

**xReality Group Limited**  
ABN: 39 154 103 607

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# ANNUAL REPORT

For the year ended 30 June

# 2022



XREALITY GROUP LIMITED

## Corporate Directory

### Directors

John DIDDAMS (Non-executive/Chairman)  
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

### Principal Place of Business

xReality Group Limited  
123 Mulgoa Road  
Penrith NSW 2750

### Share Register

Boardroom Pty Limited  
Level 12  
225 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

### Stock exchange listing code:

XRG

### Website

[www.xrgroup.com.au](http://www.xrgroup.com.au)

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# DIRECTORS' REVIEW OF OPERATIONS

## DIRECTORS' REVIEW OF OPERATIONS

### Delivering on Strategy and Investing in the Future

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

#### Name change completed

In-line with the growth strategy and the broadening of the target market, the company changed its name to xReality Group Ltd, which was approved at the FY21 AGM.

XR stands for eXtended Reality, and is a catch-all term for Virtual Reality, Augmented Reality, and Mixed Reality. Extended Reality combines physical and digital simulation for both consumer and enterprise market segments.

#### Defence and Law Enforcement Capabilities

The company invested close to \$1M during the year on the advancement of our product line for the Defence and Law Enforcement Industry - culminating in a series of demonstrations and trials to multiple specialised military units, state and federal police agencies across Australia and overseas. The unique, portable virtual reality based products have been well received by the end users and are well advanced for imminent commercialisation.

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

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

### Successful Acquisition of VR Studio

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

### Strengthening of the Board

In November 2021, the Board Appointed Mark Smethurst DSC, AM as a Non-Executive Director of the Company. Mark is an accomplished senior executive leader with a highly successful track record commanding large and diverse teams in both Australia and overseas. Mark's experience in Australian and International Defence and supply chains along with his network of key leaders throughout defence and industry has helped drive the go-to-market strategy of XRG's Defence products.

In January 2022, the Board appointed John Diddams as a Non-executive Director and new Chairman of the Board. John is a highly experienced and strategic public company director with over forty years of financial and management experience in Australia and overseas. John has a strong track record and extensive experience in driving business performance, mergers & acquisition, due diligence and corporate governance. Formal qualifications include a Bachelor of Commerce from UNSW, John is also a Fellow of the Australian Society of CPA's and a Fellow of the Australian Institute of Company Directors.

### Entertainment Sector

xReality Group's Entertainment sector recovered well after a severely COVID affected first half of the year. Closures lasting 14 weeks across all NSW based businesses severely affected the full year result however the recovery witnessed throughout the second half has confirmed consumer confidence in the sector and the strong performance from February through to the end of June and continuing in the early stages of FY23.

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

The company briefly put a hold on the rapid rollout of further FREAK facilities due to the disruption however with stability returned across retail markets, the company has recommenced its rollout plan, beginning with an exciting new site on Cavill Avenue in the heart of Surfers Paradise. The new site will be a similar size to our other existing venue in Bondi Junction which allows for increased throughput. The location of the new business will be supported by XRG's other businesses located nearby. Cross marketing activities and other synergies exist between the venues.

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

### Capital Raising

Throughout the year the company continued with its balance sheet improvement initiatives including a successful capital raise completed on the 6th June 2022. Along with a placement of \$1.26m to institutional and sophisticated investors, the company received an additional \$900k from the exercise of 45m options held by Birkdale Holdings. Birkdale Holdings exercised

the options more than two years in advance of their 2024 expiry date. The additional injection of growth capital from the two transactions combined totalled \$2.16m.

### 2022 Financial Performance

Throughout FY22 the company achieved a total income of \$6.57m with 80% of this coming through in the final 7 months of the year due to closures and disruption during the first half. The EBITDA for the year was (\$3.30m) which includes a write down of \$3.35m in assets and expense of the Operator Assets of \$753k in order to achieve the benefit of Research and Development Grants through its proprietary software and hardware developed throughout the year. These cash grants will be realised in Q1 of FY23. The EBITDA also includes \$566k of non-cash expenses and also one-off costs associated with the capital raise and other costs outside of normal operations.

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



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# 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 2022.

### 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

*(appointed Chairman 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.

#### Steve Baxter

*Chairman – Non-Executive*

Appointed 13 August 2012; Resigned 24 January 2022

*(appointed Chairman 15 July 2019; resigned 24 January 2022)*

Former Australian Regular Army electronics technician turned successful entrepreneur, Steve is the founder of early Internet Provider SE Net and co-founder of telecommunications infrastructure company, Pipe Networks Ltd. In 2008 he moved to the USA and joined Google Inc deploying high speed telecommunication infrastructure, before returning to Australia.

Steve is known for his entrepreneurial skills and appears on the popular TV show "Shark Tank". He is the founder of Brisbane based not-for-profit River City Labs - an early stage and start-up co-working space for tech and creative companies and Executive Chairman of

TEN13, the leading Australian tech startup investment platform. Steve is a former director of Other Levels Limited and Vocus Communications Limited.

#### 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 freefall 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**  
Executive Director  
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.

## 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 |
| Steve Baxter*     | 7                  | 7        |
| John Diddams**    | 7                  | 7        |
| Mark Smethurst*** | 9                  | 9        |
| Wayne Jones       | 14                 | 14       |
| Danny Hogan       | 14                 | 13       |
| Kim Hopwood       | 14                 | 14       |

\*Resigned 24<sup>th</sup> January 2022

\*\*Appointed 24<sup>th</sup> January 2022

\*\*\*Appointed 15<sup>th</sup> November 2021

## 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                                                                                                                                                           |
|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Steve Baxter*  | Indirect interest in 99,638,163 shares held by Birkdale Holdings (QLD) Pty Ltd.                                                                                                                   |
| John Diddams** | Indirect interest in 2,570,000 shares held by Galdarn Pty Ltd and 1,500,000 shares held by Whitfield Investments Pty Ltd. 3,000,000 Service Rights subject to satisfaction of vesting conditions. |

| Director              | Number of Shares and Nature of Interest                                                                                                                                                                                                                                                                                                                                                                                                                               |
|-----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Wayne Jones</b>    | Indirect interest in 16,060,000 shares held by Excalib-air Pty Ltd, indirect interest in 6,206,680 shares held by Project Flight Pty Ltd ATF Wayne Jones Superannuation Fund, indirect interest in 12,297,605 shares held by Project Gravity Pty Ltd ATF Jones Family Trust. Direct interest in 415,964 shares and 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. |
| <b>Danny Hogan</b>    | 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 2,187,833 shares held by Australian Indoor Skydiving Pty Ltd ATF Hogan Family Trust.                                                                                                                                                                                                                  |
| <b>Kim Hopwood</b>    | 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.                                                                                                                                                                                                                                                                              |
| <b>Mark Smethurst</b> | 1,000,000 Service Rights subject to satisfaction of vesting conditions.                                                                                                                                                                                                                                                                                                                                                                                               |

*\*Resigned 24<sup>th</sup> January 2022*

*\*\*Appointed 24<sup>th</sup> January 2022*

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 (opened in Nov 21), Red Cartel (acquired August 21) and Operator TS.

## Changes in the State of Affairs

The FY22 year was influenced by the successful acquisition of the Red Cartel business, and the ramping up of the development of the Operator business. These enhancements place the company in a strong position to develop in the future. 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 the 12th August 2022, the Company announced that FREAK Entertainment will open its fifth VR gaming venue in December 2022. Located at an exciting new site on Cavill Avenue in the heart of Surfers Paradise, the new site will be a similar size to FREAK Westfield Bondi Junction which allows for increased throughput. The location of the new business will be supported by XRG's other businesses located nearby. Cross marketing activities and other synergies exist between the venues.

## REMUNERATION REPORT (AUDITED)

The Remuneration Report set out from page 14 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 2022 are detailed in Note 11 of the Financial Statements and form part of this Directors' Report.

As at 30 June 2022 xReality Group had 16,585,005 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.

## 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 ISA 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 2022 were \$1,740.

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  
20 September 2022  
Sydney

## 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 2022 is available at <https://xrgroup.com.au/investors/charters-and-policies/>.



**Wayne Jones**  
Director & Chief Executive Officer  
20 September 2022  
Sydney

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# REMUNERATION REPORT

## REMUNERATION REPORT

### 1. Introduction

This Remuneration Report for the year ended 30 June 2022 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 FY2022 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](http://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 2022 comprise the Non-Executive Directors, Executive Directors and the senior executives responsible for planning, directing and controlling the activities of ISA Group.

#### **Executive KMP**

|                |                                              |
|----------------|----------------------------------------------|
| Wayne Jones    | Executive Director & Chief Executive Officer |
| Kim Hopwood    | Executive Director                           |
| Stephen Tofler | Chief Financial Officer & Company Secretary  |

## Non-Executive Directors

## Notes

|                |                                                 |
|----------------|-------------------------------------------------|
| John Diddams   | Appointed Director and Chairman 24 January 2022 |
| Mark Smethurst | Appointed 15 November 2021                      |
| Danny Hogan    | Appointed 4 November 2011                       |
| Stephen Baxter | Resigned 24 January 2022                        |

## 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

xReality Group's remuneration strategy for FY2022 focused on driving and delivering on operations, strategic and growth strategies. As a result of the uncertain COVID environment and its effect on the consumer-based operations, there were no short-term incentives put in place. The company utilised its long-term incentive plan designed to encourage the retention of key employees. The long-term incentives were issued with a 145% premium exercise price set to require an increase in shareholder value before a benefit is received.

## Remuneration Outcomes for Executive KMP

The remuneration received by Executive KMP in 2022 and 2021 is set out below.

| KMP                   | Year | Short Term Benefits |     |              | Post Employment Benefits | Long Term Benefits | Share Based Payments | Total   |
|-----------------------|------|---------------------|-----|--------------|--------------------------|--------------------|----------------------|---------|
|                       |      | Salary              | STI | Non-Monetary | Superannuation           | LTI                | Options              |         |
|                       |      | \$                  | \$  | \$           | \$                       | \$                 | \$                   | \$      |
| Wayne Jones<br>CEO    | 2022 | 230,191             | -   | 2,919        | 20,869                   | -                  | -                    | 253,979 |
|                       | 2021 | 197,187             | -   | 6,015        | 18,733                   | -                  | -                    | 221,935 |
| Kim Hopwood<br>Exec   | 2022 | 178,281             | -   | -            | 16,028                   | -                  | -                    | 194,309 |
|                       | 2021 | 138,824             | -   | -            | 13,188                   | -                  | -                    | 152,012 |
| Stephen Tofler<br>CFO | 2022 | 187,560             | -   | -            | 18,581                   | -                  | -                    | 206,141 |
|                       | 2021 | 133,904             | -   | -            | 12,721                   | -                  | -                    | 146,625 |

## Executive Remuneration Structure

### Remuneration Mix

Fixed annual remuneration provides a “base” level of remuneration. Previously, short and long-term variable incentives (“at risk”) were used to 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. For FY2022 there were no short-term incentives.

### 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

As a result of the uncertain COVID environment and its effect on the consumer-based operations, there were no short-term incentives put in place.

### Long Term Incentive Awards and Outcomes

As a result of the uncertain COVID environment and its effect on the consumer-based operations, there were no long-term incentives put in place.

### 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<br>Director and CEO                               | October 2012     | Ongoing          | 6 months                                                               | 6 months' notice for termination by Employer and legislative entitlements on redundancy. |
| Kim Hopwood<br>Executive Director                             | October 2019     | Ongoing          | 4 weeks                                                                | 4 weeks' notice for termination by Employer and legislative entitlements on redundancy.  |
| Stephen Tofler<br>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 2022 was \$64,807 (FY21: nil).

### Approach to setting Non-Executive Director Remuneration

Non-Executive Directors receive fixed remuneration in the form of a directors 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*  | 2022           | 30,000          | -              | -                    | 30,000 |
|                | 2021           | -               | -              | -                    | -      |
| Mark Smethurst | 2022           | 17,500          | -              | -                    | 17,500 |
|                | 2021           | -               | -              | -                    | -      |
| Danny Hogan    | 2022           | 15,734          | 1,573          | -                    | 17,307 |
|                | 2021           | -               | -              | -                    | -      |
| Stephen Baxter | 2022           | -               | -              | -                    | -      |
|                | 2021           | -               | -              | -                    | -      |

\*\*Appointed 24<sup>th</sup> January 2022

## 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.

|                             | 2018         | 2019        | 2020        | 2021      | 2022        |
|-----------------------------|--------------|-------------|-------------|-----------|-------------|
| Revenue                     | 13,880,529   | 11,376,877  | 5,558,793   | 7,265,175 | 6,574,705   |
| Net Profit/(Loss) after Tax | (10,140,582) | (7,400,998) | (5,440,247) | 4,062,456 | (6,932,214) |
| Share price at 30 June      | 0.12         | 0.018       | 0.006       | 0.018     | 0.029       |

### Option holdings of KMP

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

|                | Balance at<br>1 July 2021 | Granted as<br>remuneration | Rights<br>exercised | Rights<br>lapsed | Rights<br>forfeited | Balance at<br>30 June 2022 |
|----------------|---------------------------|----------------------------|---------------------|------------------|---------------------|----------------------------|
| Wayne Jones    | 1,100,000                 | 8,435,005                  | -                   | 1,100,000        | -                   | 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<br>shares held at<br>1 July 2021 | Interest in<br>shares<br>acquired<br>/(disposed)<br>during the<br>period | Interest in<br>shares issued<br>on exercise of<br>vested options<br>during the<br>period | Balance at<br>30 June<br>2022 |
|----------------|------------------------------------|----------------------------------------------|--------------------------------------------------------------------------|------------------------------------------------------------------------------------------|-------------------------------|
| Steve Baxter   | Non-Executive Director*            | 54,638,163                                   | -                                                                        | 45,000,000                                                                               | 99,638,163                    |
| John Diddams   | Non-Executive Director**           | 4,070,000***                                 | -                                                                        | -                                                                                        | 4,070,000                     |
| Wayne Jones    | Chief Executive Officer & Director | 33,419,448                                   | 1,560,801                                                                | -                                                                                        | 34,980,249                    |
| Kim Hopwood    | Executive Director                 | 28,956,983                                   | 2,346,790                                                                | -                                                                                        | 31,303,773                    |
| Danny Hogan    | Non-Executive Director             | 18,447,833                                   | -                                                                        | -                                                                                        | 18,447,833                    |
| Stephen Tofler | Chief Financial Officer            | 890,000                                      | 1,847,468                                                                | -                                                                                        | 2,737,468                     |

\*Resigned 24 January 2022

\*\*Appointed 24 January 2022

\*\*\*At date of appointment

Non-Executive Directors have not been granted options as part of their remuneration, however John Diddams has been granted 3,000,000 Service Rights and Mark Smethurst has been granted 1,000,000 Service Rights, both subject to satisfaction of vesting conditions.

### **2021 Annual General Meeting (AGM)**

At the Company's AGM in November 2021, 98.55% of votes received were in favour of adopting the remuneration report.

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# 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 2022, I declare that, to the best of my knowledge and belief, there have been:

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



Vindran Vengadasalam  
Partner

20 September 2022  
Sydney, Australia



FELSERS  
Chartered Accountants

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# FINANCIAL REPORT

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

For the year ended 30 June 2022

|                                                               | Notes | Consolidated Group |                    |
|---------------------------------------------------------------|-------|--------------------|--------------------|
|                                                               |       | 2022<br>\$         | 2021<br>\$         |
| Revenues                                                      | 5     | 6,574,705          | 7,265,175          |
| Cost of Sales                                                 |       | (1,502,843)        | (1,664,555)        |
| Gross Profit                                                  |       | 5,071,862          | 5,600,620          |
| Other income                                                  | 6     | 618,635            | 6,356,168          |
| Selling and marketing expenses                                | 7(a)  | (3,091,831)        | (3,243,757)        |
| Administration expenses                                       | 7(b)  | (907,362)          | (635,475)          |
| Depreciation and amortisation                                 | 7(c)  | (2,121,541)        | (1,727,418)        |
| Legal expenses                                                |       | (43,731)           | (15,410)           |
| Other expenses                                                |       | (1,595,679)        | (993,394)          |
| Impairment of asset                                           | 3(a)  | (3,352,000)        | -                  |
| <b>(Loss)/Profit Before Interest and Tax</b>                  |       | <b>(5,421,647)</b> | <b>5,341,334</b>   |
| Finance expense                                               | 7(d)  | (1,510,567)        | (1,228,878)        |
| <b>Net financing costs</b>                                    |       | <b>(1,510,567)</b> | <b>(1,228,878)</b> |
| Share of loss of a joint venture entity                       |       | -                  | -                  |
| <b>(Loss)/Profit before tax from continuing operations</b>    |       | <b>(6,932,214)</b> | <b>4,112,456</b>   |
| <b>(Loss)/Profit before tax from discontinuing operations</b> |       | <b>-</b>           | <b>(50,000)</b>    |
| <b>Total (Loss)/Profit from operations</b>                    |       | <b>(6,932,214)</b> | <b>4,062,456</b>   |
| Income tax                                                    | 8     | -                  | -                  |
| <b>(Loss)/Profit After Tax</b>                                |       | <b>(6,932,214)</b> | <b>4,062,456</b>   |
| <b>Other comprehensive income</b>                             |       | <b>-</b>           | <b>-</b>           |
| <b>Total comprehensive (loss)/income for the year</b>         |       | <b>(6,932,214)</b> | <b>4,062,456</b>   |
| <b>Earnings per share</b>                                     |       |                    |                    |
| From continuing operations:                                   |       |                    |                    |
| - Basic earnings per share (cents)                            | 15    | (2.02)             | 1.22               |
| - Diluted earnings per share (cents)                          | 15    | (1.92)             | 1.19               |

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

## Consolidated Statement of Financial Position

For the year ended 30 June 2022

|                               |          | Consolidated Group |              |
|-------------------------------|----------|--------------------|--------------|
|                               | Notes    | 2022<br>\$         | 2021<br>\$   |
| ASSETS                        |          |                    |              |
| CURRENT ASSETS                |          |                    |              |
| Cash and cash equivalents     | 9(a)     | 2,053,208          | 1,761,186    |
| Trade and other receivables   | 9(b)     | 160,530            | 551,363      |
| Inventories                   | 10(a)    | 81,832             | 18,225       |
| Other financial asset         | 9(c)     | 566,188            | 566,184      |
| TOTAL CURRENT ASSETS          |          | 2,861,758          | 2,896,958    |
| NON-CURRENT ASSETS            |          |                    |              |
| Property, plant and equipment | 10(b)    | 19,912,724         | 24,042,488   |
| Right-of-use asset            | 10(c)    | 12,644,638         | 9,543,523    |
| Other financial asset         | 9(c)     | 818,665            | 1,296,409    |
| Intangible asset              |          | 572,110            | -            |
| TOTAL NON-CURRENT ASSETS      |          | 33,948,137         | 34,882,420   |
| TOTAL ASSETS                  |          | 36,809,895         | 37,779,378   |
| LIABILITIES                   |          |                    |              |
| CURRENT LIABILITIES           |          |                    |              |
| Trade and other payables      | 9(d)     | 1,215,568          | 1,548,650    |
| Lease liability               | 10(c)    | 914,803            | 178,627      |
| Deferred revenue              | 3(n)     | 975,048            | 1,051,843    |
| Borrowings                    | 9(e)     | 300,000            | 225,000      |
| Provisions                    | 10(d)    | 221,656            | 200,475      |
| TOTAL CURRENT LIABILITIES     |          | 3,627,075          | 3,204,595    |
| NON-CURRENT LIABILITIES       |          |                    |              |
| Trade and other payables      | 9(d)     | 1,094,392          | 1,312,542    |
| Lease liability               | 10(c)(i) | 12,700,461         | 9,903,327    |
| Borrowings                    | 9(e)     | 7,362,249          | 7,316,709    |
| Provisions                    | 10(d)    | 1,584,866          | 754,234      |
| TOTAL NON-CURRENT LIABILITIES |          | 22,741,968         | 19,286,812   |
| TOTAL LIABILITIES             |          | 26,369,043         | 22,491,407   |
| NET ASSETS                    |          | 10,440,852         | 15,287,971   |
| EQUITY                        |          |                    |              |
| Share capital                 | 11       | 44,605,529         | 42,513,283   |
| Reserves                      |          | 34,287             | 41,438       |
| Accumulated losses            |          | (34,198,964)       | (27,266,750) |
| TOTAL EQUITY                  |          | 10,440,852         | 15,287,971   |

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

## Consolidated Statement of Changes in Equity

For the year ended 30 June 2022

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

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

## Consolidated Statement of Cash Flows

For the year ended 30 June 2022

|                                                    | Note | Consolidated Group |                  |
|----------------------------------------------------|------|--------------------|------------------|
|                                                    |      | 2022<br>\$         | 2021<br>\$       |
| <b>Cash Flows from Operating Activities</b>        |      |                    |                  |
| Receipts from customers                            |      | 7,623,007          | 8,033,643        |
| Payments to suppliers and employees                |      | (5,985,933)        | (6,074,609)      |
|                                                    |      | <b>1,637,074</b>   | <b>1,959,034</b> |
| Grant and other operational income                 |      | 618,635            | 491,493          |
| Transactions costs debt restructure                |      | -                  | (340,000)        |
| Operator development costs                         |      | (752,905)          | -                |
| Finance costs                                      |      | (867,480)          | (9,444)          |
| Payments to suppliers from prior periods           |      | (690,661)          | (678,086)        |
| <b>Net cash inflows from operating activities</b>  | 12   | <b>(55,337)</b>    | <b>1,422,997</b> |
| <b>Cash Flows from Investing Activities</b>        |      |                    |                  |
| Purchase of property, plant and equipment          |      | (699,768)          | (682,476)        |
| Sale of property, plant and equipment              |      | -                  | 20,000           |
| <b>Net cash outflows from investing activities</b> |      | <b>(699,768)</b>   | <b>(662,476)</b> |
| <b>Cash Flows from Financing Activities</b>        |      |                    |                  |
| Proceeds from issue of securities                  |      | 2,160,000          | -                |
| Proceeds from borrowings                           |      | -                  | 4,000,000        |
| Repayment of borrowings                            |      | (150,000)          | (2,585,693)      |
| Share issue costs                                  |      | (67,754)           | -                |
| AASB leases repayment                              |      | (895,119)          | (647,792)        |
| <b>Net cash inflows from financing activities</b>  |      | <b>1,047,127</b>   | <b>766,515</b>   |
| <b>Net increase in cash held</b>                   |      | <b>292,022</b>     | <b>1,527,036</b> |
| Cash and cash equivalents at beginning of year     |      | 1,761,186          | 234,150          |
| <b>Cash and cash equivalents at end of year</b>    |      | <b>2,053,208</b>   | <b>1,761,186</b> |

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 2022

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 20 September 2022 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 renegotiation of the Birkdale debt on 9<sup>th</sup> August 2021.
- The acquisition of the virtual reality production studio Red Cartel on 11<sup>th</sup> August 2021.
- The launch of the FREAK Macquarie business on 22<sup>nd</sup> November 2021.
- The successful private placement raising \$1.26M capital on 26th May 2022.
- The exercise by Birkdale of 45M Options, contributing a further \$900k in capital.

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 2022

|                               | Entertainment | Enterprise | Corporate | Total       |
|-------------------------------|---------------|------------|-----------|-------------|
| <b>Segment Revenue</b>        | 6,476,280     | 98,425     | -         | 6,574,705   |
| <b>Segment EBITDA</b>         | (2,757,807)   | (742,397)  | 200,098   | (3,300,106) |
| Depreciation and amortisation | (1,904,657)   | (1,021)    | (215,863) | (2,121,541) |
| Interest                      | (622,519)     | -          | (888,048) | (1,510,567) |
| <b>Segment NPAT</b>           | (5,284,983)   | (743,418)  | (903,813) | (6,932,214) |

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

|                                                          |             |           |        |             |
|----------------------------------------------------------|-------------|-----------|--------|-------------|
| Net impairment of PP&E                                   | (3,352,000) | -         | -      | (3,352,000) |
| Expensing of Operator Development Costs                  | -           | (752,905) | -      | (752,905)   |
| Lease asset amortisation recognised under AASB 16 Leases | 844,709     | -         | 50,000 | 894,709     |

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

|                                                                  |           |   |          |           |
|------------------------------------------------------------------|-----------|---|----------|-----------|
| Lease asset depreciation expense recognised under AASB 16 Leases | (640,702) | - | (43,526) | (684,228) |
| Lease asset interest expense recognised under AASB 16 Leases     | (631,799) | - | (11,287) | (643,086) |

### 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 \$6,932,214 (2021: profit of \$4,062,456). This loss includes an impairment of the Gold Coast facility of \$3,352,000 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 \$765,317 (2021: \$307,637). Included within current liabilities are deferred revenue of \$975,048 that will be realised as revenue once the service has been delivered to the customer. Therefore, excluding this balance, the Group has an adjusted positive current asset position of \$209,731 at 30 June 2022.

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 Company successfully raised a further \$2.16M of capital from a private placement and the exercise of the Birkdale Options in June 2022 significantly improving the balance sheet.
- ii) Management is closely managing the impact of COVID-19 and return to normalised trade, with the monitoring of detailed cash flow forecasts on an ongoing basis.
- iii) The Company has implemented new income streams less influenced by any COVID-19 interruptions.

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.

### 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.

### 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 2022

### 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.

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.

## Notes to the Financial Statements

For the year ended 30 June 2022

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. Trade and Other Payables

Trade and other payables represent the liabilities for goods and services received by the entity that remain unpaid at the end of the reporting period. Payables expected to be settled within 12 months of the end of the reporting period are classified as current liabilities. All other liabilities are classified as non-current liabilities.

### i. 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.

**j. 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.

**k. 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.

**l. 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.

**m. 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.

**n. 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.

### **o. 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.

### **p. 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.

### **q. 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.

### **r. 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.

### **s. 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.

### **t. 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-

## Notes to the Financial Statements

For the year ended 30 June 2022

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.

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### NOTE 4: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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#### ***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 2022, \$520,741 of Gift Card Revenue is recognised (2021: \$313,003). The key assumption in measuring the liability for gift cards and vouchers is the expected redemption rates by customers with a portion recognised upfront, which are reviewed based on historical information. Any reassessment of expected redemption rates in a particular period impacts the revenue recognised from expiry of gift cards and vouchers (either increasing or decreasing). Any foreseeable change in the estimate is unlikely to have a material impact on the financial statements.

### **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 2.5% inflationary escalation and then discounted back at 7.86% (2021: 11.59%), which is a change in estimate from the prior year, after consideration of the associated risks. The discount rate has been amended to reflect the time value of money and risks specific to the operation of the tunnels. The site restoration asset is depreciated over the remainder of each extended lease period being 40 years in the case of each of iFLY Downunder (Penrith) and iFLY Gold Coast. The unwinding of the effect of discounting on the site restoration provision is included within finance costs in the statement of comprehensive income.

### **d. COVID-19**

The scale and duration of these developments remain uncertain as at the date of this report, however they will continue to have an impact on earnings, cash flow and financial conditions. It is not possible to estimate the impact of the outbreak's near-term and longer-term effects, and those of the varying efforts of the governments to combat the outbreak and support businesses. This being the case, we do not consider it practicable to provide a quantitative or qualitative estimate of the potential impact on the Company at this time.

### **e. 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 on 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.

### **f. 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.

### **g. Business combinations**

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 2022

### NOTE 5: REVENUE FROM CONTRACTS WITH CUSTOMERS

|                    | 2022<br>\$       | 2021<br>\$       |
|--------------------|------------------|------------------|
| <b>Revenue</b>     |                  |                  |
| VWT revenue        | 5,350,656        | 6,159,024        |
| Freak revenue      | 746,566          | 710,935          |
| Enterprise revenue | 98,425           | -                |
| Other sales*       | 379,058          | 395,216          |
|                    | <u>6,574,705</u> | <u>7,265,175</u> |

\*Other sales revenue relates to food & beverage income, merchandise income and sub-let income.

### NOTE 6: OTHER INCOME

|                                                  | 2022<br>\$     | 2021<br>\$       |
|--------------------------------------------------|----------------|------------------|
| Grant Income                                     | 557,252        | 491,493          |
| Write-down of liabilities with debt restructure* | -              | 5,864,675        |
| Other                                            | 61,383         | -                |
|                                                  | <u>618,635</u> | <u>6,356,168</u> |

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

## Notes to the Financial Statements

For the year ended 30 June 2022

### NOTE 7: OTHER INCOME AND EXPENSE ITEMS

#### Other Expenses

|                                                                                                                                                       | 2022<br>\$       | 2021<br>\$       |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| <b>7(a) Selling and Marketing Expenses</b>                                                                                                            |                  |                  |
| Marketing expenses                                                                                                                                    | 479,903          | 464,070          |
| Employment expenses                                                                                                                                   | 2,611,928        | 2,779,687        |
|                                                                                                                                                       | <b>3,091,831</b> | <b>3,243,757</b> |
| <b>7(b) Administration Expenses</b>                                                                                                                   |                  |                  |
| Occupancy expenses                                                                                                                                    | 46,855           | 126,425          |
| Employment expenses                                                                                                                                   | 797,273          | 556,626          |
| Directors' fees – current year                                                                                                                        | 63,234           | -                |
| Directors' fees – prior year                                                                                                                          | -                | (47,576)*        |
|                                                                                                                                                       | <b>907,362</b>   | <b>635,475</b>   |
| *Note that the Directors' Fees for 2021 was negative \$47,576. This is the result of Steve Baxter forgiving Directors' Fees for that and prior years. |                  |                  |
| <b>7(c) Depreciation and amortisation</b>                                                                                                             |                  |                  |
| Depreciation and amortisation expenses                                                                                                                | 1,437,314        | 1,280,941        |
| Depreciation – AASB16                                                                                                                                 | 684,227          | 446,477          |
|                                                                                                                                                       | <b>2,121,541</b> | <b>1,727,418</b> |
| <b>7(d) Finance Expenses</b>                                                                                                                          |                  |                  |
| Interest expense                                                                                                                                      | 867,481          | 764,149          |
| Interest from AASB16                                                                                                                                  | 643,086          | 464,729          |
|                                                                                                                                                       | <b>1,510,567</b> | <b>1,228,878</b> |

## Notes to the Financial Statements

For the year ended 30 June 2022

### 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.

|                                                               | 2022<br>\$ | 2021<br>\$ |
|---------------------------------------------------------------|------------|------------|
| <b>Income Tax Benefit</b>                                     |            |            |
| <b>Current income tax:</b>                                    |            |            |
| Current income tax charge                                     | -          | -          |
| <b>Deferred tax:</b>                                          |            |            |
| 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 2022 is as follows:

|                                           | 2022<br>\$  | 2021<br>\$  |
|-------------------------------------------|-------------|-------------|
| Accounting profit/loss before income tax  | (6,932,214) | 4,062,456   |
| At the statutory income tax rate of 25.0% | (1,733,054) | 1,117,175   |
| Share of results of joint venture         | -           | -           |
| Tax losses recognised / (not recognised)  | 1,734,180   | (1,127,186) |
| Non-deductible expenses for tax purposes: |             |             |
| Entertainment expenses                    | 661         | 571         |
| Share based payments                      | (1,788)     | 9,440       |
| <b>Income Tax Benefit</b>                 | -           | -           |

The Group has tax losses that arose in Australia for which no deferred tax asset of \$26,506,434 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 2022

### NOTE 9: FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group holds the following financial instruments:

| Financial Assets          | Notes | 2022<br>\$ | 2021<br>\$ |
|---------------------------|-------|------------|------------|
| <i>At amortised cost</i>  |       |            |            |
| <b>Current</b>            |       |            |            |
| Cash and cash equivalents | 9(a)  | 2,053,208  | 1,761,186  |
| Trade receivables         | 9(b)  | 160,530    | 551,363    |
| Other financial assets    | 9(c)  | 566,188    | 566,184    |
| <b>Non-current</b>        |       |            |            |
| Other financial assets    | 9(c)  | 818,665    | 1,296,409  |

| Financial Liabilities    | Notes | 2022<br>\$ | 2021<br>\$ |
|--------------------------|-------|------------|------------|
| <i>At amortised cost</i> |       |            |            |
| <b>Current</b>           |       |            |            |
| Trade and other payables | 9(d)  | 1,215,568  | 1,548,650  |
| Borrowings               | 9(e)  | 300,000    | 225,000    |
| <b>Non-current</b>       |       |            |            |
| Trade and other payables | 9(d)  | 1,094,392  | 1,312,543  |
| Borrowings               | 9(e)  | 7,362,249  | 7,316,709  |

These are detailed below:

#### 9(a) Cash and cash equivalents

|                          |                  |                  |
|--------------------------|------------------|------------------|
| Cash at bank and on hand | 2,053,208        | 1,761,186        |
|                          | <u>2,053,208</u> | <u>1,761,186</u> |

#### 9(b) Trade receivables

|                   |                |                |
|-------------------|----------------|----------------|
| Trade receivables | 117,762        | 95,973         |
| Other receivables | -              | 385,636        |
| Prepaid expenses  | 42,768         | 69,754         |
|                   | <u>160,530</u> | <u>551,363</u> |

#### 9(c) Other Financial Assets

##### Current

|                 |                |                |
|-----------------|----------------|----------------|
| Royalty holiday | 566,188        | 566,184        |
|                 | <u>566,188</u> | <u>566,184</u> |

## Notes to the Financial Statements

For the year ended 30 June 2022

### Non- current

|                 |                |                  |
|-----------------|----------------|------------------|
| Deposits        | 26,125         | 7,417            |
| Royalty holiday | 94,367         | 660,563          |
| Make good       | 93,558         | 25,429           |
| Bank guarantee  | 604,615        | 603,000          |
|                 | <u>818,665</u> | <u>1,296,409</u> |

### 9(d) Trade and other payables

#### Current

|                |                  |                  |
|----------------|------------------|------------------|
| Trade payables | 502,379          | 705,235          |
| Other accruals | 713,189          | 843,415          |
|                | <u>1,215,568</u> | <u>1,548,650</u> |

#### Non-Current

|                |                  |                  |
|----------------|------------------|------------------|
| Other accruals | 1,094,392        | 1,312,543        |
|                | <u>1,094,392</u> | <u>1,312,543</u> |

### 9(e) Borrowings

#### Current

|                            |                |                |
|----------------------------|----------------|----------------|
| Causeway debt facility (a) | 300,000        | 225,000        |
|                            | <u>300,000</u> | <u>225,000</u> |

#### Non-Current

|                                     |                  |                  |
|-------------------------------------|------------------|------------------|
| Causeway debt facility (a)          | 3,550,000        | 3,775,000        |
| Birkdale Holdings (Qld) Pty Ltd (b) | 3,812,249        | 3,541,709        |
|                                     | <u>7,362,249</u> | <u>7,316,709</u> |

- (a) The Company has in place a 3 year loan facility of \$3,850,000 (originally \$4,000,000) with Causeway Wholesale Private Debt Income Fund. It has a maturity date of March 2024.

Interest is payable to Causeway based on the applicable rates set out in the loan agreement, over a maximum period of 3 years. Security is provided by:

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

## Notes to the Financial Statements

For the year ended 30 June 2022

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.

- (b) The company has in place a loan facility of \$3,812,249 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 and is capitalised for the term of the loan. 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

|                     | 2022<br>\$    | 2021<br>\$    |
|---------------------|---------------|---------------|
| Goods held for sale | 81,832        | 18,225        |
|                     | <b>81,832</b> | <b>18,225</b> |

## Notes to the Financial Statements

For the year ended 30 June 2022

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

|                                             | 2022<br>\$  | 2021<br>\$ | 2022<br>\$   | 2021<br>\$  | 2022<br>\$     | 2021<br>\$ |
|---------------------------------------------|-------------|------------|--------------|-------------|----------------|------------|
|                                             | Cost        |            | Depreciation |             | Carrying Value |            |
|                                             |             |            |              |             |                |            |
| Vertical wind tunnel building and equipment |             |            |              |             |                |            |
| Balance at Beginning of year                | 28,956,233  | 28,911,943 | (5,858,453)  | (4,934,585) | 23,097,780     | 23,977,358 |
| Acquisitions / depreciation                 | 64,258      | 44,290     | (889,636)    | (923,868)   | (825,378)      | (879,578)  |
| Disposals / transfers                       | -           | -          | -            | -           | -              | -          |
| Impairment                                  | (3,352,000) | -          | -            | -           | (3,352,000)    | -          |
| Balance at end of year                      | 25,668,491  | 28,956,233 | (6,748,089)  | (5,858,453) | 18,920,402     | 23,097,780 |
|                                             |             |            |              |             |                |            |
| IT Equipment                                |             |            |              |             |                |            |
| Balance at Beginning of year                | 1,968,955   | 1,336,825  | (1,033,984)  | (677,888)   | 934,971        | 658,937    |
| Acquisitions / depreciation                 | 623,727     | 632,130    | (538,372)    | (356,096)   | 85,355         | 276,034    |
| Disposals / transfers                       | (40,218)    | -          | -            | -           | (40,218)       | -          |
| Balance at end of year                      | 2,552,464   | 1,968,955  | (1,572,356)  | (1,033,984) | 980,108        | 934,971    |
|                                             |             |            |              |             |                |            |
| Furniture and fittings                      |             |            |              |             |                |            |
| Balance at Beginning of year                | 195,527     | 192,604    | (188,271)    | (188,112)   | 7,256          | 4,492      |
| Acquisitions / depreciation                 | 9,719       | 2,923      | (7,594)      | (159)       | 2,125          | 2,764      |
| Disposals / transfers                       | -           | -          | -            | -           | -              | -          |
| Balance at end of year                      | 205,246     | 195,527    | (195,865)    | (188,271)   | 9,381          | 7,256      |
|                                             |             |            |              |             |                |            |
| Office Equipment                            |             |            |              |             |                |            |
| Balance at Beginning of year                | 7,255       | 4,123      | (4,776)      | (3,958)     | 2,480          | 165        |
| Acquisitions / depreciation                 | 2,064       | 3,133      | (1,712)      | (818)       | 352            | 2,315      |
| Disposals / transfers                       | -           | -          | -            | -           | -              | -          |
| Balance at end of year                      | 9,319       | 7,255      | (6,488)      | (4,776)     | 2,832          | 2,480      |
|                                             |             |            |              |             |                |            |
| Balance at Beginning of year                | 31,127,971  | 30,445,495 | (7,085,483)  | (5,804,542) | 24,042,488     | 24,640,953 |
| Acquisitions / depreciation                 | 699,768     | 682,476    | (1,437,314)  | (1,280,941) | (737,546)      | (598,465)  |
| Disposals / transfers                       | (40,218)    | -          | -            | -           | (40,218)       | -          |
| Impairment                                  | (3,352,000) | -          | -            | -           | (3,352,000)    | -          |
| Balance at end of year                      | 28,435,521  | 31,127,971 | (8,522,797)  | (7,085,483) | 19,912,724     | 24,042,488 |

## Notes to the Financial Statements

For the year ended 30 June 2022

### 10(c): Leases

#### (i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

|                            | 2022<br>\$        | 2021<br>\$       |
|----------------------------|-------------------|------------------|
| <b>Right-of-use assets</b> |                   |                  |
| Premises                   | 12,593,326        | 9,415,903        |
| Equipment                  | 51,312            | 127,620          |
| <b>Total</b>               | <b>12,644,638</b> | <b>9,543,523</b> |
| <b>Lease liabilities</b>   |                   |                  |
| <b>Current</b>             |                   |                  |
| Premises                   | 876,670           | 101,315          |
| Equipment                  | 38,133            | 77,312           |
| <b>Total</b>               | <b>914,803</b>    | <b>178,627</b>   |
| <b>Non-current</b>         |                   |                  |
| Premises                   | 12,685,834        | 9,850,568        |
| Equipment                  | 14,627            | 52,759           |
| <b>Total</b>               | <b>12,700,461</b> | <b>9,903,327</b> |

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

|                                                     | 2022<br>\$     | 2021<br>\$     |
|-----------------------------------------------------|----------------|----------------|
| <b>Depreciation charge over right-of-use assets</b> |                |                |
| Premises                                            | 607,919        | 359,788        |
| Equipment                                           | 76,308         | 86,689         |
| <b>Total</b>                                        | <b>684,227</b> | <b>446,477</b> |

### 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 two 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 2022

### 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

|                       | 2022<br>\$     | 2021<br>\$     |
|-----------------------|----------------|----------------|
| <b>Lease payments</b> |                |                |
| Premises              | 814,457        | 476,358        |
| Equipment             | 80,662         | 90,797         |
| <b>Total</b>          | <b>895,119</b> | <b>567,155</b> |

#### (iv) Right-of-use Asset

|                                     | 2022<br>\$<br>Cost | 2021<br>\$<br>Cost | 2022<br>\$<br>Depreciation | 2021<br>\$<br>Depreciation | 2022<br>\$<br>Carrying Value | 2021<br>\$<br>Carrying Value |
|-------------------------------------|--------------------|--------------------|----------------------------|----------------------------|------------------------------|------------------------------|
| <i>Premises</i>                     |                    |                    |                            |                            |                              |                              |
| <b>Balance at Beginning of year</b> | 10,056,930         | 10,056,930         | (641,027)                  | (281,239)                  | 9,415,903                    | 9,775,691                    |
| Acquisitions / depreciation         | 3,803,810          | -                  | (607,919)                  | (359,788)                  | 3,195,891                    | (359,788)                    |
| Disposals / transfers               | (18,468)           | -                  | -                          | -                          | (18,468)                     | -                            |
| <b>Balance at end of year</b>       | <b>13,842,272</b>  | <b>10,056,930</b>  | <b>(1,248,946)</b>         | <b>(641,027)</b>           | <b>12,593,326</b>            | <b>9,415,903</b>             |
| <i>Equipment</i>                    |                    |                    |                            |                            |                              |                              |
| <b>Balance at Beginning of year</b> | 215,562            | 215,562            | (87,942)                   | (1,253)                    | 127,620                      | 214,309                      |
| Acquisitions / depreciation         | -                  | -                  | (76,308)                   | (86,689)                   | (76,308)                     | (86,689)                     |
| Disposals / transfers               | -                  | -                  | -                          | -                          | -                            | -                            |
| <b>Balance at end of year</b>       | <b>215,562</b>     | <b>215,562</b>     | <b>(164,250)</b>           | <b>(87,942)</b>            | <b>51,312</b>                | <b>127,620</b>               |
| <b>Balance at Beginning of year</b> | 10,272,492         | 10,272,492         | (728,969)                  | (282,492)                  | 9,543,523                    | 9,990,000                    |
| Acquisitions / depreciation         | 3,803,810          | -                  | (684,227)                  | (446,477)                  | 3,119,583                    | (446,477)                    |
| Disposals / transfers               | (18,468)           | -                  | -                          | -                          | (18,468)                     | -                            |
| <b>Balance at end of year</b>       | <b>14,057,834</b>  | <b>10,272,492</b>  | <b>(1,413,196)</b>         | <b>(728,969)</b>           | <b>12,644,638</b>            | <b>9,543,523</b>             |

## Notes to the Financial Statements

For the year ended 30 June 2022

### 10(d): Provisions

|                              | 2022<br>\$       | 2021<br>\$     |
|------------------------------|------------------|----------------|
| <b>Current</b>               |                  |                |
| Employee benefit obligations | 221,656          | 200,475        |
| <b>Total</b>                 | <b>221,656</b>   | <b>200,475</b> |
| <b>Non-current</b>           |                  |                |
| Employee benefit obligations | 108,742          | 86,023         |
| Make good provision          | 206,166          | 65,211         |
| Red Cartel                   | 568,342          | -              |
| Rent - Macquarie             | 97,000           | -              |
| Bank guarantee               | 604,616          | 603,000        |
| <b>Total</b>                 | <b>1,584,866</b> | <b>754,234</b> |

|                                 | Carrying<br>amount 1 July<br>2021<br>\$ | Additional<br>Provisions<br>\$ | Amount utilised<br>\$ | Carrying<br>amount 30 June<br>2022<br>\$ |
|---------------------------------|-----------------------------------------|--------------------------------|-----------------------|------------------------------------------|
| 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        | 0                                       | 568,342                        | -                     | 568,342                                  |
| Provision for Rent              | 0                                       | 110,000                        | (13,000)              | 97,000                                   |
| <b>Total Provisions</b>         | <b>954,709</b>                          | <b>1,070,389</b>               | <b>(218,576)</b>      | <b>1,806,522</b>                         |

|                                 | Carrying<br>amount 1 July<br>2020<br>\$ | Additional<br>Provisions<br>\$ | Amount utilised<br>\$ | Carrying<br>amount 30 June<br>2021<br>\$ |
|---------------------------------|-----------------------------------------|--------------------------------|-----------------------|------------------------------------------|
| Provision for Employee Benefits | 187,943                                 | 248,075                        | (149,520)             | 286,498                                  |
| Provision for Bank Guarantee    | -                                       | 603,000                        | -                     | 603,000                                  |
| Provision for Site Restoration  | 56,730                                  | 9,677                          | (1,196)               | 65,211                                   |
| <b>Total Provisions</b>         | <b>244,673</b>                          | <b>860,752</b>                 | <b>(150,716)</b>      | <b>954,709</b>                           |

#### 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 2022

### 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 2.5% inflationary escalation and discounted to present value at 7.86% after consideration of the associated risks.

### NOTE 11: ISSUED CAPITAL

|                                          | 2022<br>\$         | 2021<br>\$         |
|------------------------------------------|--------------------|--------------------|
| <b>Issued Capital</b>                    |                    |                    |
| Opening Balance                          | 44,803,421         | 44,803,421         |
| Shares Issued                            | 2,160,000          | -                  |
| Closing Balance                          | 46,963,421         | 44,803,421         |
| <b>Share issue costs</b>                 |                    |                    |
| Opening Balance                          | (2,290,138)        | (2,290,138)        |
| Shares Issued                            | (67,754)           | -                  |
| Closing Balance                          | (2,357,892)        | (2,290,138)        |
| <b>Share Capital</b>                     | <b>44,605,529</b>  | <b>42,513,283</b>  |
| <b>Ordinary Shares</b>                   | <b>No.</b>         | <b>No.</b>         |
| At the beginning of the reporting period | 336,700,099        | 336,700,099        |
| Shares issued                            | 84,545,455         | -                  |
|                                          | <b>421,245,554</b> | <b>336,700,099</b> |

### 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.

## NOTE 12: CASH FLOW INFORMATION

|                                                                                        | 2022<br>\$  | 2021<br>\$  |
|----------------------------------------------------------------------------------------|-------------|-------------|
| <b>Reconciliation of Cash Flow from Operations with Profit/(Loss) after Income Tax</b> |             |             |
| (Loss)/Profit after income tax                                                         | (6,932,214) | 4,062,456   |
| Non-cash flows in loss:                                                                |             |             |
| - Write down of liabilities with debt restructure                                      | -           | (5,864,675) |
| - Loss on disposal of assets held for sale                                             | -           | 50,000      |
| - Impairment of asset                                                                  | 3,352,000   | -           |
| - Unwind of make good discount                                                         | (72,827)    | (9,443)     |
| - Interest expense on lease liability                                                  | 643,086     | 464,729     |
| - Capitalisation of interest expense                                                   | 270,541     | 754,705     |
| - Depreciation expense – property, plant and equipment                                 | 1,437,314   | 1,280,941   |
| - Depreciation expense – right-of-use asset                                            | 684,227     | 446,477     |
| - Amortisation expense                                                                 | -           | 113,807     |
| - Loss on disposal of fixed assets                                                     | 40,218      | -           |
| - Change in reserves                                                                   | (7,151)     | 31,971      |
| - Provision for bank guarantee                                                         | 1,615       | 603,000     |
| Changes in assets and liabilities:                                                     |             |             |
| - (increase)/decrease in trade and term receivables                                    | 390,833     | (78,819)    |
| - (increase)/decrease in other financial assets                                        | 477,740     | 33,975      |
| - increase/(decrease) in trade payables and accruals                                   | (551,232)   | (1,372,573) |
| - increase/(decrease) in inventories                                                   | (63,607)    | 5,025       |
| - increase/(decrease) in unearned revenue                                              | (76,794)    | 191,385     |
| - increase/(decrease) in provisions                                                    | 923,024     | 710,036     |
| - increase/(decrease) in intangibles                                                   | (572,110)   |             |
| Cash flow provided by operations                                                       | (55,337)    | 1,422,997   |

## 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-.

|                                | 2022<br>\$       | 2021<br>\$       |
|--------------------------------|------------------|------------------|
| <b>Cash and Term Deposits:</b> |                  |                  |
| Cash at bank and on hand       | 2,053,208        | 1,761,186        |
|                                | <u>2,053,208</u> | <u>1,761,186</u> |

### 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 2022

### 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 |      |
|--|---------------|------|--------------|------|--------------|------|-------|------|
|  | 2022          | 2021 | 2022         | 2021 | 2022         | 2021 | 2022  | 2021 |
|  | \$            | \$   | \$           | \$   | \$           | \$   | \$    | \$   |

#### Financial liabilities due for payment

|                            |           |           |           |           |   |   |           |            |
|----------------------------|-----------|-----------|-----------|-----------|---|---|-----------|------------|
| Borrowings                 | 300,000   | 225,000   | 7,362,249 | 7,316,708 | - | - | 7,662,249 | 7,541,708  |
| Trade and other payables   | 1,215,568 | 1,548,651 | 1,094,392 | 1,312,543 | - | - | 2,309,960 | 2,861,194  |
| Total contractual outflows | 1,515,568 | 1,773,651 | 8,456,641 | 8,629,251 | - | - | 9,972,209 | 10,402,902 |
| Total expected outflows    | 1,515,568 | 1,773,651 | 8,456,641 | 8,629,251 | - | - | 9,972,209 | 10,402,902 |

#### Financial assets – cash flows realisable

|                             |           |           |             |             |   |   |             |             |
|-----------------------------|-----------|-----------|-------------|-------------|---|---|-------------|-------------|
| Cash and cash equivalents   | 2,053,208 | 1,761,186 | -           | -           | - | - | 2,053,208   | 1,761,186   |
| Trade and other receivables | 160,530   | 551,363   | -           | -           | - | - | 160,530     | 551,363     |
| Total anticipated inflows   | 2,213,738 | 2,312,549 | -           | -           | - | - | 2,213,738   | 2,312,549   |
| Net inflow/(outflow)        | 698,170   | 538,898   | (8,456,641) | (8,629,251) | - | - | (7,758,471) | (8,090,353) |

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<br>\$ | Equity<br>\$ |
|--------------------------------|--------------|--------------|
| <b>Year ended 30 June 2022</b> |              |              |
| +/-1% in interest rates        | 76,622       | 76,622       |
| <b>Year ended 30 June 2021</b> |              |              |
| +/-1% in interest rates        | 75,417       | 75,417       |

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 2022

### (v) Fair Values

#### Fair value estimation

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying amounts as presented in the statement of financial position. Fair value is the amount at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values derived may be based on information that is estimated or subject to judgment, where changes in assumptions may have a material impact on the amounts estimated. Areas of judgement and the assumptions have been detailed below. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. In this regard, fair values for listed securities are obtained from quoted market bid prices. Where securities are unlisted and no market quotes are available, fair value is obtained using discounted cash flow analysis and other valuation techniques commonly used by market participants.

Differences between fair values and carrying amounts of financial instruments with fixed interest rates are due to the change in discount rates being applied by the market since their initial recognition by the Group.

Most of these instruments, which are carried at amortised cost (i.e. term receivables, held-to-maturity assets, loan liabilities), are to be held until maturity and therefore the fair value figures calculated bear little relevance to the Group.

| Consolidated Group          | Notes | 2022<br>\$         |            | 2021<br>\$         |            |
|-----------------------------|-------|--------------------|------------|--------------------|------------|
|                             |       | Carrying<br>Amount | Fair Value | Carrying<br>Amount | Fair Value |
| Financial assets            |       |                    |            |                    |            |
| Cash and cash equivalents   |       | 2,053,208          | 2,053,208  | 1,761,186          | 1,761,186  |
| Trade and other receivables | (i)   | 160,530            | 160,530    | 551,363            | 551,363    |
| Total financial assets      | (i)   | 2,213,738          | 2,213,738  | 2,312,549          | 2,312,549  |
| Financial liabilities       |       |                    |            |                    |            |
| Trade and other payables    | (i)   | 1,215,568          | 1,215,568  | 2,861,192          | 2,861,192  |
| Borrowings                  | (ii)  | 7,662,249          | 7,662,249  | 7,541,709          | 7,541,709  |
| Total financial liabilities |       | 8,877,817          | 8,877,817  | 10,402,901         | 10,402,901 |

The fair values disclosed in the above table have been determined based on the following methodologies:

- (i) Cash and cash equivalents, term deposits, trade and other receivables, and trade and other payables are short-term instruments in nature whose carrying amount is equivalent to fair value. Trade and other payables exclude amounts provided for annual leave, which is outside the scope of AASB 139.
- (ii) Debt is recorded at the current carrying value which is considered equivalent to fair value.

## NOTE 14: SHARE BASED PAYMENTS

### 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 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 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 <sup>st</sup> January 2024 |         |
|--------------------------------------------------------------|---------|
| Share Price at grant/approval 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: -<br>Tranche 1: 50% on shareholder approval<br>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: -<br>Tranche 1: 50% on shareholder approval<br>Tranche 2: 50% on the first anniversary of shareholder approval |

## Notes to the Financial Statements

For the year ended 30 June 2022

### Year Ended 30 June 2021

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 2020  | 2,200,000               |
| Granted during the year        | 8,400,000               |
| Forfeited during the year      | 1,100,000               |
| Outstanding as at 30 June 2021 | 9,500,000               |

The following table lists the inputs to the model used for the Employee Incentive Option Plan for the year ended 30 June 2021:

| 1,100,000 Options expiring on 24 <sup>th</sup> August 2021 |         |
|------------------------------------------------------------|---------|
| Share Price at balance date (weighted average)             | \$0.018 |
| Share Price at grant/approval date                         | \$0.02  |
| Exercise Price                                             | \$0.35  |
| Expected Volatility                                        | 50%     |
| Expected life (weighted average number of days)            | 365     |
| Expected dividends                                         | 0%      |
| Risk-free rate (weighted average)                          | 1.49%   |

  

| 8,400,000 Options expiring on 31 <sup>st</sup> January 2024 |         |
|-------------------------------------------------------------|---------|
| Share Price at balance date (weighted average)              | \$0.018 |
| Share Price at grant/approval date                          | \$0.013 |
| Exercise Price                                              | \$0.021 |
| Expected Volatility                                         | 50%     |
| Expected life (weighted average number of days)             | 365     |
| Expected dividends                                          | 0%      |
| Risk-free rate (weighted average)                           | 1.49%   |

## Notes to the Financial Statements

For the year ended 30 June 2022

### NOTE 15: EARNINGS PER SHARE

| Earnings per share (cents per share) | 2022<br>Cents | 2021<br>Cents |
|--------------------------------------|---------------|---------------|
| From continuing operations:          |               |               |
| - basic earnings per share           | (2.02)        | 1.22          |
| - diluted earnings per share         | (1.92)        | 1.19          |

|                                                                             | 2022<br>\$  | 2021<br>\$  |
|-----------------------------------------------------------------------------|-------------|-------------|
| a. Reconciliation of earnings to profit or loss:                            |             |             |
| Profit/Loss                                                                 | (6,932,214) | 4,062,456   |
| Earnings used to calculate basic EPS – continuing operations                | (6,932,214) | 4,112,456   |
| Earnings used to calculate basic EPS – discontinuing operations             | -           | (50,000)    |
| Earnings used in the calculation of dilutive EPS – continuing operations    | (6,932,214) | 4,112,456   |
| Earnings used in the calculation of dilutive EPS – discontinuing operations | -           | (50,000)    |
|                                                                             |             | <b>No.</b>  |
| b. Weighted average number of ordinary shares for basic EPS                 | 343,714,887 | 336,700,099 |
| Weighted average number of ordinary shares for diluted EPS                  | 360,299,892 | 346,200,099 |

All performance rights on issue at 30 June 2022 are anti-dilutive.

## Notes to the Financial Statements

For the year ended 30 June 2022

### NOTE 16: INTEREST IN SUBSIDIARIES

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

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

\* Deregistered 13<sup>th</sup> October 2021

\*\* Registered 16<sup>th</sup> August 2021

## 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    |            |
|------------------------------|---------------------|------------|------------|------------|
|                              | 2022<br>\$          | 2021<br>\$ | 2022<br>\$ | 2021<br>\$ |
| Short term employee benefits | 598,951             | 428,355    | 598,951    | 428,355    |
| Post employment benefits     | 55,478              | 44,642     | 55,478     | 44,642     |
|                              | 654,429             | 472,997    | 654,429    | 472,997    |

## Notes to the Financial Statements

For the year ended 30 June 2022

### 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.

|                                                                   | 2022<br>\$         | 2021<br>\$        |
|-------------------------------------------------------------------|--------------------|-------------------|
| <b>Statement of Financial Position</b>                            |                    |                   |
| <b>Assets</b>                                                     |                    |                   |
| Current assets                                                    | 7,002,214          | 799,328           |
| Non-current assets                                                | 29,100,532         | 33,822,767        |
| <b>Total Assets</b>                                               | <b>36,102,746</b>  | <b>34,622,095</b> |
| <b>Liabilities</b>                                                |                    |                   |
| Current liabilities                                               | 913,572            | 2,017,066         |
| Non-current liabilities                                           | 11,159,603         | 8,822,398         |
| <b>Total Liabilities</b>                                          | <b>12,073,175</b>  | <b>10,839,464</b> |
| <b>Equity</b>                                                     |                    |                   |
| Issued capital                                                    | 44,605,529         | 42,513,283        |
| Share based payments reserve                                      | 34,287             | 41,437            |
| Retained earnings                                                 | (20,610,246)       | (18,772,090)      |
| <b>Total Equity</b>                                               | <b>24,029,570</b>  | <b>23,782,630</b> |
| <b>Statement of Profit or Loss and Other Comprehensive Income</b> |                    |                   |
| Total comprehensive profit/loss for the year                      | (1,530,149)        | 5,158,258         |
|                                                                   | <b>(1,530,149)</b> | <b>5,158,258</b>  |

#### Contingent liabilities

The parent entity does not have any contingent liabilities as at 30 June 2022.

#### Contractual commitments

Other than amounts disclosed in the financial statements, the parent entity has no additional contractual commitments as at 30 June 2022.

## Notes to the Financial Statements

For the year ended 30 June 2022

### NOTE 19: AUDITOR'S REMUNERATION

|                                      | 2022<br>\$    | 2021<br>\$    |
|--------------------------------------|---------------|---------------|
| (i) Remuneration of the auditor for: |               |               |
| - Audit fees                         | 56,264        | 55,000        |
| - Half year review                   | 21,652        | 20,174        |
|                                      | <u>77,916</u> | <u>75,174</u> |

The auditor for financial year 2021 and 2022 was Felsers, Chartered Accountants.

|                           |              |               |
|---------------------------|--------------|---------------|
| (i) Non-Auditor fees      |              |               |
| - Taxation compliance     | -            | 14,610        |
| - Other Advisory services | 1,740        | 3,153         |
|                           | <u>1,740</u> | <u>17,763</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 2022 and considering those events occurring subsequent to that date. As the measures implemented in response to the COVID-19 pandemic are ongoing and dynamic, its ongoing impact is considered an event that arose after the reporting period and no adjustments have been made to the financial statements as at 30 June 2022. Management continues to take an agile approach to the situation as it develops.

Other events since balance date are the entering into an agreement to open a FREAK venue in the prime location of Cavill Avenue on the Gold Coast, opening in December, and the appointment of Will Beaumont as Global Sales Director to spearhead the sales of the Operator suite of products.

## Notes to the Financial Statements

For the year ended 30 June 2022

### Directors' Declaration

For the year ended 30 June 2022

In the opinion of the Directors of xReality Group Limited:

a. the financial statements and notes, as set out on pages 23 to 62, are in accordance with the *Corporations Act 2001*, including:

- i. giving a true and fair view of the financial position as at 30 June 2022 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 2022.

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

20 September 2022

Sydney

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# 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 2022, 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 2022 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 3(a) 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 3(a) 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                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Revenue – Note 5</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <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 2022 was \$6,574,705. 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 2022, gift card revenue or 'breakage' of \$520,741 was recognised along with a corresponding deferred revenue balance of \$975,048. 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</p> | <p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> <li>+ Assessing whether the Group's revenue recognition policies were in compliance with Australian Accounting Standards;</li> <li>+ Evaluating the operating effectiveness of revenue recognition;</li> <li>+ Testing the appropriateness and accuracy of general ledger revenue journals;</li> <li>+ 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;</li> <li>+ Evaluating the reasonableness of management's estimates relating to gift card breakage rates including corroborating management's assertions to historical redemption rates; and</li> <li>+ Performing testing on a sample of sales at year end to determine that the revenues recorded relate to the appropriate period.</li> </ul> |

a key audit matter.

**Impairment of non-current assets – Note 10(b), 10(c)(i)**

As at 30 June 2022, the carrying amount of the Group's property, plant and equipment totaled \$19,912,724. In addition, the carrying amount of the Group's right-of-use asset totaled \$12,644,638.

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.

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.

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.

Our audit procedures included, among others:

- + 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

| Group's ability to continue as a Going Concern – Note 3(a)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <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 3(a), there is significant uncertainty as at 30 June 2022 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 2022 thus constitutes a key audit matter.</p> | <p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> <li>+ Evaluation of the underlying data used as the basis of cash flow projections prepared by management and those charged with governance;</li> <li>+ Analysing the impact of potential changes in projected cash flows and their timing, to the projected periodic cash positions;</li> <li>+ 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;</li> <li>+ Obtaining and reviewing correspondence between existing financiers and the Group to determine the options available to the Group inclusive of variable debt facilities;</li> <li>+ 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.</li> </ul> |

### 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 2022 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 14 to 19 of the directors' report for the year ended 30 June 2022.

In our opinion, the Remuneration Report of xReality Group Limited, for the year ended 30 June 2022, 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.



Vindran Vengadasalam  
Partner

20 September 2022  
Sydney, Australia



FELSERS  
Chartered Accountants

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# SHAREHOLDER INFORMATION

## SHAREHOLDER INFORMATION

The following information is current as at 12 July 2022:

### 1. Shareholder Information

| Distribution of Shareholders | Number | Ordinary Shares |
|------------------------------|--------|-----------------|
| Category (size of holding):  |        |                 |
| 1 – 1,000                    | 54     | 17,779          |
| 1,001 – 5,000                | 59     | 154,311         |
| 5,001 – 10,000               | 277    | 2,333,049       |
| 10,001 – 100,000             | 1,005  | 38,579,149      |
| 100,001 and over             | 335    | 380,161,266     |
|                              | 1,730  | 421,245,554     |

The number of shareholdings held in less than marketable parcels is 439.

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       | 23.653              |
| MR KIM HOPWOOD                  | 31,303,773       | 7.431               |

### Voting Rights

ISA Group has 421,245,554 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                                | 23.653%                           |
| MR KIM HOPWOOD                                            | 31,303,773                                | 7.431%                            |
| BNP PARIBAS NOMS (NZ) LTD <DRP>                           | 16,150,358                                | 3.834%                            |
| EXCALIB-AIR PTY LTD <EXCALIB-AIR UNIT ACCOUNT>            | 16,060,000                                | 3.813%                            |
| PROJECT GRAVITY PTY LTD <THE JONES FAMILY A/C>            | 12,297,605                                | 2.919%                            |
| IPSGROUP PASTORAL COMPANY PTY LTD <IPSGROUP PASTORAL A/C> | 12,023,414                                | 2.854%                            |
| QUAD INVESTMENTS PTY LTD                                  | 11,916,667                                | 2.829%                            |
| PROJECT FLIGHT PTY LTD <WAYNE JONES SUPER FUND A/C>       | 6,206,680                                 | 1.473%                            |
| DRILL INVESTMENTS PTY LTD                                 | 5,000,000                                 | 1.187%                            |
| KAYSIM PTY LTD                                            | 4,687,500                                 | 1.113%                            |
| HOWARD-WILLIS LIMITED                                     | 4,293,759                                 | 1.019%                            |
| MR MICHAEL ADAM CREBAR                                    | 4,222,384                                 | 1.002%                            |
| RICKTARR PTY LTD <SG & F SUPER FUND A/C>                  | 4,000,000                                 | 0.950%                            |
| MR MARK JASON BANTON                                      | 3,743,000                                 | 0.889%                            |
| R J & A INVESTMENTS PTY LTD <MULLER MORVAN FAMILY A/C>    | 3,200,000                                 | 0.760%                            |
| EXERTUS CAPITAL PTY LTD                                   | 3,098,222                                 | 0.735%                            |
| DEVAUX SUPERANNUATION PTY LTD <DEVAUX SUPER FUND A/C>     | 3,000,000                                 | 0.712%                            |
| GALDARN PTY LTD                                           | 2,570,000                                 | 0.610%                            |
| LYNDCOTE SUPER PTY LTD <LYNDCOTE SUPER FUND A/C>          | 2,521,667                                 | 0.599%                            |
| WYNDLEY PTY LTD <WYNDLEY SMSF A/C>                        | 2,500,001                                 | 0.593%                            |
|                                                           | <b>248,433,193</b>                        | <b>58.976%</b>                    |

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 Grosvenor Place, Level 12, 225 George Street, Sydney NSW 2000.

**5. Stock Exchange Listing**

Quotation has been granted for all 421,245,554 ordinary shares of xReality Group on all Member Exchanges of the Australian Securities Exchange Limited.

**6. Unquoted Securities**

xReality Group has 16,585,005 incentive options on issue to 2 eligible executive director and 5 senior management personnel. The incentive options have a vesting date of 31<sup>st</sup> January 2022, have an exercise price of \$0.021 and expire on 31 January 2024. It also has 4,000,000 rights to be issued on shareholder approval, in two tranches, to 2 non-executive Directors, as outlined in Note 14.

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