



# **xReality Group Limited and Controlled Entities**

ABN 39 154 103 607

Interim Financial Report  
For the half year ended 31 December 2022

## Appendix 4D

### Interim Financial Report For the Half-year ended 31 December 2022

#### Results for Announcement to the Market

<b>Name of Entity:</b>	xReality Group Ltd
<b>ABN:</b>	39 154 103 607
<b>Reporting Period:</b>	Half-year ended 31 December 2022
<b>Previous Corresponding Period:</b>	Half-year ended 31 December 2021
<b>Release Date:</b>	28 February 2023

Reported	31 December 2022	31 December 2021	Change \$	Change %
Revenue from ordinary activities	5,577,261	2,953,972	2,623,289	+89%
Loss from ordinary activities after tax attributable to members	(882,669)	(1,228,959)	346,290	+28%
Loss for the half year attributable to members	(882,669)	(1,228,959)	346,290	+28%
Dividends	Nil	Nil	n/a	n/a

Revenue Breakdown	31 December 2022	31 December 2021	Change \$
Entertainment	4,968,839	2,328,048	+2,640,791
Enterprise	3,055	68,672	-65,617
<b>Sub-total</b>	<b>4,971,894</b>	<b>2,396,720</b>	<b>+2,575,174</b>
Government Grants	605,367	557,252	+48,115
<b>Total revenue from ordinary activities</b>	<b>5,577,261</b>	<b>2,953,972</b>	<b>+2,623,289</b>

#### Dividends

No dividends have been declared or are payable for the half-year ended 31 December 2022.

#### Net Tangible Asset Information

Net tangible assets per security on 31 December 22, \$0.019 (31 December 21, \$0.04). The NTA is derived by dividing the net tangible assets less intangible assets attributable to equity holders of the Company by the total ordinary shares at 31 December 2022 (423,489,675) and 31 December 2021 (336,700,099) respectively.

#### Financial Report

The Company's independent auditor Felsers, Chartered Accountants, has completed a review of the Group's 31 December 2022 Interim Financial Report on which this report is based and has provided an unqualified Review Report. A copy of the xReality Group Limited Interim Financial Report and Financial Statements, inclusive of the Review Report is attached.

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## Directors' Report

Your directors submit the interim financial report of the consolidated group consisting of xReality Group Limited (**the Company** or **XRG**) and its controlled entities (**the Group**) during the half-year ended 31 December 2022.

### Directors

The following persons were directors who held office during the half-year and up to the date of this report, unless otherwise stated:

John Diddams	Non-Executive Chairman
Danny Hogan, MG	Non-Executive Director
Mark Smethurst, DSC AM	Non-Executive Director
Philip Copeland*	Non-Executive Director
Kim Hopwood	Executive Director
Wayne Jones	Chief Executive Officer and Executive Director

\* Appointed 23<sup>rd</sup> Jan 2023

### Company Secretary

Stephen Tofler

## Operations and Financial Review

### Operations Summary:

- **XRGs Entertainment segment continues to outperform previous periods**
  - **Cash receipts from current businesses \$5.5m for first half year**
- **5<sup>th</sup> VR Entertainment venue opened on Surfers Paradise beachfront**
- **First law enforcement sale of VR training system of \$1.7M**
- **Successful launch into US Law Enforcement and Military market with distributor appointed**
- **Partnership launched with DroneShield for VR Counterdrone training**
- **Strong growth in defence and law enforcement sales pipeline**
- **Continued investment into R&D and development of IP**

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.

For the half year ended December 31, 2022, XRG's operations saw a significant improvement in performance across the existing entertainment portfolio, outperforming management expectations. The company saw 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.

The iFLY businesses exceeded sales and revenue from pre COVID markets. Operational improvements were conducted including purchasing of new mechanical cooling system components for the Sydney facility, refurbishments of media systems, and ongoing instructor and customer service recruiting and training.

XRG's Virtual Reality (VR) Entertainment brand, FREAK Entertainment, opened its 5<sup>th</sup> venue in Surfers Paradise on the 5<sup>th</sup> December in the newly renovated Paradise Centre, on the renowned Cavill Avenue. The venue is located close to the beach, in a dining and entertainment precinct which includes Timezone, Zone Bowling and El Camino Mexican Cantina among others. With a smart use of floorspace the venue has the highest player capacity of any venue, and includes 2 of FREAK's flagship VR arenas, VR escape rooms, arcades, and FREAK Drive racing simulators. FREAK Surfers Paradise saw high occupancy immediately continuing through to the subsequent period.

The Company continued significant investment in the XR enterprise market development, through its defence and military VR product range, Operator Tactical Solutions. During the period, Operator achieved the first commercial sale of its law enforcement VR training solution, to the Western Australia Police Force. The sale is valued at \$1.7M (of which \$1.04m has since been received in January 23) confirming product market fit.

Operator launched into the US market, executing a distribution agreement with Endurance Group, a training organisation with contracts across US DoD, US Police agencies and European Militaries.

A focused sales and marketing effort occurred with Operator exhibiting at the leading Australian and US defence and law enforcement trade shows, resulting in a substantial sales pipeline growth with live commercial opportunities that are expected to materialise within the current financial year.

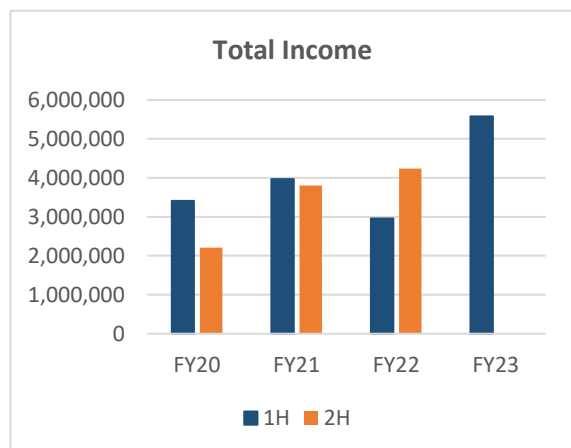
Investment into Operator's product offering continued, including a new product collaboration announced with ASX listed DroneShield to deliver counterdrone training through VR.

#### 1H23 Financial Performance Summary:

- **Total Income \$5.58M up 89% on PCP**
- **Operating Revenue of \$4.97M, up 107% on PCP**
- **Adjusted EBITDA \$1.27M, up 78% on PCP**
- **Closing cash at 31 Dec \$1.86m**
- **Investment of \$1.46M in XR product development and new FREAK facilities**

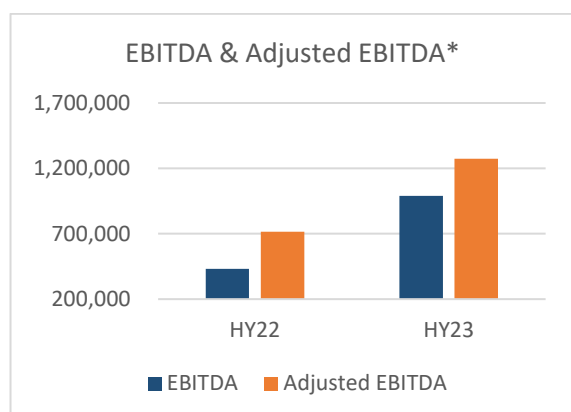
### Total Income Increase

The Group achieved a total income for the period of \$ 5,577,261 representing an 89% increase on the PCP.



### EBITDA and Adjusted EBITDA

Reported EBITDA for the period was \$988,830, up 129% compared to the PCP. Adjusted EBITDA\* was \$1,271,926, an increase of 78% vs PCP.

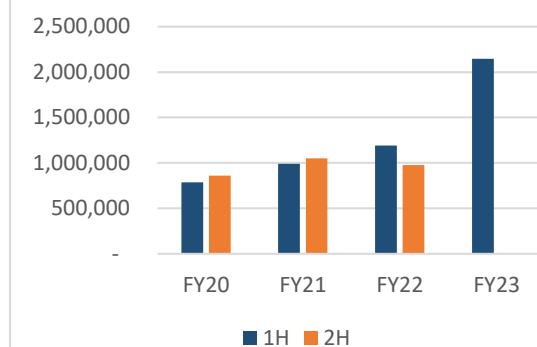


\*The adjustments include adding back non-cash amortisation of pre-paid royalties of \$283k.

### Revenue Pipeline

Between June 30<sup>th</sup> and December 31<sup>st</sup>, 2022, deferred revenue increased from \$975,048 to \$2,145,784. This was attributable mainly to the first Operator software contract payment of \$1.04M which was invoiced in November 22. Payment has since been received in 2H23 as announced 30<sup>th</sup> January 2023. The revenue from this contract has not been recognised in this period but will be reflected in the full year accounts.

### Deferred Revenue



### Investment of \$1.46M in XR product development and facilities

Over the period, the company invested \$1.46M in capex across the development of the Operator defence and law enforcement products (\$1.05m) and the construction and infrastructure of FREAK Entertainment's fifth venue at Surfers Paradise (\$414k).

### Outlook for 2H2023

The company expects strong financial performance from existing operations in its entertainment sector over the 2<sup>nd</sup> half of the year, with the indoor skydiving centres and the virtual reality businesses continuing to perform strongly.

**FREAK Entertainment** will benefit from its 5<sup>th</sup> venue now operational and the development of new games with the support of XRG's in-house studio, Red Cartel, which will build further IP into the business, lowering COGS and providing unique experiences for customers.

**Operator Tactical Solutions** sales pipeline is aggressively growing with a number of live commercial opportunities that are expected to land this financial year.

Operator is in the process of setting up its US based offices with an initial direct sales focus on the law enforcement market. The market includes 800,000 police officers across 18,000 police agencies. The company anticipates having the US subsidiary established prior to year-end. XRG's US distributor continues to focus on the US defence market with several demonstrations completed to various units during the period.

This directors' report is signed in accordance with a resolution of the Board of Directors.

On behalf of the Board of Directors



**Wayne Jones**

Director & Chief Executive Officer

Dated: 28 February 2023

## Auditor's Independence Declaration To the Directors of xReality Group Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of xReality Group Limited for the half-year ended 31 December 2022, I declare that, to the best of my knowledge and belief, there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.



FELSERS  
Chartered Accountants



Glenda Nixon  
Partner

28 February 2023

Sydney, Australia



## Consolidated Statement of Profit or Loss and other Comprehensive Income

### For the Half Year Ended 31 December 2022

<b>Consolidated Group</b>			
		Half Year ending 31 Dec 22	Half Year ending 31 Dec 21
	Note	\$	\$
Revenues	2(a)	4,971,894	2,396,720
Cost of Sales		(925,255)	(636,512)
Gross Profit		4,046,639	1,760,208
Other income	2(a)	605,367	557,252
Selling and marketing expenses	2(b)	(2,027,266)	(1,151,823)
Administration expenses	2(b)	(964,614)	(459,362)
Depreciation and amortisation	2(c)	(1,079,976)	(988,544)
Other expenses		(671,295)	(399,845)
<b>Loss Before Interest and Tax</b>		(91,145)	(682,116)
Finance expense	2(d)	(791,524)	(671,743)
<b>Net financing costs</b>		<b>(791,524)</b>	<b>(671,743)</b>
Reversal of prior year loss on a joint venture entity		-	124,900
<b>Total loss from operations</b>		<b>(882,669)</b>	<b>(1,228,959)</b>
Income tax benefit		-	-
<b>Loss After Tax</b>		<b>(882,669)</b>	<b>(1,228,959)</b>
<b>Earnings per share</b>			
- Basic earnings per share (cents)	11	(0.21)	(0.37)
- Diluted earnings per share (cents)	11	(0.20)	(0.35)

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

## Consolidated Statement of Financial Position

As at 31 December 2022

<b>Consolidated Group</b>			
	<b>Notes</b>	<b>As at 31 Dec 2022</b>	<b>As at 30 Jun 2022</b>
		<b>\$</b>	<b>\$</b>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		1,254,805	2,053,208
Trade and other receivables		1,290,431	160,530
Inventories		210,769	81,832
Other financial asset		377,458	566,188
<b>TOTAL CURRENT ASSETS</b>		<b>3,133,463</b>	<b>2,861,758</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	12	19,642,996	19,912,724
Right-of-use asset	8	12,496,491	12,644,638
Other financial asset		709,406	818,665
Intangible assets	9	1,620,295	572,110
<b>TOTAL NON-CURRENT ASSETS</b>		<b>34,469,188</b>	<b>33,948,137</b>
<b>TOTAL ASSETS</b>		<b>37,602,651</b>	<b>36,809,895</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	3	1,938,241	1,215,568
Lease liability	8	1,005,599	914,803
Deferred revenue	4	2,145,784	975,048
Borrowings	5	300,000	300,000
Provisions		262,727	221,656
<b>TOTAL CURRENT LIABILITIES</b>		<b>5,652,351</b>	<b>3,627,075</b>
<b>NON-CURRENT LIABILITIES</b>			
Trade and other payables	3	393,664	1,094,392
Lease liability	8	12,859,157	12,700,461
Borrowings	5	7,383,673	7,362,249
Provisions		1,438,811	1,584,866
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>22,075,305</b>	<b>22,741,968</b>
<b>TOTAL LIABILITIES</b>		<b>27,727,656</b>	<b>26,369,043</b>

Consolidated Group (continued)			
	Notes	As at 31 Dec 2022 \$	As at 30 Jun 2022 \$
<b>NET ASSETS</b>		9,874,995	10,440,852
<b>EQUITY</b>			
Share capital	7	44,682,963	44,605,529
Reserves		273,666	34,287
Accumulated losses		(35,081,634)	(34,198,964)
<b>TOTAL EQUITY</b>		9,874,995	10,440,852

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 Half Year Ended 31 December 2022

	Issued Capital	Reserves	Accumulated Losses	Total
	\$	\$	\$	\$
<b>Balance at 1 July 2022</b>	<b>44,605,529</b>	<b>34,287</b>	<b>(34,198,964)</b>	<b>10,440,852</b>
Shares issued during the half year	80,702	-	-	80,702
Share Issue Costs (Options)	(3,269)	-	-	(3,269)
Change in share based payment reserve	-	239,379	-	239,379
<b>Comprehensive income</b>				
Loss for the half year	-	-	(882,669)	(882,669)
<b>Balance at 31 December 2022</b>	<b>44,682,962</b>	<b>273,666</b>	<b>(35,081,663)</b>	<b>9,874,995</b>
<b>Balance at 1 July 2021</b>	<b>42,513,283</b>	<b>41,438</b>	<b>(27,266,750)</b>	<b>15,287,971</b>
<b>Comprehensive income</b>				
Loss for the period	-	950	(1,228,959)	(1,228,009)
<b>Balance at 31 December 2021</b>	<b>42,513,283</b>	<b>42,388</b>	<b>(28,495,709)</b>	<b>14,059,962</b>

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 Half Year Ended 31 December 2022

	<b>Consolidated Group</b>	
	<b>Half Year ending 31 Dec 22</b>	<b>Half Year ending 31 Dec 21</b>
	<b>\$</b>	<b>\$</b>
<b>Cash Flows From Operating Activities</b>		
Receipts from customers	5,509,919	2,371,160
Payments to suppliers and employees	(4,527,721)	(2,342,549)
Payments to suppliers from prior periods	(257,232)	(63,587)
Grant and COVID assistance income	605,367	557,252
Finance costs	(213,588)	(300,841)
<b>Net cash flows from operating activities</b>	<b>1,116,745</b>	<b>221,435</b>
<b>Cash Flows From Investing Activities</b>		
Purchase of property, plant and equipment	(470,056)	(591,960)
Payment for investment	(1,048,185)	(12,191)
<b>Net cash inflows/(outflows) from investing activities</b>	<b>(1,518,241)</b>	<b>(604,151)</b>
<b>Cash Flows From Financing Activities</b>		
Proceeds from issue of securities	77,434	-
Repayment of borrowings	(125,000)	-
Repayment of lease liability	(349,341)	-
<b>Net cash inflows from financing activities</b>	<b>(396,907)</b>	<b>-</b>
<b>Net increase in cash held</b>	<b>(798,403)</b>	<b>(382,716)</b>
Cash and cash equivalents at beginning of period *	2,053,208	1,761,186
<b>Cash and cash equivalents at end of period *</b>	<b>1,254,805</b>	<b>1,378,470</b>

\* Does not include term deposit of \$605,070 (Dec 21 \$603,000), security for the Gold Coast premises lease.

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

## Notes to the Financial Statements

### For the Half Year Ended 31 December 2022

#### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### a. General information and basis of preparation

The condensed interim consolidated financial statements ('the interim financial statements') of xReality Group are for the six (6) months ended 31 December 2022 and are presented in Australian Dollar (\$AUD), which is the functional currency of the Parent Company. These general purpose interim financial statements have been prepared in accordance with the requirements of the Corporations Act 2001 and AASB 134 Interim Financial Reporting. They do not include all of the information required in annual financial statements in accordance with Australian Accounting Standards, and should be read in conjunction with the consolidated financial statements of xReality Group for the year ended 30 June 2022 and any public announcements made by xReality Group during the half-year in accordance with continuous disclosure requirements arising under the Australian Securities Exchange Listing Rules and the Corporations Act 2001.

The interim financial statements have been approved and authorised for issue by the Board of Directors on 28 February 2023.

##### b. Significant accounting policies

The interim financial statements have been prepared in accordance with the same accounting policies adopted in xReality Group's last annual financial statements for the year ended 30 June 2022.

The accounting policies have been applied consistently throughout xReality Group for the purposes of preparation of these interim financial statements.

##### c. Estimates

When preparing the interim financial statements, management undertakes a number of judgements, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgements, estimates and assumptions made by management, and will seldom equal the estimated results.

The judgements, estimates and assumptions applied in the interim financial statements, including the key sources of estimation uncertainty were the same as those applied in xReality Group's last annual financial statements for the year ended 30 June 2022.

##### d. Going Concern

The Group incurred a loss for the half year after tax of \$882,669 (2022: loss of \$1,228,959) and, as at 31 December 2022, had a net current deficiency in assets of \$2,518,888 (June 2022: deficiency \$765,317). The Group generated positive cash flows from operations during the half year of \$769,636 (2020: \$221,435). Future expected cash flows have not been taken into account in determining the current assets position. Included within current liabilities is deferred revenue of \$2,145,784 that will be realised as revenue once the service has been delivered to the customer.

The following matters have been considered by the directors in determining the appropriateness of the going concern basis of preparation in the financial statements:

- i. Management has prepared detailed cash flow forecasts that are monitored on an ongoing basis.
- ii. Net cash flows from operations continue to be positive.

Given the strong performance of the existing businesses in the Entertainment sector as well as the early success of the Enterprise business, along with positive cash flows from operations, the Directors are of the view that the company will continue as a going concern.

**NOTE 2: REVENUE AND EXPENSES**

	<b>Consolidated Group</b>	
	<b>Half Year ending 31 Dec 2022</b>	<b>Half Year ending 31 Dec 2021</b>
	<b>\$</b>	<b>\$</b>
<b>a) Revenue</b>		
VWT revenue - rendering of services	3,781,367	1,989,219
Freak revenue	735,604	220,095
Red Cartel revenue	3,055	68,672
Other sales	451,868	118,734
	<b>4,971,894</b>	<b>2,396,720</b>
<b>Other Income</b>		
Grant Income	605,367	557,252
	<b>605,367</b>	<b>557,252</b>
<b>b) Selling and Marketing Expenses</b>		
Marketing Expenses	326,252	178,123
Employment Expenses	1,701,014	973,699
	<b>2,027,266</b>	<b>1,151,823</b>
<b>Administration Expenses</b>		
Occupancy Expenses	114,546	61,926
Employment Expenses	766,918	364,205
Legal Fees	24,481	28,231
Directors' fees	58,667	5,000
	<b>964,614</b>	<b>459,362</b>
<b>c) Depreciation and Amortisation</b>		
Depreciation and Amortisation Expenses	739,781	729,012
Depreciation – ROU asset	340,195	259,532
	<b>1,079,976</b>	<b>988,544</b>
<b>d) Finance Costs</b>		
Interest from finance providers	449,738	432,623
Interest on lease liability	341,786	239,120
	<b>791,524</b>	<b>671,743</b>

**NOTE 3: TRADE AND OTHER PAYABLES**

	As at 31 December 2022 \$	As at 30 June 2022 \$
<b>Current Liabilities</b>		
Trade payables	692,832	502,379
Other accruals	1,245,409	713,189
	<b>1,938,241</b>	<b>1,215,568</b>
<b>Non-Current Liabilities</b>		
Other accruals	393,664	1,094,392
	<b>393,664</b>	<b>1,094,392</b>

**NOTE 4: DEFERRED REVENUE**

	As at 31 December 22 \$	As at 30 June 22 \$
Deferred revenue - iFly	1,076,681	870,650
Deferred revenue - FREAK	119,751	104,398
Deferred revenue - Operator	949,352	-
	<b>2,145,784</b>	<b>975,048</b>

Deferred revenue primarily represents prepaid sales in respect of flight time and VR experiences purchased in advance, Operator product sales for forward dated licence periods and revenues not yet recognised due to Operator warranty period. The sales are released to revenue at the time the services are rendered except the gift card revenue which is released in relation to expected redemption rates.

**NOTE 5: BORROWINGS**

	As at 31 December 22 \$	As at 30 June 22 \$
<b>Current Liabilities</b>		
Loan from Causeway Financial	300,000	300,000
	<b>300,000</b>	<b>300,000</b>
<b>Non - Current Liabilities</b>		
Loan from Causeway Financial	3,425,000	3,775,000
Loan from Birkdale Holdings (QLD) Pty Ltd	3,958,673	3,541,709
	<b>7,383,673</b>	<b>7,316,709</b>



The Company has in place a 3 year loan facility of \$4,000,000 with Causeway Wholesale Private Debt Income Fund, with principal being paid down at \$25,000 per month.

Interest is payable to Causeway based on the applicable rates set out in the loan agreement, over a maximum period of 3 years. Security is provided by a fully interlocking Guarantee and Indemnity across the Consolidated Group, supported by a General Security Agreement over all existing and future assets and undertaking by the Group including a Mortgage over Lease by Indoor Skydiving Penrith Holdings Pty Ltd, Indoor Skydiving Gold Coast Pty Ltd, and Freak Entertainment Pty Ltd.

The company has in place a loan facility of \$3,958,673 with Birkdale Holdings (Qld) Pty Ltd, a company associated with Steve Baxter, a past Director of xReality Group Limited (resigned on 24th Jan 2022), with a maturity date of September 2024.

Interest is payable to Birkdale at the rate set out in the agreement and is capitalised for the term of the loan. Security is provided by a fully interlocking Guarantee and Indemnity across the Consolidated Group, supported by a General Security Agreement over all existing and future assets and undertaking by the Group including a Mortgage over Lease by Indoor Skydiving Penrith Holdings Pty Ltd, Indoor Skydiving Gold Coast Pty Ltd, and Freak Entertainment Pty Ltd.

#### NOTE 6: DIVIDENDS

No dividends have been paid or declared during the period.

#### NOTE 7: ISSUED CAPITAL

	As at 31 December 2022	As at 30 June 2022
	\$	\$
423,489,675 (June 2022: 421,245,554) fully paid ordinary shares	47,044,123	46,963,421
Share issue costs	(2,361,160)	(2,357,892)
	<b>44,682,963</b>	<b>44,605,529</b>
	No.	No.
Ordinary Shares		
At the beginning of the reporting period	421,245,554	336,700,099
Shares issued during the period	2,244,121	84,545,455
	<b>423,489,675</b>	<b>421,245,554</b>

## NOTE 8: LEASES

	Right of Use over Asset	Lease Liability
Property	12,463,289	13,830,341
Equipment	33,202	34,442
<b>Total:</b>	<b>12,496,491</b>	<b>13,864,756</b>
Current	-	1,005,599
Non-current	12,496,491	12,859,157
<b>Total:</b>	<b>12,496,491</b>	<b>13,864,756</b>

## NOTE 9: INTANGIBLE

	As at 31 December 2022	As at 30 June 2022
Goodwill - Red Cartel	572,110	572,110
Operator	1,048,185	-
	<b>1,620,295</b>	<b>572,110</b>

## NOTE 10: INTEREST IN SUBSIDIARIES

Subsidiaries	Country of incorporation	As at 31 December 2022	As at 30 June 2022
		%	%
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
ISA Asia Operations Pty Ltd	Australia	100	100
ISA Asia Holdings 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	100

# NOTE 11: EARNINGS PER SHARE

	As at 31 December 2022 Cents	As at 30 June 2022 Cents
<b>Earnings per share (cents per share)</b>		
From continuing operations:		
- basic earnings per share	(0.21)	(2.02)
- diluted earnings per share	(0.20)	(1.92)
a. Reconciliation of earnings to profit or loss:		
Earnings used to calculate basic EPS - continuing operations	(882,669)	(6,932,214)
Earnings used in the calculation of dilutive EPS - continuing operations	(882,669)	(6,932,214)
	<b>No.</b>	<b>No.</b>
b. Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	422,733,504	343,714,887
Average number of dilutive performance rights outstanding	17,715,440	16,585,005
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	440,448,944	360,299,892

**NOTE 12: PROPERTY, PLANT AND EQUIPMENT**

	Dec-22	Jun-22	Dec-22	Jun-22	Dec-22	Jun-22
	Cost		Depreciation		Carrying Value	
Vertical wind tunnel building and equipment						
Balance at Beginning of year	25,668,491	28,956,233	(6,748,089)	(5,858,453)	18,920,402	23,097,780
Acquisitions / depreciation	-	64,258	(467,035)	(889,637)	(467,035)	(825,378)
Disposals / transfers	-	-	-	-	-	-
Impairment	-	(3,352,000)	50,280	-	50,280	(3,352,000)
Balance at end of year	25,668,491	25,668,491	(7,164,844)	(6,748,089)	18,503,647	18,920,402
IT Equipment						
Balance at Beginning of year	2,552,464	1,968,955	(1,572,356)	(1,033,984)	980,108	934,971
Acquisitions / depreciation	453,265	623,727	(318,993)	(538,372)	134,272	85,355
Disposals / transfers	-	(40,218)	-	-	-	(40,218)
Balance at end of year	3,005,729	2,552,464	(1,891,349)	(1,572,356)	1,114,380	980,108
Furniture and fittings						
Balance at Beginning of year	205,246	195,527	(195,865)	(188,271)	9,381	7,256
Acquisitions / depreciation	13,620	9,719	(2,566)	(7,594)	11,054	2,125
Disposals / transfers	-	-	-	-	-	-
Balance at end of year	218,866	205,246	(198,431)	(195,865)	20,435	9,381
Office Equipment						
Balance at Beginning of year	9,319	7,255	(6,488)	(4,776)	2,832	2,480
Acquisitions / depreciation	3,172	2,064	(1,467)	(1,712)	1,701	352
Disposals / transfers	-	-	-	-	-	-
Balance at end of year	12,491	9,319	(7,955)	(6,488)	4,533	2,832
Balance at Beginning of year	28,435,521	31,127,971	(8,522,797)	(7,085,483)	19,912,724	24,042,488
Acquisitions / depreciation	470,056	699,768	(790,060)	(1,437,314)	(320,008)	(737,546)
Disposals / transfers	-	(40,218)	-	-	-	(40,218)
Impairment	-	(3,352,000)	50,280	-	50,280	(3,352,000)
Balance at end of year	28,905,577	28,435,521	(9,262,578)	(8,522,797)	19,642,996	19,912,724

#### NOTE 13: EVENTS AFTER THE END OF THE INTERIM PERIOD

Material events subsequent to the interim period include;

1. On the 30<sup>th</sup> January 2023 the company announced that it has received a \$1.04M payment for the first order of its Virtual Reality based Police de-escalation training system, Operator LE from the Western Australia Police Force. The first order includes software licensing, hardware and support over a 3 year term.
2. On the 23<sup>rd</sup> January 2023, the company announced the appointment of Philip Copeland as Non-Executive director and chair of the newly formed International Expansion Committee. As founder and CEO of enterprise SaaS business Avoka Software, Philip rapidly expanded the Australian software business into international markets with a core focus on the US Government.

## Directors' Declaration

In accordance with a resolution of the directors of xReality Group Limited, the directors of the Company declare that:

1. The financial statements and notes, as set out on pages 9 to 21 are in accordance with the *Corporations Act 2001*, including:
  - A. complying with Accounting Standard AASB 134: Interim Financial Reporting; and
  - B. giving a true and fair view of the consolidated entity's financial position as at 31 December 2022 and of its performance for the half-year ended on that date.
2. In the directors' opinion, by continuing to pursue the courses of action outlined in Note 1(d), there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.



**Wayne Jones**

Director & Chief Executive Officer

Dated: 28 February 2023

## **Independent Auditor's Review Report To the Members of xReality Group Limited**

### **Report on the Half Year Financial Report**

We have reviewed the accompanying half-year financial report of xReality Group Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 31 December 2022, the consolidated statement of profit and 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, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

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### **Conclusion**

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Based on our review, which is not an audit, we have not become aware of any matters that makes us believe that the half-year financial report of xReality Group Limited is not in accordance with the *Corporations Act 2001* including:

- + Giving a true and fair of the Group's financial position as at 31 December 2022 and of its performance for the half-year ended on that date; and
- + Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulation 2001*.

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 Audit 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 (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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### **Emphasis of Matter**

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We draw attention to Note 1(d) of the half-yearly financial statements which details the fact that the ability of the Group to continue as a going concern is dependent on the courses of action being considered by Group's Management and forecasted cash flow operations. In addition, the Group's net current deficiency in assets was \$2,518,888. Our opinion is not modified in respect of this matter.

