

xReality Group Limited

ABN: 39 154 103 607



ANNUAL REPORT

For the year ended 30 June

2023



XREALITY GROUP LIMITED

Corporate Directory

Directors

John DIDDAMS (Non-executive/Chairman)
Philip COPELAND (Non-executive)
Danny HOGAN (Non-executive)
Kim HOPWOOD (Executive)
Wayne JONES (Executive)
Mark SMETHURST (Non-executive)

Company Secretary

Stephen TOFLER

Registered Office

xReality Group Limited
123 Mulgoa Road
Penrith NSW 2750

Place of Business

xReality Group Limited
2A 106 Old Pittwater Rd
Brookvale NSW 2100

Share Register

Boardroom Pty Limited
Level 8
210 George Street
Sydney NSW 2000

Auditor

Felsers Chartered Accountants t/as
Accru Felsers
Level 6
1 Chifley Square
Sydney NSW 2000

Bankers

Westpac Banking Corporation
Commonwealth Bank of Australia
Bank of America

Stock exchange listing code:

XRG

Website

www.xrgroup.com.au

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DIRECTORS' REVIEW OF OPERATIONS

DIRECTORS' REVIEW OF OPERATIONS

Strong Performance and Growth Foundations Set

xReality Group made significant progress through 2023, winning our first customers in both the law enforcement and military markets, establishing a US office and team, significant advancement of the Operator XR product development, while also seeing an increase in performance of existing entertainment operations, and opening the fifth VR entertainment venue. The Company's ability to work across the design, development and delivery of such a diverse range of immersive experiences has created a unique point of difference which provides a further platform for growth into the years to come.

Enterprise Sector

The Company's Enterprise business, Operator XR, allows Military personnel 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, using the latest innovations in Virtual Reality technology, with all IP owned by XRG.

Over the year, the Company invested \$2.5M into the ongoing development of the Operator XR product including the OP-1 Tactical Rehearsal System and the OP-1 LE Law Enforcement System.

During the year, Operator XR successfully won and delivered systems to both the Police and Defence markets, while also launching in the US, and growing a significant active sales pipeline globally.

First Law Enforcement Sale & Delivery complete

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.

During March, Operator XR's equipment, software and training was delivered to the Western Australia Police Force. Operator XR continues to work closely with the WA Police Force to ensure the maximum benefit of the software is achieved including additional features, scenarios and cloud based capabilities.

Operator XR selected for National Trial

In late March the company was selected as a technology and expertise supplier for a funded National trial of its Law Enforcement system (Operator LE). The trial aims to assess and capture the effectiveness of Virtual Reality Simulation Based Training (VRSBT), as an enhancement program to assist in the uplift of frontline safety for police. The paid trial will run for up to 6 months, where Operator XR is working closely with an undisclosed foreign National Police Force.

First Defence Sale & Delivery

We ended the financial year on a positive note, with a new sale in early June to the Australian Department of Defence, with the system delivered immediately. The system will be used by the Australian Army and initially provided to deployed units to maintain military skills, using Operator XR's immersive VR simulation platform, OP-1. The system has been purchased as part of a concept evaluation process.

US expansion

On the 23rd of March 2023, Operator XR LLC was launched in Virginia, USA. As a wholly owned subsidiary, it will manage all direct sales for its American clientele, with a primary focus on Law Enforcement Agencies and the U.S. Department of Defence.

In April, the company launched its SWAT focused campaign during the TacOps North conference held in upstate New York. Operator XR was able to demonstrate and showcase the products to over 800 sworn police officers at the event.

In May, the company strategically put together an on-ground sales team in the United States, which is currently tracking multiple opportunities with various law enforcement agencies and military units across the country.

The company is actively managing over 40 early-stage prospects throughout various locations in the United States. During the year

a number of successful, in-person demonstrations were conducted, with quotations provided that are currently under assessment.

Other global opportunities

The company is presently in the process of building partnerships and setting up distribution networks across multiple regions including Europe, the Middle East, and the ASEAN territories.

DroneShield Partnership

On the 25th November 2022, the Company announced a partnership with fellow defence technology company DroneShield (ASX:DRO) to develop Virtual Reality based Counter-UAS (Unmanned Aircraft Systems) training systems. The training system will allow end users to simulate a wide variety of scenarios with customised drone threats, drone types, and locations in virtual reality, integrating into DroneShield's counter drone weapons and is a first of its kind.

Entertainment Sector

XRG's portfolio of Entertainment businesses started the year off positively with strong consumer demand setting the best results in recent years. An extremely successful Christmas holiday period followed with no disruption from COVID and increasing international travel and tour groups.

Successful digital marketing campaigns through direct channels continued to perform well throughout the year.

The company invested significant CAPEX on upgrades to both iFLY Penrith and Gold Coast venues, resulting in upgrades to the mechanical cooling systems, IT hardware and building works.

FREAK Entertainment opened its fifth venue, at Cavill Avenue in Surfers Paradise. The new venue commenced operations on the 6th December and experienced high occupancy immediately.

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

Strengthening of the Board

In January, the Company announced the addition of Philip Copeland as a Non-Executive Director. Phil is an experienced

senior leader in the enterprise software-as-a-service (SaaS) sector with a 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 Technologies, a digital business enablement platform. 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. Phil currently resides in Colorado, USA and will be driving XRG to break into the US Government markets and guiding the company as it executes its international growth strategy through Enterprise Software.

Capital Raising

The Company completed a capital placement of \$1M, to support the Operator XR expansion into the US. This expansion included the establishment of dedicated sales and support teams, continued investment in product development including tailoring of uniforms, equipment, and vehicles within the scenarios, and strengthening US focused marketing efforts to build brand awareness and create a stronger presence in the region.

2023 Financial Performance

In FY23 the company achieved a total income of \$10.54m, an increase of 47% vs FY2022, attributed to a full operational year in the entertainment sector, the additional Freak venue, and the commencement of Operator XR revenue.

EBITDA for the year was positive \$2.2M vs negative \$3.3M in FY2022. Adjusted EBITDA which excludes impairment and non-cash royalty payments and share based payments was \$2.1M, an increase of 54% on FY2022.

Closing Remarks

Our performance in FY23 reflects the success of our strategic focus on product innovation, customer service excellence, and geographic expansion. We are proud of our accomplishments this year and remain committed to building on this momentum.

We would like to extend our gratitude to our dedicated employees, our loyal customers, and our supportive shareholders. Your support underpins us in our drive to lead in the world of immersive experiences.



DIRECTORS' REPORT

DIRECTORS' REPORT

Your Directors present their report on the consolidated entity (referred to hereafter as **xReality Group**) consisting of xReality Group Limited (the **Company**) and the entities it controlled at the end of, or during, the year ended 30 June 2023.

DIRECTORS

The individuals listed below were Directors of the Company at all times during the year and at the date of this Directors' Report, unless otherwise stated.

John Diddams

Chairman – Non-Executive

Appointed 24 January 2022

John is a professional, highly experienced and strategic public company director with over forty years of financial and management experience in Australia and overseas.

He has extensive knowledge and experience in the practical application of ASX Listing Rules, Australian corporations' law, international accounting standards and corporate governance principles, and a strong track record in driving business performance, mergers & acquisition, due diligence and corporate governance.

John is also a Non-executive Director for Aroa Biosurgery Limited (ASX:ARX).

He holds a Bachelor of Commerce from University of NSW, is a Fellow of the Australian Society of CPAs and a Fellow of the Australian Institute of Company Directors.

Wayne Jones

Director & Chief Executive Officer

Appointed 4 November 2011

Appointed to the role on the foundation of the company, during this time Wayne has developed and managed multiple business ventures and projects within Australia, S/E Asia and China.

Prior to establishing ISA Group, Wayne was a Commander with the Special Air Service Regiment (SASR) and responsible for the development and performance of teams in complex and challenging environments. His goal focused approach and strategic vision resulted in Wayne being highly decorated throughout his military career.

Wayne holds formal qualifications in Project Management, Business, Security and Risk Management and Financial Management and is a Member of the Australian Institute of

Company Directors. He has over 25 years' experience in leading teams and delivering results.

Wayne is an experienced skydiver and maintains his involvement with the Australian Defence Force. Wayne is also the President of the Australian Special Air Service Association (NSW Branch).

Danny Hogan MG

Director – Non-Executive

Appointed 4 November 2011

Danny enlisted in the Australian Regular Army in 1991, and in 1997 was selected for further service within the Special Air Service Regiment. He has been recognised and awarded for his actions and leadership during his 21 year military career including receiving the Medal for Gallantry. He was selected and completed a two year military exchange in the USA with two of the USA's elite Special Forces Commands. While in the USA he gained his frefall parachuting qualifications and developed a very strong background in the use of vertical wind tunnel simulation training. Danny was a highly qualified senior dive instructor within the Special Air Service Regiment. Danny served as an executive director and the Chief Operations Officer from the foundation of the company until November 2019 at which time he became a non-executive director. Danny is a member of the Australian Institute of Company Directors.

Kim Hopwood

Chief Product & Technology Officer

Appointed 26 May 2021

Kim Hopwood brings over 20 years of experience across technology, media, management and operations. Kim started his career as a network engineer at Cisco Systems where he achieved his CCIE. Kim then co-founded digital agency Pusher in 2004 as Managing Director, which he sold to global communications group Publicis in 2014. Kim remained as Publicis Australia's Managing Director of Digital until late 2017.

Kim started working with ISA Group in 2012 as a supplier, then freelance consultant before joining full time in 2019. Kim now oversees corporate strategy, development of consumer and enterprise virtual reality business units, and oversight of ISA's technology and marketing divisions.

Mark Smethurst

Director – Non-Executive

Appointed 15 November 2021

Mark is an accomplished senior executive leader, with a highly successful track record commanding large and diverse teams both in Australia and overseas.

He has commanded at all levels including Troop and Squadron Command in the Special Air Service Regiment, the Special Forces Training Centre, the 2nd Commando Regiment and the Deputy Commander of Australian Special Forces Command. He also Commanded the NATO Special Forces in Afghanistan and was Deputy Chief of Operations for the United States Special Operations Command. Prior to leaving the Australian Defence Force in March 2017, he was Head of Preparedness/Director General Joint Forces Analysis, responsible for developing Future Concepts, Experimentation, Lessons and Preparedness.

Philip Copeland

Director – Non-Executive

Appointed 23 January 2023

Philip Copeland is an experienced senior leader in the enterprise software-as-a-service (SaaS) sector with a 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 Technologies, a digital business enablement platform. 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. Phil currently resides in Colorado, USA and will be assisting XRG to break into the US Government markets and guiding the company as it executes its international growth strategy through Enterprise Software.

COMPANY SECRETARY

Stephen Tofler

Chief Financial Officer & Company Secretary

Appointed 1 February 2019

Stephen was appointed as CFO and Company Secretary in February 2019, with a mandate for change and recovery. He has brought over 20 years' experience as a CFO in Financial Services, Manufacturing and in Public Practice to the role.

Throughout his career, he has successfully structured finance teams and implemented

effective financial systems for growth throughout all stages of business development.

Stephen is formally qualified as a CPA, maintains a CPA Public Practice Certificate and has a Bachelor of Business degree.

DIRECTORS' MEETINGS

The number of Directors' meetings that Directors were eligible to attend, and the number of meetings attended by each Director during the year are listed below.

Board Meetings		
	Eligible to Attend	Attended
John Diddams	11	10
Wayne Jones	11	11
Danny Hogan	11	10
Kim Hopwood	11	9
Mark Smethurst	11	11
Philip Copeland*	6	6

**Appointed 23rd January 2023*

DIRECTORS' SHAREHOLDINGS

The following table sets out each Director's relevant interest in shares and options in shares of xReality Group as at the date of this report.

Director	Number of Shares and Nature of Interest
John Diddams	Indirect interest in 3,000,000 shares held by Galdarn Pty Ltd and 1,500,000 shares held by Whitfield Investments Pty Ltd. 1,500,000 Service Rights that have vested and 1,500,000 Service Rights subject to satisfaction of vesting conditions.
Wayne Jones	Indirect interest in 16,060,000 shares held by Excalib-air Pty Ltd, indirect interest in 6,814,882 shares held by Project Flight Pty Ltd ATF Wayne Jones Superannuation Fund, indirect interest in 12,713,569 shares held by Project Gravity Pty Ltd ATF Jones Family Trust. Direct interest in 8,435,005 options with an exercise price of \$0.021 subject to vesting conditions being met, and an expiry date of 31 Jan 2024.
Danny Hogan	Indirect interest in 16,060,000 shares held by Excalib-air Pty Ltd, indirect interest in 200,000 shares held by Hogan Superannuation Fund, indirect interest in 2,312,833 shares held by Australian Indoor Skydiving Pty Ltd ATF Hogan Family Trust.
Kim Hopwood	Direct interest in 31,303,773 shares. Direct interest in 4,400,000 options with an exercise price of \$0.021 subject to vesting conditions being met, and an expiry date of 31 Jan 2024.
Mark Smethurst	500,000 Service Rights that have vested and 500,000 Service Rights subject to satisfaction of vesting conditions.

Director	Number of Shares and Nature of Interest
Philip Copeland	Direct interest in 3,806,576 shares. 1,000,000 Service Rights subject to satisfaction of vesting conditions. 2,000,000 options with an exercise price of \$0.065 subject to vesting conditions being met, and an expiry of 50% of options on the 23 rd January 2025, and 50% of options on the 23 rd January 2026.

No Director has any relevant interest in shares or options in shares of a related body corporate of xReality Group as at the date of this report.

DIVIDENDS

No dividends were declared during the period.

Principal activities

xReality owns and operates a portfolio of companies including Indoor Skydiving facilities, Virtual Reality (VR) and Augmented Reality (AR) entertainment, training, and production.

Throughout the reporting period the company's trading operations included: iFLY Downunder (Sydney), iFLY Gold Coast (Qld), FREAK Penrith, FREAK Gold Coast, FREAK Bondi, FREAK Macquarie, FREAK Cavill Avenue (opened 5th December 2022), Red Cartel, and Operator XR.

Changes in the State of Affairs

The FY23 year was influenced by a continued CAPEX investment of \$2.5m into the Operator XR product, enhancing the software for use across military and law enforcement customers. There were no significant changes in the affairs of the Company during the financial year which have not been disclosed to the market.

Subsequent events

On 24th August 2023, XRG announced confirmation of its first sale of Operator L-E into the US market, to the Garfield County Sheriff's Office. This is a market with 18,000 individual Law Enforcement agencies.

On the 29th August, the company announced the successful extension of its senior debt facility with Causeway Financial to March 2025. In addition to this extension, XRG also secured an additional \$500,000 available for drawdown. The extension provides XRG with increased financial flexibility and enhances our capacity for future growth strategies.

REMUNERATION REPORT (AUDITED)

The Remuneration Report set out from page 13 forms part of this Directors' Report.

Interests in xReality Group Securities

Details of the xReality Group securities issued during the year, and the number of xReality Group securities on issue as at 30 June 2023 are detailed in Note 11 of the Financial Statements and form part of this Directors' Report.

As at 30 June 2023 xReality Group had:

15,585,005 employee and executive director unlisted options on issue with an exercise price

of \$0.021, tenure based vesting conditions which expire on 31 Jan 2024.

2,000,000 non-executive director unlisted options on issue, fully vested, with an exercise price of nil, subject to a 2-year dealing restriction.

2,000,000 non-executive director unlisted options on issue, vesting 10 November 2023, with an exercise price of nil, subject to a 2-year dealing restriction.

Environmental Regulation

xReality Group is not subject to any significant environment regulation under any law of the Commonwealth or of a State or Territory.

Directors' and Officers' Insurance

During the financial year, xReality Group has paid premiums to insure all Directors and Officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of a director or officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company. In accordance with common commercial practice, the insurance policy prohibits disclosure of the nature of the liability insured against and the amount of the premium.

The Directors and Company Secretary of xReality Group are also party to a deed of access and indemnity.

The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an officer or auditor of the Company or any related body corporate against a liability incurred by such an officer or auditor.

Proceedings on behalf of the Company

No person has applied to the court under section 237 of the Corporations Act 2001 for leave to bring, or intervene in, proceedings on behalf of any entity within xReality Group.

Auditor

Felser Chartered Accountants trading as Accru Felsers was appointed as xReality Group's auditor on 13 June 2018 and continues in office in accordance with section 327 of the Corporations Act 2001.

Non-audit services

The Directors have considered and are satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Board prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided does not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The fees paid or payable to Felser Chartered Accountants for non-audit services provided during the year ended 30 June 2023 were \$903.

Auditor's independence declaration

The Auditor's independence declaration at page 21 forms part of this Directors' Report.

Rounding of amounts

xReality Group is not an entity to which ASIC Legislative Instrument 2016/199 applies. Accordingly, amounts in the financial statements and annual reports have been rounded to the nearest dollar not the nearest thousand dollars.

Buy back

xReality Group does not currently have any on-market buy-back of shares.

STATEMENT OF CORPORATE GOVERNANCE

xReality Group's Statement of Corporate Governance for the year ended 30 June 2023 is available at <https://xrgroup.com.au/investors/charters-and-policies/>.

This Directors' Report is made in accordance with a resolution of the directors made pursuant to *section 298(2)* of the *Corporations Act*.

On behalf of the Board



John Diddams
Chairman & Non-Executive Director
30 August 2023
Sydney



Wayne Jones
Director & Chief Executive Officer
30 August 2023
Sydney

REMUNERATION REPORT

REMUNERATION REPORT

1. Introduction

This Remuneration Report for the year ended 30 June 2023 forms part of the xReality Group Directors' Report and has been audited in accordance with the *Corporations Act 2001*.

The Remuneration Report details remuneration information for the KMP of xReality Group comprising the Non-Executive Directors, Executive Directors and the senior executives responsible for planning, directing and controlling the activities of xReality Group.

2. Remuneration Governance

xReality Group's remuneration strategy has been designed to promote shareholder growth by setting strategic and operational targets for at risk remuneration while maintaining a base salary that fairly rewards employees.

Consideration of Remuneration & Nomination Matters

All remuneration matters across xReality Group are reviewed by a 'one up' manager to ensure that no single individual is determining remuneration. In the case of the Chief Executive Officer and his direct reports all remuneration matters are submitted to the Board for consideration and, if appropriate, approval.

Where appropriate, external advice is obtained for the Board in considering remuneration matters. This advice can take the form of remuneration benchmarking, remuneration consultancy, tax or financial consultancy services.

The approval of remuneration matters is restricted to non-executive directors only. Throughout FY2023 remuneration matters have been considered by the Board of Directors (Executive Directors excluded) under the auspices of the Remuneration & Nomination Committee Charter which is available at www.xrgroup.com.au.

Remuneration Recommendations

xReality Group engages independent external consultants to provide advice and assistance in relation to remuneration from time to time as required. xReality Group has received preliminary advice on long term incentives to drive performance and maintain key employees. This advice formed the foundation of xReality Group's long-term incentive which utilises premium priced options.

Hedging of Remuneration

xReality Group's KMP and their closely related parties are prohibited from hedging or otherwise reducing or eliminating the risk associated with equity-based incentives.

3. Key Management Personnel

The KMP for xReality Group for 2023 comprise the Non-Executive Directors, Executive Directors and the senior executives responsible for planning, directing and controlling the activities of xReality Group.

Executive KMP

Wayne Jones	Executive Director, Chief Executive Officer
Kim Hopwood	Executive Director, Chief Product & Technology Officer
Stephen Tofler	Chief Financial Officer, Company Secretary

Non-Executive Directors	Notes
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John Diddams	Appointed Director and Chairman 24 January 2022
Danny Hogan	Appointed 4 November 2011
Mark Smethurst	Appointed 15 November 2021
Philip Copeland	Appointed 23 January 2023

4. Remuneration Principles, Strategy and Outcomes

Remuneration principles

xReality Group’s remuneration strategy is based on the following principles:

- *Retain Top Talent* – As xReality Group operates in a unique environment with a limited pool of talent xReality Group seeks to retain the high calibre people it has identified.
- *Align rewards with business performance* – xReality Group seeks to align remuneration rewards with business performance through the use of “at risk” remuneration and the assessment of performance.
- *Support the execution of business strategy* – xReality Group seeks to motivate employees to execute our aggressive growth strategy by setting performance objectives in line with strategic outcomes.
- *Fairness, equity and consistency* – xReality Group implements a consistent, transparent process for remuneration review and structures remuneration to achieve equity for like positions taking into account performance and tenure.

These principles are applied as we assess remuneration in the context of the operational demands of the business, the labour market we operate in, and returns to shareholders.

Remuneration Strategy

The remuneration strategy for FY2023 included review of executive remuneration more closely align to similar ASX listed companies, resulting in the re-commencement of an ‘at risk’ executive STI plan in conjunction with the existing LTI plan, and a move toward market level remuneration.

	Fixed Remuneration	Short-Term Incentive (STI)	Long-Term Incentive (LTI)
Consists of	Base Salary	Annual cash payment subject to the achievement of financial targets	Participation in the XRG Employee Share Option Plan
Rewards for	Experience, skills and capability	Financial performance over a 12-month period	Tenure over a long-term period
Is	Fixed Reviewed annually	At Risk Wholly dependent on achieving set financial targets	At Risk Wholly dependent on achieving set tenure requirements
Determined by	Review of individual against comparative roles, individual performance, experience, and capability	Performance against defined financial targets. STI is only payable if the financial targets are achieved.	Retention of individual over a course of time.

Remuneration Outcomes for Executive KMP

The remuneration received by Executive KMP in 2023 and 2022 is set out below.

Executive Remuneration Structure

KMP	Year	Short Term Benefits			Post Employment Benefits	Long Term Benefits	Share Based Payments	Total
		Salary	STI	Non-Monetary	Superannuation	LTI	Options	
		\$	\$	\$	\$	\$	\$	\$
Wayne Jones CEO	2023	297,581	-	4,457	31,246	-	-	333,284
	2022	230,191	-	2,919	20,869	-	-	253,979
Kim Hopwood CPTO	2023	204,225	-	-	21,444	-	-	225,669
	2022	178,281	-	-	16,028	-	-	194,309
Stephen Tofler CFO	2023	197,842	-	-	20,773	-	-	218,615
	2022	187,560	-	-	18,581	-	-	206,141

Remuneration Mix

Fixed annual remuneration provides a “base” level of remuneration. Short and long-term variable incentives (“at risk”) reward executives for meeting and exceeding pre-determined targets. The targets for at-risk rewards is linked to clear measurable targets which the Company considers are significant to achieving our strategic plan and delivering shareholder returns.

The percentage of at risk remuneration varies between executives based on the extent to which they are in a position to directly influence company performance. As a result, the executive directors at risk remuneration comprises short term incentives of 50% of base salary at risk each financial year plus long term incentives at risk over a three year period. Other executives have short term incentives of up to 35% of their base at risk each financial year in addition to long term incentives at risk over a three year period.

Fixed Remuneration

Fixed remuneration consists of cash salary, superannuation and other limited non-monetary benefits. The levels are set to attract and retain qualified, skilled and experienced executives and are determined based on comparable market data, the skills and experience of the individual executive and the accountability and responsibility of the role.

Short Term Incentive Structure

The key features of ISA Group's STI Plan are outlined below:

What is the purpose of the STI?	STI performance targets drive executives to focus on achieving ISA Group's performance goals and rewards executives for achieving or exceeding those goals.
Who participates?	All Executive KMP and selected senior executives
How much can be earned under the STI Plan?	The target STI opportunity for KMP is between 10% and 50% of base salary depending on the role
What are the performance conditions?	No STI is payable unless minimum financial targets are met
Over what period is it measured?	Performance is measured over the 12 month period from 1 July to 30 June.
How is it paid?	<p>STI payments are made on the achievement of reaching targets (ie payments are not made progressively). If targets are reached the full STI is paid. If the target is achieved but the stretch target is not, no payment or partial payment is made for exceeding the target.</p> <p>The Executive must be an employee and not serving out a notice period when the payment of an STI is made.</p> <p>Payment occurs after conclusion of the end of year audit (usually September).</p>
When and how is it reviewed?	The STI is reviewed annually in line with the review of remuneration and the review of budgets.
Who assesses performance against targets?	The targets are objective financial measures, assessed against the Company's audited financial accounts. The Board approves all STI assessments and payments.
What are the clawback provisions?	None

Short term Incentive Outcomes

For FY2023, subject to the above procedure it is estimated that the STI targets were partially met. Once verified they will be paid in FY24.

Long Term Incentive Awards and Outcomes

The key features of the xReality Group Long Term Incentive (LTI) are outlined below:

What is the purpose of the LTI?	The LTI incentivises executives to stay employed with the company and be rewarded for growth in company value over time.
Who participates?	Participants are the Executive KMP and select senior executives who drive the growth strategy of XRG.
What is the vehicle?	<p>If hurdles are met options vest and are exercisable for a limited period.</p> <p>Once vested, each option entitles the employee to receive one share in XRG.</p>
What are the performance conditions and what is the performance period?	An existing LTI plan was put in place for Executive KMP in FY2021, the details of which can be accessed in the FY2021 annual report.

How is it paid?	Subject to meeting the hurdles, the options vest. Once vested, the options can be exercised on the basis of one fully paid ordinary XRG share for each option.
How are performance conditions set?	The performance conditions are set by the Board based on the recommendations of the Remuneration & Nomination Committee.
What happens if a change of control occurs?	If a change of control event occurs, unvested options will vest where in the Boards absolute discretion, pro rate performance is in line with the performance criteria applicable to those options over the period from date of grant to the date of the change of control event.
What are the clawback provisions?	In the reasonable opinion of the Board a participant has acted fraudulently or dishonestly or in material breach of their obligations to XRG, then the Board in its absolute discretion may determine that any unvested options lapse, that any shares issued pursuant to the share option plan are forfeited, or where the shares issued to the options have been sold, require the participant to pay XRG all or part of the net proceeds of the sale.

Summary of Executive Contracts

Executive contracts set out remuneration details and other terms of employment for each individual executive. The key provisions of the KMP contracts relating to terms of employment and notice periods are set out below. Contractual terms vary due to the timing of contracts, individual negotiations and different market conditions.

	Date of contract	Term of contract	Notice required to be given to the Employee for termination by Company	Termination Payments
Wayne Jones Director and CEO	October 2012	Ongoing	6 months	6 months' notice for termination by Employer and legislative entitlements on redundancy.
Kim Hopwood Executive Director	October 2019	Ongoing	4 weeks	4 weeks' notice for termination by Employer and legislative entitlements on redundancy.
Stephen Tofler Chief Financial Officer & Company Secretary	January 2019	Ongoing	3 Months	3 months' notice for termination by Employer and legislative entitlements on redundancy.

5. Non-Executive Director Remuneration

Approved Fee Pool

Non-Executive Director fees are determined within a maximum directors' fee pool limit. The directors' fee pool was set in 2012 as \$500,000. No director's fees are paid to Executive Directors Wayne Jones and Kim Hopwood. Total non-executive remuneration paid during 2023 was \$120,000 (FY22: \$64,807).

Approach to setting Non-Executive Director Remuneration

Non-Executive Directors receive fixed remuneration in the form of a director's fee or salary. The remuneration is set taking into account the conditions at the time of the director's appointment, the director's skills and expertise, and the role to be performed by the director.

Non-Executive Directors do not receive variable remuneration or other performance-related incentives.

The Non-Executive Director fees were set at the time of appointment, and Danny Hogan's remuneration introduced at the time of Mark Smethurst's appointment. The Non-Executive Directors fees for the last two financial years are set out below.

	Financial Year	Salary and Fees	Superannuation	Share based payments	Total
John Diddams	2023	60,000	-	-	60,000
	2022	30,000	-	198,000	228,000
Mark Smethurst	2023	30,000	-	-	30,000
	2022	17,500	-	32,000	49,500
Danny Hogan	2023	27,149	2,851	-	30,000
	2022	15,734	1,573	-	17,307
Philip Copeland*	2023	-	-	96,956	96,956
	2022	-	-	-	-

*Appointed 23rd January 2023

6. Other Statutory Disclosures

xReality Group's Financial Performance

The table below sets out xReality Group's earnings and movements in shareholder wealth over the last 5 years.

	2019	2020	2021	2022	2023
Revenue	11,376,877	5,558,793	7,265,175	6,574,705	9,753,516
Net Profit/(Loss) after Tax	(7,400,998)	(5,440,247)	4,062,456	(6,932,214)	(1,690,511)
Share price at 30 June	0.018	0.006	0.018	0.029	0.049

Option holdings of KMP

Details of the option holdings of KMP are set out below:

	Balance at 1 July 2022	Granted as remuneration	Rights exercised	Rights lapsed	Rights forfeited	Balance at 30 June 2023
Wayne Jones	8,435,005	-	-	-	-	8,435,005
Kim Hopwood	4,400,000	-	-	-	-	4,400,000
Stephen Tofler	1,000,000	-	-	-	-	1,000,000

Shareholdings of KMP and Board

The shareholding of the KMP and Board including their associates is as follows:

KMP	Role	Interest in shares held at 1 July 2022	Interest in shares acquired /(disposed) during the period	Interest in shares issued on exercise of vested options during the period	Balance at 30 June 2023
John Diddams	Non-Executive Director**	4,070,000	430,000	-	4,500,000
Wayne Jones	Chief Executive Officer & Director	34,980,249	608,202	-	35,588,451
Kim Hopwood	Executive Director	31,303,773	-	-	31,303,773
Philip Copeland*	Non-Executive Director	3,306,576**	500,000	-	3,806,576
Danny Hogan	Non-Executive Director	18,447,833	125,000	-	18,572,833
Stephen Tofler	Chief Financial Officer	2,737,468	2,940,290	-	5,677,758

*Appointed 23 January 2023

** At date of appointment

Non-Executive Directors have been granted a combination of options and service rights as part of their remuneration. John Diddams has been granted 3,000,000 Service Rights, Mark Smethurst has been granted 1,000,000 Service Rights, and Philip Copeland has been granted 1,000,000 Service Rights and 2,000,000 options, all subject to satisfaction of vesting conditions and as per details in Director's Shareholdings section in this report.

2022 Annual General Meeting (AGM)

At the Company's AGM in November 2022, 99.66% of votes received were in favour of adopting the remuneration report.

AUDITOR'S INDEPENDENCE DECLARATION

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

In accordance with the requirements of section 307 of the *Corporations Act 2001*, as lead auditor for the audit of xReality Group Limited for the year ended 30 June 2023, 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.



Glenda Nixon

Partner

30 August 2023
Sydney, Australia



FELSERS

Chartered Accountants

FINANCIAL REPORT



Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2023

	Notes	Consolidated Group	
		2023 \$	2022 \$
Revenues	6(a)	10,544,618	7,193,340
Cost of Sales		(1,949,400)	(1,502,843)
Gross Profit		8,595,218	5,690,498
Selling and marketing expenses	7(a)	(4,104,200)	(3,091,831)
Administration expenses	7(b)	(1,842,607)	(907,362)
Depreciation and amortisation	7(c)	(2,216,439)	(2,121,541)
Legal expenses		(59,067)	(43,731)
Other expenses		(1,391,411)	(1,595,679)
Movement in impairment of asset	3(a)	960,000	(3,352,000)
Loss Before Interest and Tax		(58,506)	(5,421,647)
Finance expense	7(d)	(1,632,005)	(1,510,567)
Net financing costs		(1,690,511)	(1,510,567)
Loss before tax from continuing operations		(1,690,511)	(6,932,214)
Loss before tax from discontinuing operations		-	-
Total loss from operations		(1,690,511)	(6,932,214)
Income tax	8	-	-
Loss after tax		(1,690,511)	(6,932,214)
Other comprehensive income		-	-
Total comprehensive loss for the year		(1,690,511)	(6,932,214)
Earnings per share			
From continuing operations:			
- Basic earnings per share (cents)	15	(0.40)	(2.02)
- Diluted earnings per share (cents)	15	(0.38)	(1.92)

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

For the year ended 30 June 2023

	Notes	Consolidated Group	
		2023	2022
		\$	\$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	9(a)	751,758	2,053,208
Trade and other receivables	9(b)	844,174	160,530
Inventories	10(a)	31,081	81,832
Other financial asset	9(c)	94,367	566,188
TOTAL CURRENT ASSETS		1,721,380	2,861,758
NON-CURRENT ASSETS			
Property, plant & equipment	10(b)	20,264,738	19,912,724
Intangible assets	10(b)	3,059,612	572,110
Right-of-use asset	10(c)	13,532,945	12,644,638
Other financial asset	9(c)	774,289	818,665
TOTAL NON-CURRENT ASSETS		37,631,584	33,948,137
TOTAL ASSETS		39,352,964	36,809,895
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	9(d)	2,234,996	1,215,568
Lease liability	10(c)	1,315,388	914,803
Deferred revenue	3(a)	1,519,671	975,048
Borrowings	9(e)	300,000	300,000
Provisions	10(d)	438,945	221,656
TOTAL CURRENT LIABILITIES		5,809,000	3,627,075
NON-CURRENT LIABILITIES			
Trade and other payables	9(d)	289,312	1,094,392
Lease liability	10(c)(i)	13,875,491	12,700,461
Deferred revenue	3(a)	367,200	-
Borrowings	9(e)	7,282,333	7,362,249
Provisions	10(d)	1,573,214	1,584,866
TOTAL NON-CURRENT LIABILITIES		23,387,550	22,741,968
TOTAL LIABILITIES		29,196,550	26,369,043
NET ASSETS		10,156,414	10,440,852
EQUITY			
Share capital	11	45,675,268	44,605,529
Reserves		370,621	34,287
Accumulated losses		(35,889,475)	(34,198,964)
TOTAL EQUITY		10,156,414	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 year ended 30 June 2023

	Issued Capital	Reserves	Retained Earnings	Total
	\$	\$	\$	\$
Balance at 1 July 2022	44,605,529	34,287	(34,198,964)	10,440,852
Shares issued during the year	1,069,739	-	-	1,069,739
Change in share based payment reserve	-	336,334	-	336,334
Comprehensive income				
Loss for the year	-	-	(1,690,511)	(1,690,511)
Other comprehensive income	-	-	-	-
Comprehensive loss for the year	-	-	(1,690,511)	(1,690,511)
Balance at 30 June 2023	45,675,268	370,621	(35,889,475)	10,156,414
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				
Loss for the year	-	-	(6,932,214)	(6,932,214)
Other comprehensive income	-	-	-	-
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

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 2023

	Note	Consolidated Group	
		2023 \$	2022 \$
Cash Flows from Operating Activities			
Receipts from customers		10,045,224	7,623,007
Payments to suppliers and employees		(7,866,863)	(5,985,933)
		2,178,361	1,637,074
Grant and other operational income		791,102	618,635
Operator development costs		-	(752,905)
Finance costs		(894,673)	(867,480)
Payments to suppliers from prior periods		-	(690,661)
Net cash inflows/(outflows) from operating activities	12	2,074,790	(55,337)
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(3,359,034)	(699,768)
Sale of property, plant and equipment		-	-
Net cash outflows from investing activities		(3,359,034)	(699,768)
Cash Flows from Financing Activities			
Proceeds from issue of securities		1,080,702	2,160,000
Proceeds from borrowings		-	-
Repayment of borrowings		(300,000)	(150,000)
Share issue costs		(10,964)	(67,754)
AASB leases repayment		(786,944)	(895,119)
Net cash inflows from financing activities		(17,206)	1,047,127
Net increase in cash held		(1,301,450)	292,022
Cash and cash equivalents at beginning of year		2,053,208	1,761,186
Cash and cash equivalents at end of year		751,758	2,053,208

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

Notes to the Financial Statements

For the year ended 30 June 2023

These consolidated financial statements and notes represent those of xReality Group Limited and Controlled Entities (the **Consolidated Group** or **Group**).

The separate financial statements of the parent entity, xReality Group Limited have not been presented within this financial report as permitted by the *Corporations Act 2001*.

The financial statements were authorised for issue on 30 August 2023 by the directors of the company.

NOTE 1: SIGNIFICANT CHANGES IN THE CURRENT REPORTING PERIOD

The financial position and performance of the group was particularly affected by the following events and transactions during the reporting period:

- The first Operator Law Enforcement Commercial Sale in November 2022.
- The launch of the FREAK Cavill Ave business on 5th December 2022.
- The appointment of Phil Copeland to the Board on 23rd January 2023
- The successful private placement raising \$1.0M capital on 1st May 2023.

For a detailed discussion of the group's performance and financial position please refer to our Directors' Review of Operations and the Financial Reports.

NOTE 2: 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.

Notes to the Financial Statements

For the year ended 30 June 2023

NOTE 2: SEGMENT INFORMATION (CONT'D)

	Entertainment	Enterprise	Corporate	Total
Segment Revenue	9,242,611	447,757	854,250	10,544,618
Segment EBITDA	2,105,202	177,815	(125,084)	2,157,933
Depreciation and amortisation	(483,954)	(28,623)	(1,703,861)	(2,216,438)
Interest	(110)	-	(1,631,896)	(1,632,006)
Segment NPAT	1,621,138	149,192	(3,460,841)	(1,690,511)

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

Net reversal of impairment of PP&E	960,000	-	-	960,000
Lease asset amortisation recognised under AASB 16 Leases	-	-	(736,921)	(736,921)

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

Lease asset depreciation expense recognised under AASB 16 Leases	-	-	(736,921)	(736,921)
Lease asset interest expense recognised under AASB 16 Leases	-	-	(737,332)	(737,332)

NOTE 3: 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.

a. Going Concern

The Group produced a loss for the year after tax of \$1,690,511 (2022: loss of \$6,932,214). This loss includes an impairment of the FREAK facilities of \$310,000 and a reversal of the impairment of the Gold Coast facility of (\$1,270,000) to ensure the asset is reported at no more than its recoverable amount, in line with AASB 136. The Group has a net deficiency in current assets of \$4,087,618 (2022: \$765,317). Included within current liabilities are deferred revenue of \$1,519,671, included in a total of \$1,886,871 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) The entertainment business has returned to normal trading levels following the instability of the COVID period.
- ii) Management have ensured that no borrowings are due and payable within 12 months.
- iii) The Company's new income streams through Operator XR are expected to continue to increase through FY24

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 requirements through the normal cyclical nature of receipts and payments.

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

Note 3: Summary of Significant Accounting Policies (cont'd)

b. Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by xReality Group Limited at the end of the reporting period. A controlled entity is any entity over which xReality Group Limited has the ability and right to govern the financial and operating policies so as to obtain benefits from the entity's activities.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities is included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 16 to the financial statements.

In preparing the consolidated financial statements, all intragroup balances and transactions between entities in the consolidated group have been eliminated in full on consolidation. Non-controlling interests, being the equity in a subsidiary not attributable directly or indirectly to a parent, are reported separately within the equity section of the consolidated statement of financial position and statements showing profit or loss and other comprehensive income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

c. Income Tax

The income tax expense/(benefit) for the year comprises current income tax expense/(benefit) and deferred tax expense/(benefit).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities/(assets) are measured at the amounts expected to be paid to/(recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense/(benefit) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability. With respect to non-depreciable items of property, plant and equipment measured at fair value and items of investment property measured at fair value, the related deferred tax liability or deferred tax asset is measured on the basis that the carrying amount of the asset will be recovered entirely through sale.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Tax Consolidation - Australia

The Company and its wholly-owned Australian resident entities have formed a tax consolidated group with effect from 1 November 2011 and will therefore be taxed as a single entity from that date. The Company is the head entity within the tax-consolidated group.

Note 3: Summary of Significant Accounting Policies (cont'd)

c. Income Tax (continued)

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using a modified stand-alone tax allocation methodology.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses of the controlled entities are assumed by the head entity in the tax-consolidated group and are recognised as amounts payable (receivable) to (from) other entities in the tax-consolidated group in conjunction with any tax funding arrangements.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head company only.

d. Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Plant and Equipment

Plant and equipment are measured on the cost basis and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present (refer to Note 1(j) for details of impairment).

The carrying amount of plant and equipment is reviewed annually by Directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised as expenses in profit or loss during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

Notes to the Financial Statements

For the year ended 30 June 2023

Note 3: Summary of Significant Accounting Policies (cont'd)

d. Property, Plant and Equipment (continued)

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Useful Life
Office equipment	3 years
Furniture and fittings	5 years
IT equipment	5 years
Vertical wind tunnel building infrastructure	40 years
Vertical wind tunnel equipment	20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are recognised in profit or loss in the period in which they arise. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

e. Leases

At inception of a contract, the Company assesses whether a lease exists – ie: does the contract convey the right to control the use of an identified asset for a period of time in exchange for consideration.

This involves an assessment of whether:

- The contract involves the use of an identified asset - this may be explicitly or implicitly identified within the agreement. If the supplier has a substantive substitution right then there is no identified asset.
- The Company has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of use.
- The Company has the right to direct the use of the asset ie: decision making rights in relation to changing how and for what purpose the asset is used.

Lessee accounting

The non-lease components included in the lease agreement have been separated and are recognised as an expense as incurred.

At the lease commencement, the Company recognises a right-of-use asset and associated lease liability for the lease term. The lease term includes extension periods where the Company believes it is reasonably certain that the option will be exercised.

The right-of-use asset is measured using the cost model where cost on initial recognition comprises of the lease liability, initial direct costs, prepaid lease payments, estimated cost of removal and restoration less any lease incentives received.

The right-of-use asset is depreciated over the lease term on a straight-line basis and assessed for impairment in accordance with the impairment of assets accounting policy.

Note 3: Summary of Significant Accounting Policies (cont'd)

e. Leases (cont'd)

The lease liability is initially measured at the present value of the remaining lease payments at the commencement of the lease. The discount rate is the rate implicit in the lease, however where this cannot be readily determined then the Company's incremental borrowing rate is used.

Subsequent to initial recognition, the lease liability is measured at amortised cost using the effective interest rate method. The lease liability is remeasured whether there is a lease modification, change in estimate of the lease term or index upon which the lease payments are based (eg: CPI) or a change in the Company's assessment of lease term.

Where the lease liability is remeasured, the right-of-use asset is adjusted to reflect the remeasurement or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. Exceptions to lease accounting

The Company has elected to apply the exceptions to lease accounting for both short-term leases (i.e., leases with a term of less than or equal to 12 months) and leases of low-value assets. The Company recognises the payments associated with these leases as an expense on a straight-line basis over the lease term.

f. Foreign Currency Transactions and Balances

Functional and Presentation Currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, which is the parent entity's functional currency.

Transactions and Balances

Exchange differences arising on the translation of monetary items are recognised in profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in other comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive income; otherwise the exchange difference is recognised in profit or loss.

g. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits available on demand with banks and bank overdrafts. Bank overdrafts are reported within short-term borrowings in current liabilities in the statement of financial position.

h. Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

Note 3: Summary of Significant Accounting Policies (cont'd)

i. Impairment of Assets

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (e.g. in accordance with the revaluation model in AASB 116: Property, Plant and Equipment). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for intangible assets with indefinite lives and intangible assets not yet available for use.

j. Employee Benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be settled within a year have been measured at the amounts expected to be paid when the liability is settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable. Liabilities for long service leave are recognised when employees reach a qualifying period of continuous service. Liabilities and expenses for bonuses are recognised where contractually obliged or where there is a past practice that has created a constructive obligation.

k. Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

Make good provisions are recognised on a systematic basis over the life of the lease, based on the most reliable evidence available at reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. The provision is discounted to its present value, where the time value of money is material.

l. Revenue and Other Income

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. When the inflow of consideration is deferred, it is included in the Statement of Financial Position as a current liability.

Revenue from the sale of goods and services is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership and the cessation of all involvement in those goods and services. For gift card revenue, refer to Note 4(b).

Interest revenue is recognised on an accruals basis using the effective interest method.

m. Deferred Revenue

Income relating to future periods is initially recorded as deferred revenue, and is then recognised as revenue over the relevant periods of admission or rendering of other services.

Note 3: Summary of Significant Accounting Policies (cont'd)

n. Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined using the weighted average cost method, after deducting any purchase settlement discount and including logistics expenses incurred in bringing the inventories to their present location and condition.

o. Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

p. Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Where the Group has retrospectively applied an accounting policy, made a retrospective restatement or reclassified items in its financial statements, an additional statement of financial position as at the beginning of the earliest comparative period will be disclosed.

q. Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Finite life intangible assets are subsequently measured at cost less amortisation less any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposable proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less the accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Intellectual property

Significant costs associated with intellectual property are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 15 years.

r. Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either in the principal market or, in the absence of a principal market, in the most advantageous market.

Fair value is measured using assumptions that the market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Note 3: Summary of Significant Accounting Policies (cont'd)

s. Business combinations

The acquisition method of accounting is used for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

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

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in the profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquiree, the difference is recognised as a gain directly in the profit or loss by the acquirer on the acquisition date, but only after reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

t. Financial Instruments

Financial instruments are recognised initially on the date that the Company becomes party to the contractual provisions of the instrument.

On initial recognition, all financial instruments are measured at fair value plus transaction costs (except for instruments measured at fair value through profit or loss where transaction costs are expensed as incurred).

Financial assets

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Notes to the Financial Statements

For the year ended 30 June 2023

Note 3: Summary of Significant Accounting Policies (cont'd)

Financial Instruments (cont'd)

Classification

On initial recognition, the Company classifies its financial assets into the following categories, those measured at:

- amortised cost
- fair value through profit or loss - FVTPL

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets.

Amortised cost

Assets measured at amortised cost are financial assets where:

- the business model is to hold assets to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows are solely payments of principal and interest on the principal amount outstanding.

The Company's financial assets measured at amortised cost comprise trade and other receivables and cash and cash equivalents in the statement of financial position.

Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest rate method less provision for impairment.

Interest income, foreign exchange gains or losses and impairment are recognised in profit or loss. Gain or loss on derecognition is recognised in profit or loss.

Financial assets through profit or loss

All financial assets not classified as measured at amortised cost or fair value through other comprehensive income as described above are measured at FVTPL.

Net gains or losses, including any interest or dividend income are recognised in profit or loss (refer to hedging accounting policy for derivatives designated as hedging instruments.)

The Company holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

The Company's financial assets measured at FVTPL comprise derivatives in the statement of financial position.

Impairment of financial assets

At the end of the reporting period the Company assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets at amortised cost

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial assets original effective interest rate.

Impairment on loans and receivables is reduced through the use of an allowance accounts, all other impairment losses on financial assets at amortised cost are taken directly to the asset.

Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

Note 3: Summary of Significant Accounting Policies (cont'd)

Financial Instruments (cont'd)

Financial liabilities

The Company measures all financial liabilities initially at fair value less transaction costs, subsequently financial liabilities are measured at amortised cost using the effective interest rate method.

The financial liabilities of the Company comprise trade and other payables, bank and other loans and finance lease liabilities, which are measured at amortised cost using the effective interest rate method.

NOTE 4: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

a. 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.

b. 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 2023, \$199,998 of Gift Card Revenue is recognised (2022: \$520,741). 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.

c. 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 7.0% inflationary escalation for two years, and then at 3.0% per annum, and then discounted back at 7.94% (2022: 7.86%), 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.

NOTE 4: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (cont'd)

d. Goodwill and other indefinite life intangible assets

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 3. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

e. Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

f. Combinations Business

As discussed in note 3, business combinations are initially accounted for on a provisional basis. The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the consolidated entity taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

Notes to the Financial Statements

For the year ended 30 June 2023

NOTE 5: REVENUE FROM CONTRACTS WITH CUSTOMERS

	2023 \$	2022 \$
Revenue		
Entertainment revenue	9,187,971	6,476,280
Enterprise revenue	565,545	98,425
	<u>9,753,516</u>	<u>6,574,705</u>

NOTE 6: OTHER INCOME

	2023 \$	2022 \$
Grant Income	791,102	557,252
Other	-	61,383
	<u>791,102</u>	<u>618,635</u>

NOTE 6(a): REVENUES

	2023 \$	2022 \$
Revenue from contracts with customers	9,753,516	6,574,705
Other Income	791,102	618,635
	<u>10,544,618</u>	<u>7,193,340</u>

Notes to the Financial Statements

For the year ended 30 June 2023

NOTE 7: OTHER INCOME AND EXPENSE ITEMS

Other Expenses

	2023 \$	2022 \$
7(a) Selling and Marketing Expenses		
Marketing expenses	650,717	479,903
Employment expenses	3,453,483	2,611,928
	4,104,200	3,091,831
7(b) Administration Expenses		
Occupancy expenses	275,047	46,855
Employment expenses	1,450,318	797,273
Directors' fees – current year	117,242	63,234
	1,842,607	907,362
7(c) Depreciation and amortisation		
Depreciation and amortisation expenses	1,479,518	1,437,314
Depreciation – AASB16	736,921	684,227
	2,216,439	2,121,541
7(d) Finance Expenses		
Interest expense	894,673	867,481
Interest from AASB16	737,332	643,086
	1,632,005	1,510,567

Notes to the Financial Statements

For the year ended 30 June 2023

NOTE 8: INCOME TAX

This note provides an analysis of the group's income tax expense, shows what amounts are recognised directly in equity and how the tax expense is affected by non-assessable and non-deductible items. It also explains significant estimates made in relation to the group's tax position.

	2023	2022
	\$	\$
Income Tax Benefit		
Current income tax:		
Current income tax charge	-	-
Deferred tax:		
Relating to origination and reversal of temporary differences	-	-
Income Tax Benefit	-	-

A reconciliation of income tax expense applicable to accounting loss before income tax at the statutory income tax rate to income tax expense at the company's effective income tax rate for the year ended 30 June 2023 is as follows:

	2023	2022
	\$	\$
Accounting loss before income tax	(1,690,511)	(6,932,214)
At the statutory income tax rate of 25.0%	(422,628)	(1,733,054)
Tax losses recognised / (not recognised)	333,788	1,734,180
Non-deductible expenses for tax purposes:		
Entertainment expenses	4,757	661
Share based payments	84,083	(1,788)
Income Tax Benefit	-	-

The Group has tax losses that arose in Australia for which no deferred tax asset of \$19,824,973 is recognised on the Statement of Financial Position. The tax losses are available indefinitely for offsetting against future taxable profits of the Group.

Notes to the Financial Statements

For the year ended 30 June 2023

NOTE 9: FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group holds the following financial instruments:

Financial Assets	Notes	2023 \$	2022 \$
<i>At amortised cost</i>			
Current			
Cash and cash equivalents	9(a)	751,758	2,053,208
Trade receivables	9(b)	844,174	160,530
Other financial assets	9(c)	94,367	566,188
Non-current			
Other financial assets	9(c)	774,289	818,665

Financial Liabilities	Notes	2023 \$	2022 \$
<i>At amortised cost</i>			
Current			
Trade and other payables	9(d)	2,234,996	1,215,568
Borrowings	9(e)	300,000	300,000
Non-current			
Trade and other payables	9(d)	289,312	1,094,392
Borrowings	9(e)	7,282,333	7,362,249

These are detailed below:

9(a) Cash and cash equivalents

Cash at bank and on hand	751,758	2,053,208
	<u>751,758</u>	<u>2,053,208</u>

9(b) Trade receivables

Trade receivables	427,250	117,762
Prepaid expenses	416,924	42,768
	<u>844,174</u>	<u>160,530</u>

9(c) Other Financial Assets

Current

Royalty holiday	94,367	566,188
	<u>94,367</u>	<u>566,188</u>

Notes to the Financial Statements

For the year ended 30 June 2023

NOTE 9: FINANCIAL ASSETS AND FINANCIAL LIABILITIES (cont'd)

Non-current

Deposits	26,125	26,125
Royalty holiday	-	94,367
Make good	111,073	93,558
Bank guarantee	637,091	604,615
	<u>774,289</u>	<u>818,665</u>

9(d) Trade and other payables

Current

Trade payables	1,198,388	502,379
Other accruals	1,036,608	713,189
	<u>2,234,996</u>	<u>1,215,568</u>

Non-Current

Other accruals	289,312	1,094,392
	<u>289,312</u>	<u>1,094,392</u>

9(e) Borrowings

Current

Causeway debt facility (a)	300,000	300,000
	<u>300,000</u>	<u>300,000</u>

Non-Current

Causeway debt facility (a)	3,250,000	3,550,000
Birkdale Holdings (Qld) Pty Ltd (b)	4,032,333	3,812,249
	<u>7,282,333</u>	<u>7,362,249</u>

Notes to the Financial Statements

For the year ended 30 June 2023

NOTE 9: FINANCIAL ASSETS AND FINANCIAL LIABILITIES (cont'd)

- (a) The Company has in place a 4-year loan facility of \$4,050,000 with Causeway Wholesale Private Debt Income Fund, with a maturity date of March 2025. Previously it was a \$4.0M facility which since inception, was paid down to \$3,550,000 by 30/06/23. Since then Causeway have agreed to extend the maturity by 12 months and increase the loan by \$0.5M.

Interest is payable to Causeway based on the applicable rates set out in the loan agreement, over a maximum period of 4 years. Security is provided by:

Fully Interlocking Guarantee and Indemnity by:

- xReality Group Limited
- Indoor Skydiving Penrith Holdings Pty Ltd
- Indoor Skydiving Penrith Pty Ltd
- Indoor Skydiving Gold Coast Pty Ltd
- Freak Entertainment Pty Ltd

Supported by a General Security Deed over all existing and future assets and undertakings by:

- xReality Group Limited
- Indoor Skydiving Penrith Holdings Pty Ltd
- Indoor Skydiving Penrith Pty Ltd
- Indoor Skydiving Gold Coast Pty Ltd
- Freak Entertainment Pty Ltd
- Operator XR Pty Ltd

Mortgage over lease by Indoor Skydiving Penrith Holdings Pty Ltd, Indoor Skydiving Gold Coast Pty Ltd, Freak Entertainment Pty Ltd.

- (b) The company has in place a loan facility of \$4,032,333 with Birkdale Holdings (Qld) Pty Ltd, a company associated with Steve Baxter, a former Director of XReality Group Limited, with a maturity date of September 2024.

Interest is payable to Birkdale at the rate set out in the agreement. Security is provided by:

Fully Interlocking Guarantee and Indemnity by:

- xReality Group Limited
- Indoor Skydiving Penrith Holdings Pty Ltd
- Indoor Skydiving Penrith Pty Ltd
- Indoor Skydiving Gold Coast Pty Ltd
- Freak Entertainment Pty Ltd

Supported by a General Security Deed over all existing and future assets and undertakings by:

- xReality Group Limited
- Indoor Skydiving Penrith Holdings Pty Ltd
- Indoor Skydiving Penrith Pty Ltd
- Indoor Skydiving Gold Coast Pty Ltd
- Freak Entertainment Pty Ltd

Mortgage over lease by Indoor Skydiving Penrith Holdings Pty Ltd, Indoor Skydiving Gold Coast Pty Ltd, Freak Entertainment Pty Ltd.

NOTE 10: NON-FINANCIAL ASSETS AND LIABILITIES

10(a): Inventories

	2023 \$	2022 \$
Goods held for sale	31,081	81,832
	31,081	81,832

Notes to the Financial Statements

For the year ended 30 June 2023

10(b)(i): Property Plant and Equipment

	2023 \$	2022 \$	2023 \$	2022 \$	2023 \$	2022 \$
	Cost		Depreciation		Carrying Value	
<i>Vertical wind tunnel building and equipment</i>						
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	47,463	64,258	(752,190)	(889,636)	(704,727)	(825,378)
Disposals / transfers	-	-	-	-	-	-
Impairment	1,270,000	(3,352,000)	-	-	1,270,000	(3,352,000)
Balance at end of year	26,985,954	25,668,491	(7,500,279)	(6,748,089)	19,485,675	18,920,402
<i>IT Equipment</i>						
Balance at Beginning of year	2,552,464	1,968,955	(1,572,356)	(1,033,984)	980,108	934,971
Acquisitions / depreciation	786,575	623,727	(699,384)	(538,372)	87,191	85,355
Disposals / transfers	-	(40,218)	-	-	-	(40,218)
Impairment	(310,000)	-	-	-	(310,000)	-
Balance at end of year	3,029,039	2,552,464	(2,271,740)	(1,572,356)	1,067,299	980,108
<i>Furniture and fittings</i>						
Balance at Beginning of year	205,246	195,527	(195,865)	(188,271)	9,381	7,256
Acquisitions / depreciation	14,082	9,719	(5,325)	(7,594)	8,757	2,125
Disposals / transfers	-	-	-	-	-	-
Balance at end of year	219,328	205,246	(201,190)	(195,865)	18,138	9,381
<i>Office Equipment</i>						
Balance at Beginning of year	9,319	7,255	(6,488)	(4,776)	2,832	2,480
Acquisitions / depreciation	3,939	2,064	(3,145)	(1,712)	794	352
Disposals / transfers	-	-	-	-	-	-
Balance at end of year	13,258	9,319	(9,633)	(6,488)	3,626	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	852,059	699,768	(1,460,045)	(1,437,314)	(607,986)	(737,546)
Disposals / transfers	-	(40,218)	-	-	-	(40,218)
Impairment	960,000	(3,352,000)	-	-	960,000	(3,352,000)
Balance at end of year	30,247,580	28,435,521	(9,982,842)	(8,522,797)	20,264,738	19,912,724

Notes to the Financial Statements

For the year ended 30 June 2023

10(b)(ii): Intangible Assets

	2023	2022	2023	2022	2023	2022
	\$	\$	\$	\$	\$	\$
	Cost		Depreciation		Carrying Value	
<i>Intangible Assets (Software)</i>						
Balance at Beginning of year	-	-	-	-	-	-
Acquisitions / depreciation	2,506,975	-	(19,473)	-	2,487,502	-
Disposals / transfers	-	-	-	-	-	-
Balance at end of year	2,506,975	-	(19,473)	-	2,487,502	-
<i>Goodwill</i>						
Balance at Beginning of year	572,110	-	-	-	572,110	-
Acquisitions / depreciation	-	572,110	-	-	-	572,110
Disposals / transfers	-	-	-	-	-	-
Balance at end of year	572,110	572,110	-	-	572,110	572,110
Balance at Beginning of year	572,110	-	-	-	572,110	-
Acquisitions / depreciation	2,506,975	572,110	(19,473)	-	2,487,502	572,110
Disposals / transfers	-	-	-	-	-	-
Balance at end of year	3,079,085	572,110	(19,473)	-	3,059,612	572,110

Notes to the Financial Statements

For the year ended 30 June 2023

10(c): Leases

(i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	2023 \$	2022 \$
Right-of-use assets		
Premises	13,517,853	12,593,326
Equipment	15,092	51,312
Total	13,532,945	12,644,638
Lease liabilities		
Current		
Premises	1,299,593	876,670
Equipment	15,795	38,133
Total	1,315,388	914,803
Non-current		
Premises	13,875,491	12,685,834
Equipment	-	14,627
Total	13,875,491	12,700,461

(ii) Amounts recognised in the statement of profit or loss

	2023 \$	2022 \$
Depreciation charge over right-of-use assets		
Premises	700,701	607,919
Equipment	36,220	76,308
Total	736,921	684,227

Company as a lessee

The Group leases real property, retail stores, and equipment. Rental contracts are typically made for fixed periods of 12 months to 20 years but may have extension options as described in below:

- **Gold Coast Wind Tunnel Lease** – commenced 14 October 2014 for a term of 20 years, with two further options of 10 years each. The Group has every expectation of exercising these options.
- **Penrith Wind Tunnel Lease** – commenced 26 April 2014 for a term of 20 years, with two further options of 10 years each. The Group has every expectation of exercising these options.
- **FREAK Entertainment Leases** – there are three short term leases for premises with no renewal option, and two equipment leases with 3-year terms.

Contracts may contain both lease and non-lease components. The group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

10(c): Leases (continued)

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the group under residual value guarantees
- the exercise price of a purchase option if the group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by xReality Group Limited, which does not have recent third-party financing, and
- makes adjustments specific to the lease, eg; term, country, currency and security.

The group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the group.

Payments associated with short-term leases of equipment and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less without a purchase option. Low-value assets comprise IT equipment and small items of office furniture.

Notes to the Financial Statements

For the year ended 30 June 2023

10(c): Leases (continued)

Extension and termination options are included in a number of property and equipment leases across the group. These are used to maximise operational flexibility in terms of managing the assets used in the group's operations. The majority of extension and termination options held are exercisable only by the group and not by the respective lessor.

To optimise lease costs during the contract period, the group sometimes provides residual value guarantees in relation to equipment leases.

(iii) Amounts included in the statement of cash flows

	2023 \$	2022 \$
Lease payments		
Premises	851,655	814,457
Equipment	38,133	80,662
Total	889,788	895,119

(iv) Right-of-use Asset

	2023 \$ Cost	2022 \$	2023 \$ Depreciation	2022 \$	2023 \$ Carrying Value	2022 \$
<i>Premises</i>						
Balance at Beginning of year	13,842,272	10,056,930	(1,248,946)	(641,027)	12,593,326	9,415,903
Acquisitions / depreciation	1,703,904	3,803,810	(779,376)	(607,919)	924,528	3,195,891
Disposals	-	(18,468)	-	-	-	(18,468)
Balance at end of year	15,546,176	13,842,272	(2,028,322)	(1,248,946)	13,517,854	12,593,326
<i>Equipment</i>						
Balance at Beginning of year	215,562	215,562	(164,250)	(87,942)	51,312	127,620
Acquisitions / depreciation	-	-	70,682	(76,308)	70,682	(76,308)
Disposals	(106,902)	-	-	-	(106,902)	-
Balance at end of year	108,660	215,562	(93,568)	(164,250)	15,092	51,312
Balance at Beginning of year	14,057,834	10,272,492	(1,413,196)	(728,969)	12,644,638	9,543,523
Acquisitions / depreciation	1,703,904	3,803,810	(708,695)	(684,227)	995,209	3,119,583
Disposals	(106,902)	(18,468)	-	-	(106,902)	(18,468)
Balance at end of year	15,654,836	14,039,366	(2,121,891)	(1,413,196)	13,532,945	12,644,638

Notes to the Financial Statements

For the year ended 30 June 2023

10(d): Provisions

	2023 \$	2022 \$
Current		
Employee benefit obligations	438,945	221,656
Total	438,945	221,656
Non-current		
Employee benefit obligations	120,529	108,742
Make good provision	353,941	206,166
Red Cartel	487,640	568,342
Rent - Macquarie	-	97,000
Bank guarantee	611,104	604,616
Total	1,573,214	1,584,866

	Carrying amount 1 July 2022 \$	Additional Provisions \$	Amount utilised \$	Carrying amount 30 June 2023 \$
Provision for Employee Benefits	330,398	584,003	(354,927)	559,474
Provision for Bank Guarantee	604,616	6,488	-	611,104
Provision for Site Restoration	206,166	147,775	-	353,941
Provision for Red Cartel	568,342	-	(80,702)	487,640
Provision for Rent	97,000	-	(97,000)	-
Total Provisions	1,806,522	738,266	(532,629)	2,012,159

	Carrying amount 1 July 2021 \$	Additional Provisions \$	Amount utilised \$	Carrying amount 30 June 2022 \$
Provision for Employee Benefits	286,498	249,476	(205,576)	330,398
Provision for Bank Guarantee	603,000	1,616	-	604,616
Provision for Site Restoration	65,211	140,955	-	206,166
Provision for Red Cartel	-	568,342	-	568,342
Provision for Rent	-	110,000	(13,000)	97,000
Total Provisions	954,709	1,070,389	(218,576)	1,806,522

a) Provisions for Employee Benefits

The current portion for this provision includes the total amount accrued for annual leave entitlements that have vested due to employees having completed the required period of service.

Notes to the Financial Statements

For the year ended 30 June 2023

10(d): Provisions (continued)

b) Provision for Lease Straight Lining and Bank Guarantee

Rental lease payments for operating the wind tunnels are expensed on a straight lining basis. All unamortised lease incentives in the form of rent free periods are recognised as provision. This provision is reduced by allocating lease payments between rental expenses and reduction of the provision over the remaining term of the lease. The bank guarantee for the Gold Coast premises in cash backed by a term deposit, however under the terms of the Westpac debt restructure the asset may not be redeemed and a provision is carried accordingly.

c) Provision for Site Restoration

This provision relates to present value of expected site restoration costs for two tunnels. These costs are projected forward to an extended lease period of 40 years using 7.0% inflationary escalation and discounted to present value at 7.94% after consideration of the associated risks.

NOTE 11: ISSUED CAPITAL

	2023 \$	2022 \$
Issued Capital		
Opening Balance	46,963,421	44,803,421
Shares Issued	1,080,702	2,160,000
Closing Balance	48,044,123	46,963,421
Share issue costs		
Opening Balance	(2,357,892)	(2,290,138)
Shares Issued	(10,963)	(67,754)
Closing Balance	(2,368,855)	(2,357,892)
Share Capital	45,675,268	44,605,529
Ordinary Shares		
	No.	No.
At the beginning of the reporting period	421,245,554	336,700,099
Shares issued	25,101,041	84,545,455
	446,346,595	421,245,554

Capital Management

The Board controls the capital of the Group in order to generate long-term shareholder value and to ensure that the Group can fund its operations and continue as a going concern. The Board assesses the Group's capital requirements based on the Company's stage of operations, having regard to available debt funding and equity funding and seek to maintain a capital structure based on the lowest cost of capital available to the Group. The Board achieves this through the internal generation of capital and the management of debt levels and, if necessary, share issues.

Notes to the Financial Statements

For the year ended 30 June 2023

NOTE 12: CASH FLOW INFORMATION

	2023 \$	2022 \$
Reconciliation of Cash Flow from Operations with Profit/(Loss) after Income Tax		
Loss after income tax	(1,690,511)	(6,932,214)
Non-cash flows in loss:		
- Impairment of asset	(960,000)	3,352,000
- Unwind of make good discount	147,775	(72,827)
- Interest expense on lease liability	737,332	643,086
- Capitalisation of interest expense	220,084	270,541
- Depreciation expense – property, plant and equipment	1,479,518	1,437,314
- Depreciation expense – right-of-use asset	736,921	684,227
- Loss on disposal of fixed assets	-	40,218
- Change in reserves	336,333	(7,151)
- Provision for bank guarantee	6,488	1,615
Changes in assets and liabilities:		
- (increase)/decrease in trade and term receivables	(683,644)	390,833
- (increase)/decrease in other financial assets	516,197	477,740
- increase/(decrease) in trade payables and accruals	214,348	(551,232)
- increase/(decrease) in inventories	50,750	(63,607)
- increase/(decrease) in unearned revenue	911,822	(76,794)
- increase/(decrease) in provisions	51,375	923,024
- increase/(decrease) in intangibles	-	(572,110)
Cash flow provided by operations	<u>2,074,790</u>	<u>(55,337)</u>

NOTE 13: FINANCIAL RISK MANAGEMENT

Financial Risk Management Policies

The Board of Directors for, among other issues, manages financial risk exposures of the Group. The Board monitors the Group's financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also reviews the effectiveness of internal controls relating to commodity price risk, counterparty credit risk, currency risk, liquidity risk and interest rate risk. The Board meets on a regular basis.

The Board's overall risk management strategy seeks to assist the Group in meeting its financial targets, while minimising potential adverse effects on financial performance. Its functions include the review of the use of hedging derivative instruments, credit risk policies and future cash flow requirements.

Specific Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate risk, and other price risk (commodity and equity price risk).

There have been no substantive changes in the types of risks the Group is exposed to, how these risks arise, or the Board's objectives, policies and processes for managing or measuring the risks from the previous period.

a. Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counter parties of contract obligations that could lead to a financial loss to the Group.

Risk is also minimised through investing surplus funds in financial institutions that maintain a high credit rating, or in entities that the Board has otherwise assessed as being financially sound.

Credit risk exposures

The maximum exposure to credit risk by class of recognised financial assets at the end of the reporting period excluding the value of any collateral or other security held, is equivalent to the carrying amount and classification of those financial assets (net of any provisions) as presented in the statement of financial position.

No collateral is held by the Group securing receivables.

The Group only has significant concentrations of credit risk with any single counterparty in the form of its bankers, and therefore significant credit risk exposures to Australia.

There are no trade and other receivables that are past due nor impaired.

Credit risk related to balances with banks and other financial institutions is managed by the Board, which requires that surplus funds are only invested with counterparties with a Standard & Poor's rating of at least AA-.

	2023 \$	2022 \$
Cash and Term Deposits:		
Cash at bank and on hand	751,758	2,053,208
	751,758	2,053,208

NOTE 13: FINANCIAL RISK MANAGEMENT (continued)

b. Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- preparing forward-looking cash flow forecasts in relation to its operating, investing and financing activities;
- using derivatives that are only traded in highly liquid markets;
- monitoring undrawn credit facilities;
- obtaining funding from a variety of sources;
- maintaining a reputable credit profile;
- managing credit risk related to financial assets;
- only investing surplus cash with major financial institutions; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due.

The table below reflects an undiscounted contractual maturity analysis for financial liabilities.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore differ from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward.

Notes to the Financial Statements

For the year ended 30 June 2023

NOTE 13: FINANCIAL RISK MANAGEMENT (CONT)

Financial liability and financial asset maturity analysis for the Consolidated Group.

	Within 1 Year		1 to 5 Years		Over 5 Years		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
	\$	\$	\$	\$	\$	\$	\$	\$

Financial liabilities due for payment

Borrowings	300,000	300,000	7,282,333	7,362,249	-	-	7,582,333	7,662,249
Trade and other payables	2,234,996	1,215,568	289,312	1,094,392	-	-	2,524,308	2,309,960
Total contractual outflows	2,534,996	1,515,568	7,571,645	8,456,641	-	-	10,106,641	9,972,209
Total expected outflows	2,534,996	1,515,568	7,571,645	8,456,641	-	-	10,106,641	9,972,209

Financial assets – cash flows realisable

Cash and cash equivalents	751,758	2,053,208	-	-	-	-	751,758	2,053,208
Trade and other receivables	844,174	160,530	-	-	-	-	844,174	160,530
Total anticipated inflows	1,595,932	2,213,738	-	-	-	-	1,595,932	2,213,738
Net inflow/(outflow)	(939,064)	698,170	(7,571,645)	(8,456,641)	-	-	(8,510,709)	(7,758,471)

Refer to Note 3(a) Basis of Accounting for matters that have been considered by the directors in determining the appropriateness of the going concern for the preparation of the financial statements.

c. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of a change in market prices. Components of market risk to which the consolidated entity are exposed are discussed below:

(i) Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is not exposed to earnings volatility on floating rate instruments.

The financial instruments that primarily expose the Group to interest rate risk are borrowings, cash and cash equivalents and term deposits.

Interest rate risk is managed using a mix of fixed and floating rate debt where possible.

NOTE 13: FINANCIAL RISK MANAGEMENT (CONT)

(ii) *Foreign exchange risk*

The Group is not exposed to material foreign exchange risk.

(iii) *Other price risk*

Other price risk relates to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices largely due to demand and supply factors (other than those arising from interest rate risk or currency risk) for commodities.

The Group is not exposed to commodity price risk. The Group is not exposed to securities price risk on investments held for trading over the medium to longer terms.

Sensitivity analysis

The following table illustrates sensitivities to the Group's exposures to changes in interest rates, and exchange rates. In respect of the exchange rates, the table summarises the sensitivity of the balance of financial instruments held at the reporting date to movement in the exchange rate of the US dollar to the Australian dollar, with all other variables held constant. The table indicates the impact on how profit and equity values reported at the end of the reporting period would have been affected by changes in the relevant risk variable that management considers to be reasonably possible.

These sensitivities assume that the movement in a particular variable is independent of other variables.

(iv) *Sensitivity analysis*

The following table illustrates sensitivities to the Group's exposures to changes in interest rates, and exchange rates. In respect of the exchange rates, the table summarises the sensitivity of the balance of financial instruments held at the reporting date to movement in the exchange rate of the US dollar to the Australian dollar, with all other variables held constant. The table indicates the impact on how profit and equity values reported at the end of the reporting period would have been affected by changes in the relevant risk variable that management considers to be reasonably possible.

These sensitivities assume that the movement in a particular variable is independent of other variables.

	Profit \$	Equity \$
Year ended 30 June 2023		
+/-1% in interest rates	75,823	75,823
Year ended 30 June 2022		
+/-1% in interest rates	76,622	76,622

There have been no changes in any of the methods or assumptions used to prepare the above sensitivity analysis from the prior year. These movements are considered to be reasonably possible based on observation of current market conditions.

Notes to the Financial Statements

For the year ended 30 June 2023

NOTE 14: SHARE BASED PAYMENTS

Year Ended 30 June 2023

Under the Employee Incentive Options Plan, awards are made to the executives who have an impact on the Group's Performance. Employee Incentive Option awards are delivered in the form of options over shares which vest over a period of two to three years subject to meeting performance measures. The group uses share price as the performance measure.

The fair value of share options granted is estimated at the date of grant using a Black-Scholes valuation model, taking into account the terms and conditions upon which the share option is equal to 145% of the volume weighted average market price on the ASX for up to 5 trading days. The contracted term of the share options is four years and there are no cash settlement alternatives for employees.

The following table illustrates the reconciliation of share options during the year:

	Number of Share Options
Outstanding as at 1 July 2022	16,585,005
Granted during the year	4,000,000
Expired during the year	-
Exercised during the year	(1,000,000)
Outstanding as at 30 June 2023	19,585,005

The following tables list the inputs to the model used for the Employee Incentive Option Plan for the year ended 30 June 2023:

15,585,005 Options expiring on 31 st January 2024	
Share Price at grant/approval date (weighted average)	\$0.049
Share Price at grant/approval date	\$0.013
Exercise Price	\$0.021
Expected Volatility	50%
Expected life (weighted average number of days)	215
Expected dividends	0%
Risk-free rate (weighted average)	1.08%

2,000,000 Options expiring on 29 th November 2024	
Share Price at grant/approval date (weighted average)	\$0.042
Share Price at grant/approval date	\$0.042
Exercise Price	\$0.000
Expected Volatility	50%
Expected life (weighted average number of days)	518
Expected dividends	0%
Risk-free rate (weighted average)	1.91%

Notes to the Financial Statements

For the year ended 30 June 2023

NOTE 14: SHARE BASED PAYMENTS (cont'd)

2,000,000 Options expiring on 29th November 2025

Share Price at grant/approval date (weighted average)	\$0.042
Share Price at grant/approval date	\$0.042
Exercise Price	\$0.000
Expected Volatility	50%
Expected life (weighted average number of days)	883
Expected dividends	0%
Risk-free rate (weighted average)	1.91%

Service Rights have been agreed to be issued as below:

Phil Copeland 3,000,000 Rights (being Options) issued in two tranches and subject to continuing to be a Director of the Company: -

Tranche 1: 1,000,000 Rights with \$0.00 exercise price, 50% of which will vest on shareholder approval, and 50% will vest on the first anniversary of the shareholder approval. The exercise period is 12 months from the date of vesting.

Tranche 2: 2,000,000 Rights with \$0.065 exercise price, 50% of which will vest on 23 January 2024, and 50% will vest on the 23 January 2025. The exercise period is 12 months from the date of vesting.

Notes to the Financial Statements

For the year ended 30 June 2023

Year Ended 30 June 2022

Under the Employee Incentive Options Plan, awards are made to the executives who have an impact on the Group's Performance. Employee Incentive Option awards are delivered in the form of options over shares which vest over a period of three years subject to meeting performance measures. The group uses share price as the performance measure.

The fair value of share options granted is estimated at the date of grant using a Black-Scholes valuation model, taking into account the terms and conditions upon which the share option is equal to 145% of the volume weighted average market price on the ASX for up to 5 trading days. The contracted term of the share options is four years and there are no cash settlement alternatives for employees.

The following table illustrates the reconciliation of share options during the year:

	Number of Share Options
Outstanding as at 1 July 2021	9,500,000
Granted during the year	53,435,005
Expired during the year	1,100,000
Exercised during the year	45,250,000
Outstanding as at 30 June 2022	16,585,005

The following table lists the inputs to the model used for the Employee Incentive Option Plan for the year ended 30 June 2022:

16,585,005 Options expiring on 31 st January 2024	
Share Price at balance date (weighted average)	\$0.047
Share Price at grant/approval date	\$0.013
Exercise Price	\$0.021
Expected Volatility	50%
Expected life (weighted average number of days)	580
Expected dividends	0%
Risk-free rate (weighted average)	3.61%

Service Rights have been agreed to be issued as below:

John Diddams	3,000,000 Rights (being Options with nil exercise price) issued in two tranches: - Tranche 1: 50% on shareholder approval Tranche 2: 50% on the first anniversary of shareholder approval
Mark Smethurst	1,000,000 Rights (being the right to acquire one ordinary share per Right, for nil consideration) in two tranches: - Tranche 1: 50% on shareholder approval Tranche 2: 50% on the first anniversary of shareholder approval

Notes to the Financial Statements

For the year ended 30 June 2023

NOTE 15: EARNINGS PER SHARE

Earnings per share (cents per share)	2023 Cents	2022 Cents
From continuing operations:		
- basic earnings per share	(0.40)	(2.02)
- diluted earnings per share	(0.38)	(1.92)

	2023 \$	2022 \$
a. Reconciliation of earnings to profit or loss:		
Loss	(1,690,511)	(6,932,214)
Earnings used to calculate basic EPS – continuing operations	(1,690,511)	(6,932,214)
Earnings used to calculate basic EPS – discontinuing operations	-	-
Earnings used in the calculation of dilutive EPS – continuing operations	(1,690,511)	(6,932,214)
Earnings used in the calculation of dilutive EPS – discontinuing operations	-	-
	No.	No.
b. Weighted average number of ordinary shares for basic EPS	426,894,488	343,714,887
Weighted average number of ordinary shares for diluted EPS	446,479,493	360,299,892

All performance rights on issue at 30 June 2023 are anti-dilutive.

Notes to the Financial Statements

For the year ended 30 June 2023

NOTE 16: INTEREST IN SUBSIDIARIES

Set out below are the Group's subsidiaries at 30 June 2023. 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	2023 %	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 Holdings Pty Ltd	Australia	**N/A	100
ISA Asia Operations Pty Ltd	Australia	**N/A	100
Freak Entertainment Pty Ltd	Australia	100	100
Operator XR Pty Ltd	Australia	100	100
Operator XR LLC	United States	***100	N/A
Red Cartel Pty Ltd	Australia	100	*100

* Registered 16th August 2021

** Deregistered 10th May 2023

***Registered 2nd March 2023

NOTE 17: RELATED PARTY TRANSACTIONS

a. The Group's main related parties are as follows:

(i) *Entities exercising control over the Group:*

The ultimate parent entity is xReality Group Ltd.

(ii) *Key management personnel:*

Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity, are considered key management personnel.

For details of disclosures relating to key management personnel, refer to the Remuneration Report.

(iii) *Entities subject to significant influence by the Group:*

An entity that has the power to participate in the financial and operating policy decisions of an entity, but does not have control over those policies, is an entity which holds significant influence. Significant influence may be gained by share ownership, statute or agreement. There are no such entities in the Group.

(iv) *Other related parties:*

Other related parties include entities controlled by the ultimate parent entity and entities over which key management personnel have joint control.

The entities disclosed in Note 16 are 100% owned subsidiary companies of the parent entity.

b. Transactions with related parties:

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this Note.

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

c. Key Management Personnel Compensation

The Key Management Personnel compensation included in employment expenses is as follows:

	Consolidated Entity		Company	
	2023 \$	2022 \$	2023 \$	2022 \$
Short term employee benefits	734,105	598,951	734,105	598,951
Post employment benefits	73,463	55,478	73,463	55,478
	<u>807,568</u>	<u>654,429</u>	<u>807,568</u>	<u>654,429</u>

Notes to the Financial Statements

For the year ended 30 June 2023

NOTE 18: PARENT ENTITY FINANCIAL INFORMATION

The following information has been extracted from the books and records of the parent and has been prepared in accordance with Australian Accounting Standards.

	2023 \$	2022 \$
Statement of Financial Position		
Assets		
Current assets	1,817,903	7,002,214
Non-current assets	33,750,979	29,100,532
Total Assets	35,568,882	36,102,746
Liabilities		
Current liabilities	4,576,387	913,572
Non-current liabilities	7,733,883	11,159,603
Total Liabilities	12,310,270	12,073,175
Equity		
Issued capital	45,675,268	44,605,529
Share based payments reserve	370,621	34,287
Retained earnings	(22,787,277)	(20,610,246)
Total Equity	23,258,612	24,029,570
Statement of Profit or Loss and Other Comprehensive Income		
Total comprehensive profit/loss for the year	(1,794,335)	(1,530,149)
	(1,794,335)	(1,530,149)

Contingent liabilities

The parent entity does not have any contingent liabilities as at 30 June 2023.

Contractual commitments

Other than amounts disclosed in the financial statements, the parent entity has no additional contractual commitments as at 30 June 2023.

Notes to the Financial Statements

For the year ended 30 June 2023

NOTE 19: AUDITOR'S REMUNERATION

	2023 \$	2022 \$
(i) Remuneration of the auditor for:		
- Audit fees	56,146	56,264
- Half year review	23,249	21,652
	<u>79,395</u>	<u>77,916</u>

The auditor for financial year 2022 and 2023 was Felsers, Chartered Accountants.

(i) Non-Auditor fees		
- Taxation compliance	903	-
- Other Advisory services	-	1,740
	<u>903</u>	<u>1,740</u>

The non-auditor services were provided by Accru Felsers Pty Ltd.

NOTE 20: CONTINGENT LIABILITIES

The Group does not have any contingent liabilities at the reporting date.

NOTE 21: EVENTS AFTER REPORTING DATE

The financial statements have been prepared based on the conditions existing at 30 June 2023 and considering those events occurring subsequent to that date.

On 24th August 2023, XRG announced confirmation of its first sale of Operator L-E into the US market, to the Garfield County Sheriff's Office. This is a market with 18,000 individual Law Enforcement agencies.

On the 29th August, the company announced the successful extension of its senior debt facility with Causeway Financial to March 2025. In addition to this extension, XRG also secured an additional \$500,000 available for drawdown. The extension provides XRG with increased financial flexibility and enhances our capacity for future growth strategies.

Notes to the Financial Statements

For the year ended 30 June 2023

Directors' Declaration

For the year ended 30 June 2023

In the opinion of the Directors of xReality Group Limited:

a. the financial statements and notes, as set out on pages 23 to 67, are in accordance with the *Corporations Act 2001*, including:

- i. giving a true and fair view of the financial position as at 30 June 2023 and of its performance for the financial year ended on that date; and
- ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

b. There are reasonable grounds to believe that xReality Group Limited will be able to pay its debts as and when they become due and payable.

Note 3 includes a statement that the financial statements also comply with International Financial Reporting Standards.

The Directors have been given the declarations required by Section 295A of the *Corporations Act 2001* from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2023.

This declaration is made in accordance with a resolution of the Directors.

For and on behalf of the Board



Wayne Jones

Director and Chief Executive Officer

30 August 2023

Sydney



INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of xReality Group Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2023, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2023 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

In forming our opinion on the Group financial report, which is not modified, we have considered the adequacy of the disclosure made in Note 3a. to the financial statements concerning the Group's ability to continue as a going concern. The Group's ability to continue as a going concern for at least the next 12 months is dependent on the Company being able to continue to generate funds as required to meet ongoing expense, working capital and repay

debt. These conditions, as explained in Note 3a. to the financial statements, indicate the existence of a material uncertainty which may cast doubt about the Group's ability to continue as a going concern. The Group financial statements do not include any adjustments that would result if the Group were unable to continue as a going concern.

Key Audit Matters

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Revenue – Note 5	
<p>The group recognised revenue derived from the sales of goods and services as well as the sale of prepaid gift cards.</p> <p>Total revenue from both the wind tunnels and FREAK Entertainment for the year ended 30 June 2023 was \$9,242,611. It was noted that the point-of-sale systems used to record and track revenue receipts from the original point of sale (Fusemetrix) was not integrated with general ledger. We therefore considered revenue to be a key audit matter given the potential for revenue to be materially misstated when posted via manual general ledger journal entries based off the monthly summary extracted from either Fusemetrix. Our procedures were designed to corroborate our assessment that revenue should be closely aligned to actual cash banked and identify manual adjustments made to revenue for additional testing.</p> <p>A portion of the revenue attributable to gift card sales is recognised upfront using management's internal estimates of the historical redemption rates of the gift cards. As at 30 June 2023, gift card revenue or 'breakage' of \$199,998 was recognised along with a corresponding deferred revenue balance of \$1,886,871. Given the management judgement and inherent subjectivity in the development and application of appropriate accounting policies in compliance with Australian Accounting Standards as well as adherence to proper cut-off procedures as to the timing of the revenue, we believe this constitutes a key audit matter.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> + Assessing whether the Group's revenue recognition policies were in compliance with Australian Accounting Standards; + Evaluating the operating effectiveness of revenue recognition; + Testing the appropriateness and accuracy of general ledger revenue journals; + Reviewing the mathematical accuracy of management's calculation of the gift card revenue recognised and tracing a sample of general journals posted to supporting documentation; + Evaluating the reasonableness of management's estimates relating to gift card breakage rates including corroborating management's assertions to historical redemption rates; and + Performing testing on a sample of sales at year end to determine that the revenues recorded relate to the appropriate period.

<p>Impairment of non-current assets – Note 10(b)(i), 10(c)</p>	
<p>As at 30 June 2023, the carrying amount of the Group’s property, plant and equipment totaled \$20,264,735. In addition, the carrying amount of the Group’s right-of-use asset totaled \$13,532,945.</p> <p>The Group performs an impairment assessment on both the carrying amount of property, plant and equipment and the right-of-use asset on an annual basis and when there is an impairment indicator present.</p> <p>The impairment assessment involves a degree of complexity and judgement including modelling a range of assumptions and estimates which are in turn impacted by future performance and market conditions. The inherent subjectivity surrounding assumptions in relation to cash flow forecasts, growth rates, discount rates and the duration of the terminal growth phase means that the impairment of non-current assets was a key audit matter.</p> <p>We further considered impairment of non-current assets a key audit matter due to the significant uncertainty around the current period of economic volatility. Cash flow forecasts and assumptions may change materially and dynamically in response to material movements in the cash rate and the persistent inflationary environment.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> + Obtained an understanding of the entity and its environment focusing specifically on changes to that may impact accounting estimates such as impairment; + Identified and assessed the risk of material misstatement separately assessing inherent risk and control risk and concluding that impairment represented a significant risk; + Agreeing key assumptions such as discount rates and revenue growth to supporting documentation and reasonableness when compared with industry averages and trends; + Performed tests on the operating effectiveness of controls in relation to the completeness and accuracy of system generated data included in the Group’s impairment calculation; + Performed sensitivity analysis based on modifications to the discount rate, projected growth rates and terminal growth assumptions that underlay the Group’s impairment model; + Assessed the reasonableness of the Group’s impairment model when compared with our point range estimate in order to determine whether sufficient evidence of impairment existed in line with AASB 136

<p>Right of use asset and lease liability – Note 10 (c)</p>	
<p>The group performed a reassessment of the calculations for the right-of-use asset and lease liabilities due to the flow on effect of higher sustained inflation and the impact on future rent increases.</p> <p>The right-of-use assets and lease liability calculations involves a degree of complexity and judgement around potential rent increases based on inflation.</p> <p>We considered in the persistent inflationary environment reviewing the right-of-use asset and lease calculations are a key audit matter due to the significant uncertainty around the current period of economic volatility. The value of the right-of use assets also forms part of our impairment assessment described above.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> + Performed an assessment and recalculated the discount rates in the form of the incremental borrowing rate which were applied in the calculation of the lease liabilities; + Verified the accuracy of the underlying lease data agreeing to signed lease agreements and the accuracy of the consolidated AASB 16 Leases calculation + Performed a sensitivity analysis to develop a point range estimate on consideration of the impact of persistent high inflation in relation to leases with clauses stipulating increases in the base rent in line with the consumer price index (CPI); + Determined if the disclosures made in the annual report with respect to AASB 16 were in compliance with relevant Accounting Standards.
<p>Group’s ability to continue as a Going Concern – Note 3(a)</p>	
<p>In accordance with the Australian Accounting Standards, when assessing whether the going concern assumption is appropriate, management is required to consider all information about the future encompassing at the least twelve months from the end of the reporting period. The assessment is largely based on the assumptions made by directors in formulating cash flow forecasts, with key assumptions including the timing of the future cash flows, operating results, capital raising activities, any potential sale of assets and any capital commitments.</p> <p>As per the disclosure in Note 3a, there is significant uncertainty as at 30 June 2023 in relation to the continued impact of economic volatility with respect to the ongoing material increases to the Australian cash rate and the persistent inflationary environment. The basis of accounting in relation to the year-ended 30 June 2023 thus constitutes a key audit matter.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> + Evaluation of the underlying data used as the basis of cash flow projections prepared by management and those charged with governance; + Analysing the impact of potential changes in projected cash flows and their timing, to the projected periodic cash positions; + Assessing the resulting impact on the ability of the Group to pay debts as and when they fall due and the Group’s ability to continue as a going concern; + Obtaining and reviewing correspondence between existing financiers and the Group to determine the options available to the Group inclusive of variable debt facilities; + Evaluating the Group’s disclosures in the financial report by comparing them to our understanding of the matter, the events or conditions incorporated into the cash flow projection assessment, the Group’s plans, and accounting standard requirements.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2023 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- + Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- + Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- + Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- + Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- + Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included on pages 13 to 20 of the directors' report for the year ended 30 June 2023.

In our opinion, the Remuneration Report of xReality Group Limited, for the year ended 30 June 2023, complies with section 300A of the Corporations Act 2001.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



Glenda Nixon

Partner

30 August 2023
Sydney, Australia



FELSERS

Chartered Accountants



SHAREHOLDER INFORMATION

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The following information is current as at 27 July 2023:

1. Shareholder Information

Distribution of Shareholders	Number	Ordinary Shares
Category (size of holding):		
1 – 1,000	55	16,225
1,001 – 5,000	61	158,500
5,001 – 10,000	242	2,059,205
10,001 – 100,000	903	34,494,899
100,001 and over	306	409,617,766
	1,567	446,346,595

The number of shareholdings held in less than marketable parcels is 279.

The names of the substantial shareholders listed in the holding company's register are:

Shareholder:	Number of Shares	% of Issued Capital
BIRKDALE HOLDINGS (QLD) PTY LTD	99,638,163	22.323
MR KIM HOPWOOD	31,303,773	7.013

Voting Rights

xReality Group has 446,346,595 ordinary shares on issue which are listed on the ASX. The voting rights attached to each ordinary share is one vote per share when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

20 Largest Shareholders – Ordinary Shares

Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
BIRKDALE HOLDINGS(QLD) PTY LTD <THE BAXTER FAMILY A/C>	99,638,163	22.323%
MR KIM HOPWOOD	31,303,773	7.013%
IPSGROUP PASTORAL COMPANY PTY LTD <IPSGROUP PASTORAL A/C>	18,747,749	4.200%
BNP PARIBAS NOMS (NZ) LTD <DRP>	16,061,630	3.598%
EXCALIB-AIR PTY LTD <EXCALIB-AIR UNIT ACCOUNT>	16,060,000	3.598%
PROJECT GRAVITY PTY LTD <THE JONES FAMILY A/C>	12,713,569	2.848%
QUAD INVESTMENTS PTY LTD	11,916,667	2.670%
PATAGORANG PTY LTD <ROGER ALLEN FAMILY A/C>	11,111,111	2.489%
HGL INVESTMENTS PTY LTD	11,111,111	2.489%
PROJECT FLIGHT PTY LTD <WAYNE JONES SUPER FUND A/C>	6,814,882	1.527%
DRILL INVESTMENTS PTY LTD	5,000,000	1.120%
KAYSIM PTY LTD	4,687,500	1.050%
NOOKAMKA HOLDINGS PTY LTD <NOOKAMKA HOLDINGS SUPER A/C>	4,500,000	1.008%
HOWARD-WILLIS LIMITED	4,293,759	0.962%
MR MICHAEL ADAM CREBAR	4,222,384	0.946%
RICKTARR PTY LTD <SG & F SUPER FUND A/C>	4,000,000	0.896%
MR PHILIP RAEBURN COPELAND	3,806,576	0.853%
MR MARK TEDESCHI	3,689,767	0.827%
CORPORATE MODELLING PTY LTD <CORPORATEMODELLING SUPER A/C>	3,074,443	0.689%
GALDARN PTY LTD	3,000,000	0.672%
HAREBREN PTY LTD <HAREBREN SF A/C>	3,000,000	0.672%
DEVAUX SUPERANNUATION PTY LTD <DEVAUX SUPER FUND A/C>	3,000,000	0.672%
	281,753,084	63.124%

2. The name of the company secretary is Stephen Tofler.
3. The address of the principal registered office in Australia is 123 Mulgoa Road, Penrith NSW 2750
4. The Register of Securities is held at Level 8, 210 George Street, Sydney NSW 2000.

5. Stock Exchange Listing

Quotation has been granted for all 446,346,595 ordinary shares of xReality Group on all Member Exchanges of the Australian Securities Exchange Limited.

6. Unquoted Securities

xReality Group has 15,585,005 incentive options on issue to 2 eligible executive Directors and 4 senior management personnel. The incentive options have a vesting date of 31st January 2022, have an exercise price of \$0.021 and expire on 31 January 2024. It also has 4,000,000 incentive options on issue to 2 non-executive Directors, with nil exercise price and expiry as outlined in Note 14.



XREALITY GROUP LIMITED