,352,000)
Expensing of Operator Development Costs	-	(752,905)	-	(752,905)
Lease asset amortisation recognised under AASB 16 Leases	758,875	-	50,000	808,875

The net loss after tax above has also been impacted by the following specific items:

Lease asset depreciation expense recognised under AASB 16 Leases	(640,702)	-	(43,526)	(684,227)
Lease asset interest expense recognised under AASB 16 Leases	(631,799)	-	(11,287)	(643,086)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5: EARNINGS PER SHARE

	2022	2021
	Cents	Cents
Earnings per share (cents per share)		
From continuing operations:		
- basic earnings per share	(2.02)	1.22
- diluted earnings per share	(1.92)	1.19
 a. Reconciliation of earnings to profit or loss:		
 Earnings used to calculate basic EPS - continuing operations	 (6,932,214)	 4,112,456
Earnings used in the calculation of dilutive EPS - continuing operations	 (6,932,214)	 4,112,456
 b.	 No.	 No.
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	 343,714,887	 336,700,099
Average number of dilutive performance rights outstanding	 16,585,005	 9,500,000
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	 360,299,892	 346,200,099