



XREALITY GROUP LIMITED

## **xReality Group Limited (ASX:XRG) (xReality)** **ACN 154 103 607**

### **ASX Release**

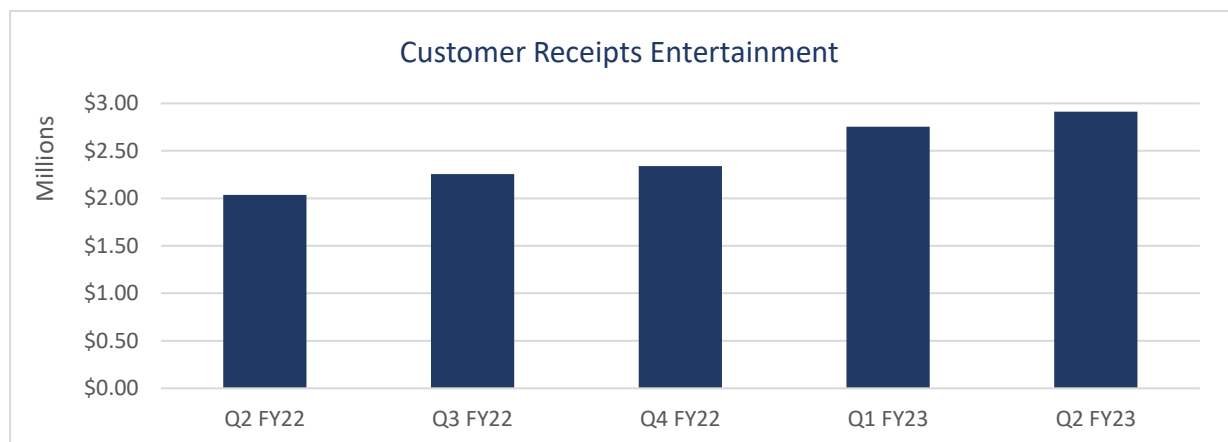
**Sydney, Australia – 31 January 2022**

### **Quarterly Activities Report**

**xReality Group Limited (ASX:XRG) (xReality)** is pleased to provide its Quarterly Activities Report and Appendix 4C for the quarter ending 31 December 2022.

The company continued its growth in sales performance, experiencing a strong quarter with cash receipts from the entertainment businesses totalling \$2,913,456 and a positive cashflow from operations of \$542,303.

The company is also pleased to report an additional \$1.04m received subsequent to this reporting period for the first sale of our Enterprise Software through the Operator Tactical Solutions Business unit. The additional cash receipt is not included in the following report or Appendix 4C.



### **Key highlights**

#### **Entertainment Sector**

- Gross receipts from customers for Quarter \$2.91m
- Trend in growth of cash receipts continues
- New FREAK site at Cavill Avenue in Surfers Paradise opened on the 6<sup>th</sup> December
- Investment in new sites, improvements and upgrades to equipment
- Investment in new games and customisation



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## Enterprise Sector

- First Operator Law Enforcement Sale \$1.7m
- Appointment of US Distributor
- Successful US market launch
- Strengthening of Board with Enterprise Software experience
- Partnership agreement with DroneShield for Counterdrone training
- Growth of Development and Sales teams

## Business Segment Activities

- **Entertainment Sector**

- **iFly Downunder and Gold Coast**

The iFly businesses continue to outperform management expectations and continue to exceed sales and revenue from previous periods.

An extremely successful Christmas holiday period with no disruption from COVID and increasing international travel and tour groups. Successful digital marketing campaigns through direct channels continues to perform well.

New mechanical cooling system components have been purchased and will be fitted into the Penrith facility after the busy school holiday period.

- **FREAK Entertainment**

The new venue at Surfers Paradise opened on the 6<sup>th</sup> December and has experienced high occupancy immediately. The Gold Coast in general has experienced a very busy school holiday period with a large number of interstate and international tourists staying in the Surfers Paradise area.

Development continues on new games and customisation and improvements to existing offerings across all five venues.

- **Enterprise Sector – Operator Tactical Solutions (Operator)**

- **First Law Enforcement Sale**

On the 7th November XRG announced the first sale of its Virtual Reality based Police de-escalation training system, Operator LE, to the Western Australia Police Force.

The total contract value is up to \$1.7M (GST inclusive) over a 5-year period. The first order, valued at \$1.04M includes hardware, software licensing and support over a 3-year term. The additional \$634K covers software licensing and support for an optional further 2 years.



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The contract was won through a competitive Government tendering process of which XRG was selected from a number of established international bidders.

Operator LE allows Police and Law Enforcement Officers to train operational tactics and procedures within a portable, virtual reality environment. Complimenting existing training methods, the virtual reality system allows officers to train more often, leading to increased preparedness across a broad range of scenarios centred on de-escalation tactics, use of force decision making, and operational procedures. The system has been developed from the ground up by XRG, using the latest innovations in Virtual Reality technology, with all IP owned by XRG. For a video demonstration of Operator, see [www.operatorsimulation.com](http://www.operatorsimulation.com)

The Western Australia Police Force includes 7300 Sworn Officers, which is approximately 11% of the total Police Officers in Australia and 0.3% of the global Total Addressable Market in Law Enforcement.

The confirmation of the first commercial sale through a competitive tendering process demonstrates product market fit of the Operator LE system with the hardware, scenarios and pricing model being validated in a competitive commercial environment.

- **US Distribution Agreement Signed**

On the 4<sup>th</sup> October, XRG announced it had signed a distribution agreement with US based company Acrolect Solutions LLC DBA Endurance Group for the distribution of Operator Tactical Solutions Military and Law Enforcement product range. Endurance Group provides specialised training and consulting to Tier One military, law enforcement and intelligence organisations within the US, Canadian and European markets.

- **Successful US market launch**

In late November Operator Tactical Solutions showcased it's Military and Law Enforcement products at the world's largest training and simulation event, I/ITSEC held in Orlando, Florida, USA. The event had approximately 17,500 attendees from 61 countries.

Operator, along with Endurance Group (US Distributor) provided all attendees with an opportunity to experience the technology first hand. The event provided Operator with multiple opportunities and leads including a number of follow up enquiries and demonstrations to Law Enforcement Agencies and Military Units across the United States and other worldwide markets.



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- **Strengthening of the Board with Enterprise Software experience**

The Board of XRG has recently appointed Philip Copeland as a Non-Executive Director of the Company, and Chair of the Company's newly formed International Expansion Committee.

Philip Copeland is an experienced senior leader in the enterprise software-as-a-service (SaaS) sector. Philip has a highly successful track record scaling enterprise SaaS businesses into global markets across highly regulated industries including government and financial services.

Philip's extensive experience includes being former CEO and co-founder of Avoka Software, a digital business enablement platform. Avoka's customers included some of the largest government agencies and financial institutions in the world, delivering upward of 100 million global business-critical transactions per year. Founded in Australia, Avoka rapidly expanded to the global markets with a core focus on the US. Avoka was acquired by Temenos in 2018 for \$US245M.

- **Partnership agreement with DroneShield for Counterdrone training**

On the 25<sup>th</sup> November, XRG announced a partnership with DroneShield (ASX:DRO) to provide XR based counter drone/C-UAS (Counter Unmanned Aircraft Systems) training solutions for front line defenders.

The C-UAS market is currently valued at over \$1BN USD rapidly growing at a CAGR of 27% to reach \$3.8BN USD by 2027.

DroneShield provides Artificial Intelligence based platforms for protection against advanced threats such as drones and autonomous systems. DroneShield offers bespoke counterdrone (or counter-UAS) and electronic warfare solutions and off-the-shelf products designed to suit a variety of terrestrial, maritime or airborne platforms. DroneShield's customers include the US DoD, Australian Defence Force, and other global military, intelligence agencies, government, law enforcement, critical infrastructure, and airports. Further information on DroneShield is available at <https://www.droneshield.com>.

## **Cash Flow Analysis**

Cash receipts for the quarter totalled \$2,913,456. Net cash from operating activities for the period totalled \$542,303. The company invested \$708,798 in non-current assets which included continued investment in Defence and Consumer XR product development, along with capital improvements and capital expenditure into the new FREAK site in Surfers Paradise. Closing Cash position at the end of the quarter totalled \$1,829,711.

Related parties expenses of \$118,701 comprise of salaries and superannuation paid to executive directors and fees paid to non-executive directors.

This announcement is authorised by the Board of Directors.



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### **About xReality Group Limited (ACN: 154 103 607)**

xReality Group Limited are leaders in enterprise software development for mission critical simulations for military and law enforcement. The company develops and operates physical and digital simulations. Portfolio companies include Indoor Skydiving facilities, Virtual Reality (VR) and Augmented Reality (AR) entertainment, training, and production.

Operator provides Military and Law Enforcement agencies with a unique, integrated Mission Planning & Rehearsal System, which is portable, secure and highly immersive. See <https://www.operatorsimulation.com>

The Company is listed on ASX on under the code XRG.

For further information visit: [www.xrgroup.com.au](http://www.xrgroup.com.au)

Wayne Jones, Chief Executive Officer, [wjones@xrgroup.com.au](mailto:wjones@xrgroup.com.au)

Stephen Tofler, Company Secretary, [stofler@xrgroup.com.au](mailto:stofler@xrgroup.com.au)

## Appendix 4C

### Quarterly cash flow report for entities subject to Listing Rule 4.7B

**Name of entity**

xReality Group Ltd

**ABN**

39 154 103 607

**Quarter ended ("current quarter")**

31 December 2022

<b>Consolidated statement of cash flows</b>	<b>Current quarter</b>	<b>Year to date (6 months)</b>
	<b>\$A</b>	<b>\$A</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	2,913,456	5,666,566
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	-643,154	-1,436,139
(c) advertising and marketing	-191,617	-330,348
(d) leased assets	-10,486	-20,972
(e) staff costs	-1,050,643	-2,067,784
(f) administration and corporate costs	-216,865	-382,348
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	455	455
1.5 Interest and other costs of finance paid	-123,676	-295,410
1.6 Income taxes paid	-116,182	-223,856
1.7 Government grants and tax incentives	109,632	122,982
1.8 Other (creditors from other periods)	-128,616	-257,232
<b>1.9 Net cash from / (used in) operating activities</b>	<b>542,303</b>	<b>775,913</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	-	-
(d) investments	-	-
(e) intellectual property	-	-

## Quarterly cash flow report for entities subject to Listing Rule 4.7B

<b>Consolidated statement of cash flows</b>		<b>Current quarter</b>	<b>Year to date (3 months)</b>
		<b>\$A</b>	<b>\$A</b>
	(f) other non-current assets	-708,798	-1,473,598
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) 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)	-	-
<b>2.6</b>	<b>Net cash from / (used in) investing activities</b>	<b>-708,798</b>	<b>-1,473,598</b>

<b>3.</b>	<b>Cash flows from financing activities</b>		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
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	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-50,000	-125,000
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (creditor settlement to facilitate debt restructure)	-	-
<b>3.10</b>	<b>Net cash from / (used in) financing activities</b>	<b>-50,000</b>	<b>-125,000</b>

<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	2,046,206	2,652,396
4.2	Net cash from / (used in) operating activities (item 1.9 above)	542,303	775,913

## Quarterly cash flow report for entities subject to Listing Rule 4.7B

Consolidated statement of cash flows		Current quarter	Year to date (3 months)
		\$A	\$A
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-708,798	-1,473,598
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-50,000	-125,000
4.5	Effect of movement in exchange rates on cash held	-	-
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>1,829,711</b>	<b>1,829,711</b>

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	Previous quarter
		\$A	\$A
5.1	Bank balances	1,829,256	2,046,206
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>1,829,256</b>	<b>2,046,206</b>

**6. Payments to related parties of the entity and their associates**

6.1	Aggregate amount of payments to related parties and their associates included in item 1	54,608
6.2	Aggregate amount of payments to related parties and their associates included in item 2	64,093

**Current quarter  
\$A**

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

6.1 Directors fees to non-executive Directors and salaries to executive Directors.

6.2 Salaries and superannuation to executive Directors.



## Quarterly cash flow report for entities subject to Listing Rule 4.7B

**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.*

	<b>Total facility amount at quarter end \$A</b>	<b>Amount drawn at quarter end \$A</b>
7.1 Loan facilities	3,700,000	3,700,000
7.2 Credit standby arrangements	-	-
7.3 Other (Birkdale Holdings (Qld) Pty Ltd)	3,958,673	3,958,673
<b>7.4 Total financing facilities</b>	<b>7,658,673</b>	<b>7,658,673</b>

**7.5 Unused financing facilities available at quarter end**

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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.

Causeway Financial – secured – 12.75%  
Birkdale Holdings (Qld) Pty Ltd – secured – 7%

**8. Estimated cash available for future operating activities****\$A**

8.1 Net cash from / (used in) operating activities (Item 1.9)	542,303
8.2 Cash and cash equivalents at quarter end (Item 4.6)	1,829,711
8.3 Unused finance facilities available at quarter end (Item 7.5)	-
8.4 Total available funding (Item 8.2 + Item 8.3)	1,829,711
<b>8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)</b>	<b>N/A</b>

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

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:

N/A

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:

N/A

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:

N/A

**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: .....31/01/2023

Authorised by:  .....  
(By the board)

**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 – eg 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.