

24 October 2023

LETTER TO ELIGIBLE SHAREHOLDERS NON-RENOUNCEABLE RIGHTS ISSUE

Dear Shareholder,

Rights Issue with Bonus Options

The very pleasing financial results for FY2023 saw the Company post a 47% increase in income and positive EBITDA of \$2.2m. The Company has reached a pivotal point in its journey and wishes to invite you to play a part in continuing that growth and future success.

Whilst the entertainment businesses, comprising iFly and FREAK, now provide the cash flow required to sustain the Company, further investment is required to fund the expansion of the Operator XR business (which allows military personnel and law enforcement officers to train operational tactics and procedures within a portable virtual reality environment).

Operator XR is now at the cusp of an expansive growth phase, especially within the US market, which we consider promises untapped potential and rewards. At the same time, we recognise the importance of maintaining a strong financial foundation, which involves optimising the Company's capital structure and reducing its overall debt levels.

With these objectives in mind, the Board has approved a pro rata non-renounceable offer of 1-for-5 shares with 1 Bonus Option for every 2 New Shares issued (**Offer**). The Company's goal is to raise up to \$3.25 million from the Offer. This new capital will be used for two primary purposes:

1. **Growth in the US Market:** We have identified a number of strategic avenues for Operator XR in the United States of America (**US**) that align with our core strengths and promise significant return on investment. With the additional capital, the Company will aim to seize these opportunities, further establishing its brand, expanding its distribution networks and delivering value to its customers.
2. **Reduction of Company Debt:** Maintaining a healthy balance sheet has always been a priority of the Company. Reducing its existing debt will not only offer more operational flexibility but also position it favourably for future ventures, while potentially leading to savings from decreased interest obligations.

Whilst the additional required capital may have been raised through a larger placement to institutional investors, the Board considers that all shareholders should be offered the opportunity to participate in the Offer and to capitalise on the growth in both revenue and profitability that this capital and the new direction is expected to produce.

I would like to thank all shareholders for their trust and support to date which has been integral to our past achievements, and I now invite you to participate in this Offer, ensuring that we continue our trajectory of growth, innovation, and value creation for the Company and its shareholders. Thank you for your consideration, and I look forward to your participation with us on the exciting journey ahead.

About the Offer

The Company is making a pro rata non-renounceable offer of 1-for-5 shares held by Eligible Shareholders registered on the Record Date, being 5.00pm (AEDT) on **Friday, 27 October 2023** at an issue price of **\$0.035** with 1 Bonus Option for every 2 New Shares issued. The issue price represents a 27% discount to the last closing of Shares on the ASX on 18 October 2023. The Offer is expected to close on **Friday 10 November 2023**, but may close earlier.

Full details and conditions of the Offer are set out in the Prospectus. You should read this Prospectus in its entirety and seek professional financial advice should you have any questions.

On behalf of the Board, I look forward to your continued support and updating you on the Company's progress.

Yours sincerely,



John Diddams

Chairman

FURTHER INFORMATION

The Company lodged a Prospectus for the Offer (Prospectus) with ASX on 24 October 2023 and an Investor Presentation was lodged with the ASX on 18 October 2023. Both documents can also be found on the company website www.xrgroup.com.au

We are writing to you as an eligible retail shareholder on the Record Date entitled to participate in the Offer.

HOW TO ACCESS THE OFFER

1. **PAPER** – You will receive a personalised Entitlement and Acceptance Form.
2. **ONLINE** – The Prospectus (including the BPAY payment details) can be accessed via the following websites: www.xrgroup.com.au, www.asx.com.au
3. You may request a paper copy or an electronic copy of the Prospectus by email: stofler@xrgroup.com.au

The Offer closes at 5:00pm (Sydney time) on **Friday, 10 November 2023** and all payments must be received not later than that date and time.

PARTICIPATION IN OFFER

The number of New Shares for which you are entitled to apply for under the Offer (**Entitlement**) is shown on your personalised Entitlement and Acceptance Form.

As an Eligible Shareholder you are entitled to apply for additional Shares in the Offer under the same terms and conditions as your entitlement (**Top Up Facility**).

The issue of Additional New Shares will be dependent on there being a shortfall in the take up of Entitlements under the Offer. Eligible Shareholders who wish to apply for Additional New Shares under the Top-Up Facility can do so by specifying the number of Additional New Shares they wish to apply for in the space provided on their Entitlement and Acceptance Form.

If there remains any shortfall of Shares taken up by Eligible Shareholders (including after the application of the Top-Up Facility), the Board reserves the right to issue all or any of the New Shares under the Shortfall Facility (**Shortfall Facility**) at their absolute discretion. The New Shares issued under the Shortfall Facility will be offered through a placement to eligible professional and sophisticated investors at the same price and under the same terms as the Offer.

APPLICATIONS

Simply pay the amount you wish to invest using BPAY® using your personalised Customer Reference Number (CRN) which can be found on your personalised Acceptance form, and the number of Shares and corresponding free Options will be automatically calculated for you. If you have any queries, please email the Share Registry at corporateactions@boardroomlimited.com.au or the Company at info@xrgroup.com.au.

If you misplace your CRN please call the Registry on 1300 737 760 and they will guide you through the process.

WHAT ARE THE OPTIONS AVAILABLE TO ELIGIBLE SHAREHOLDERS

There are a number of actions you may take:

- ☐ accept your full Entitlement;
- ☐ accept your full Entitlement and apply for Additional New Shares as part of the Top Up Facility;
- ☐ take up a proportion of your Entitlement and allow the balance to lapse; or
- ☐ if you do not wish to accept all or part of your Entitlement, you are not obliged to do anything.

Any enquiries concerning the Offer, or if you require a replacement personalised Acceptance Form, you can contact the Company at info@xrgroup.com.au or Boardroom Pty Limited at **1300 737 760** (within Australia) and **+61 2 9290 9600** (from outside Australia), during office hours (AEDT) time on Monday to Friday.

Contact Details regarding this announcement:

Stephen Tofler

Company Secretary

stofler@xrgroup.com.au

ENTITLEMENT OFFER ENTITLEMENT AND ACCEPTANCE FORM

Entitlement No.	
Subregister	
SRN/HIN	
Number of Shares held at 5:00pm (Sydney time) on 27 October 2023	

Closing Date: Friday, 10 November 2023 at 5:00pm

This is an important document and requires your immediate attention. This Entitlement and Acceptance Form can only be used in relation to the security holding represented by the SRN or HIN printed above. If you are in doubt about how to deal with this Entitlement and Acceptance Form, please consult your financial or other professional adviser.

You should read the Prospectus dated Tuesday, 24 October 2023 (Prospectus) that accompanies this Entitlement and Acceptance Form for details of the Entitlement Offer and other important information. Capitalised words used and not otherwise defined in this Entitlement and Acceptance Form have the meaning given to them in the prospectus.

You do not need to return this Entitlement and Acceptance Form when you pay by BPAY®.

A Offer acceptance

The return and receipt of this Entitlement and Acceptance Form with your Application Monies by the Closing Date or payment via BPAY® by the Closing Date will constitute acceptance of your Entitlement on the terms and conditions set out in the prospectus (Application).

If you wish to accept your **FULL ENTITLEMENT** please complete and return this Entitlement and Acceptance Form **WITH YOUR PAYMENT FOR THE AMOUNT SHOWN BELOW.**

Entitlement to New Shares	Price per New Share	Amount payable on full acceptance of Entitlement
	A\$0.035 per New Share =	

If you wish to accept **PART OF YOUR ENTITLEMENT ONLY** please complete the box below showing the **NUMBER OF NEW SHARES BEING ACCEPTED** and the appropriate amount payable.

Number of New Shares being accepted	Price per New Share	Amount enclosed
	A\$0.035 per New Share =	

B Applications for Additional Shares

If you apply to take up all of your Entitlement as noted Section A, you may also apply for Additional Shares. If you wish to apply for Additional Shares, please insert the number of Additional Shares in the box below and the appropriate amount payable. Additional Shares will only be allocated to Eligible Shareholders in accordance with the Allocation Policy set out in the prospectus and in the absolute discretion of xReality Group. **xReality Group may apply any scale-back applications for Additional Shares in its absolute discretion. Refer to the prospectus for further details.**

Number of Additional Shares applied for	Price per Additional Share	Amount enclosed
	A\$0.035 per New Share =	

C Payment

Payments can be made by BPAY® or cheque. Cash will not be accepted via the mail or at Boardroom. Payments cannot be made at any bank. **You do not need to return this Acceptance Form** if paying by BPAY®.



Billers Code:

CRN:

Telephone & Internet Banking - BPAY®

Contact your bank, credit union or building society to make payment from your account.

More info: www.bpay.com.au

© Registered to BPAY Ltd ABN 69 079 137 518

- ☐ To pay via BPAY® please contact your participating financial institution.
- ☐ If paying by BPAY® you do NOT need to return this Entitlement and Acceptance Form.

D Contact details

You do not have to provide us with your contact details, however it will assist us if we need to contact you.

CONTACT NAME	TELEPHONE WORK	TELEPHONE HOME	EMAIL ADDRESS
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Important Information: This document is of value and requires your immediate attention. If in doubt consult your stockbroker, solicitor, accountant or other professional advisor without delay.

ACCEPTANCE OF THE OFFER

By making payment by BPAY, by 5.00pm Sydney time on Friday, 10 November 2023:

- you represent and warrant that you have read and understood and agree to the terms set out on this Entitlement and Acceptance Form and in the Prospectus;
- you represent and warrant that you are not in the United States and you are not acting for the account or benefit of a person in the United States in connection with the subscription for Entitlements or the purchase of New Shares in the Entitlement Offer, and you are not otherwise a person to whom it would be illegal to make an offer of or issue of Entitlements or New Shares under the Entitlement Offer and under any applicable laws;
- you acknowledge that the Entitlements and the New Shares have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any state or other jurisdiction of the United States. Accordingly, the Entitlements and the New Shares may not be offered or sold in the United States except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act and applicable U.S. state securities laws;
- you provide authorisation to be registered as the holder of New Shares acquired by you and agree to be bound by the constitution of xReality Group Limited; and
- your application to acquire New Shares is irrevocable and may not be varied or withdrawn except as allowed by law.

HOW TO ACCEPT NEW SHARES - Australian Residents

BPAY payment: The total amount payable to accept your Entitlement in full is shown in Section A on the front of this form. If you accept your full Entitlement and wish to apply for Additional Shares, please complete **Sections B** (to determine your total application amount payable). Contact your Australian bank, credit union or building society to make this payment from your cheque or savings account. For more information visit: www.bpay.com.au. Refer to the front of this form for the Biller Code and Customer Reference Number. Payments must be received by BPAY before 5.00 pm Sydney time on Friday, 10 November 2023.

If the BPAY payment is for any reason not received in full, xReality Group may treat you as applying for as many New Shares as will be paid for by the cleared funds. **You are not required to submit this Acceptance Form when you make your payment using BPAY.**

Privacy Statement

Boardroom Pty Limited advises that Chapter 2C of the *Corporations Act 2001* (Cth) requires information about you as a shareholder (including your name, address and details of the shares you hold) to be included in the public register of the entity in which you hold shares. Information is collected to administer your shareholding and if some or all of the information is not collected then it might not be possible to administer your shareholding. Your personal information may be disclosed to the entity in which you hold shares. You can obtain access to your personal information by contacting us at the address or telephone number shown on this Entitlement and Acceptance Form. Our privacy policy is available on our website (<http://www.boardroomlimited.com.au/privacy.html>).

For further information regarding this Entitlement and Acceptance Form or the Entitlement Offer please contact the xReality Group Offer Information Line on 1300 737 760 within Australia, or +61 2 9290 9600 outside Australia from 8.30am to 5.00pm (Sydney time) Monday to Friday. For other questions you should contact your stockbroker, solicitor, accountant or other professional adviser.