

xReality Group Limited

ACN 154 103 607

APPENDIX 4E PRELIMINARY FINAL REPORT

For the year ended 30 June 2023

Results for announcement to the Market

Reported	30 June 2023 \$000's	30 June 2022 \$000's	Change \$000's	Change %
Revenue from ordinary activities	10,545	7,193	3,352	46.6%
Profit/(Loss) from ordinary activities after tax attributable to members	(1,691)	(6,932)	5,241	75.6%
Loss attributable to members	(1,691)	(6,932)	5,241	75.6%
Dividends	Nil	Nil	Nil	n/a

Underlying EBITDA and non-cash expenses for FY23 \$1.74m (FY22 \$1.37m).

This report is based on accounts which have been audited.

Dividends

No dividends have been declared or are payable for the year ended 30 June 2023.

Net Tangible Asset Information

	30 June 2023 (cents)	30 June 2022 (cents)	Change %
Net tangible assets per share	1.6	2.3	(32%)

Derived by dividing the net tangible assets less intangible assets attributable to equity holders of the Company by the total ordinary shares at 30 June 2023 (446,346,595) and 30 June 2022 (421,245,554) respectively.

Commentary and results for the year

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

Enterprise Sector

The Company's Enterprise business, Operator XR, allows Military personnel and Law Enforcement Officers to train operational tactics and procedures within a portable, virtual reality environment. Complimenting existing training methods, the virtual reality system allows officers to train more often, leading to increased preparedness across a broad range of scenarios centred on de-escalation tactics, use of force decision making, and operational procedures. The system has been developed from the ground up, using the latest innovations in Virtual Reality technology, with all IP owned by XRG.

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

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

First Law Enforcement Sale & Delivery complete

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

The total contract value is up to \$1.7M (GST inclusive) over a 5-year period. The first order, valued at \$1.04M includes hardware, software licensing and support over a 3-year term. The

additional \$634K covers software licensing and support for an optional further 2 years.

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

Operator XR selected for National Trial

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

First Defence Sale & Delivery

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

US expansion

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

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

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

The company is actively managing over 40 early-stage prospects throughout various locations in the United States, a number of successful, in-person demonstrations were conducted, with quotations provided that are currently under assessment.

Other global opportunities

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

DroneShield Partnership

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

Entertainment Sector

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

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

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

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

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

Strengthening of the Board

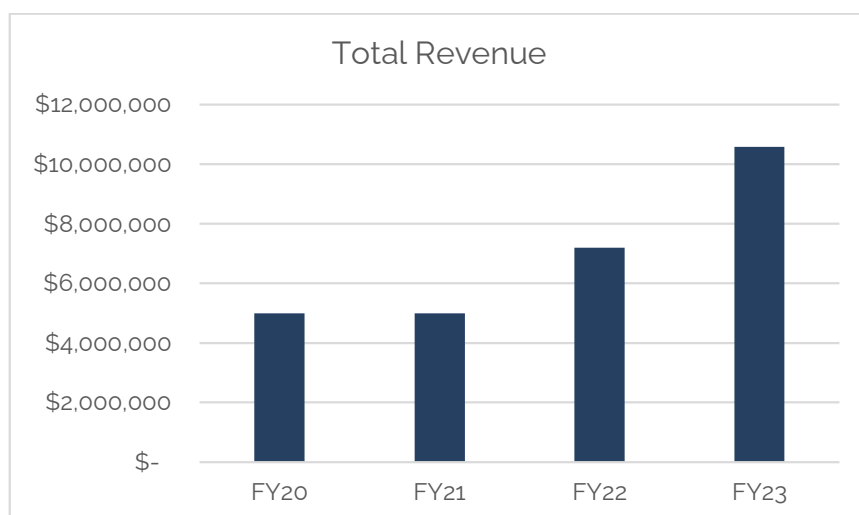
In January, the Company announced the addition of Philip Copeland as a Non- Executive Director. Phil is an experienced senior leader in the enterprise software-as-a- service (SaaS) sector with a successful track record scaling enterprise SaaS businesses into global markets across highly regulated industries including government and financial services. Philip's extensive experience includes being former CEO and co-founder of Avoka Technologies, a digital business enablement platform. Founded in Australia, Avoka rapidly expanded to the global markets with a core focus on the US. Avoka was acquired by Temenos in 2018 for \$US245M. Phil currently resides in Colorado, USA and will be assisting XRG to break into the US Government markets and guiding the company as it executes its international growth strategy through Enterprise Software.

Capital Raising

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

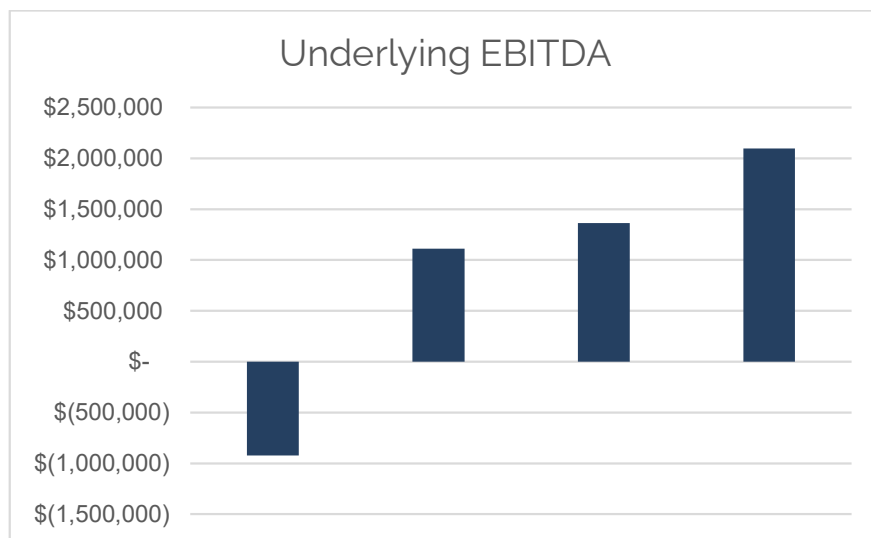
2023 Financial Performance

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



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



Closing Remarks

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

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

Dividend reinvestment plan

xReality Group does not operate a dividends or distribution reinvestment plan.

Control gained or lost over entities having a material effect

There were no transactions during the year ended 30 June 2022 having a material effect.

Accounting standards

The financial information contained in this Appendix 4E has been prepared in accordance with Australian Accounting Standards

Audit of the Financial Report

This report is based on the consolidated financial statements for the year ended 30 June 2023 which has been audited by Felsers, Chartered Accountants.



Wayne Jones
Chief Executive Officer & Director

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2023

		Consolidated Group	
		2023	2022
	Note	\$	\$
Revenues	2(a)	10,544,618	7,193,340
Cost of Sales		(1,949,400)	(1,502,843)
Gross Profit		<u>8,595,218</u>	<u>5,690,498</u>
Selling and marketing expenses	2(b)	(4,104,200)	(3,091,831)
Administration expenses	2(c)	(1,842,607)	(907,362)
Depreciation and amortisation	2(d)	(2,216,439)	(2,121,541)
Legal expenses		(59,067)	(43,731)
Other expenses		(1,391,411)	(1,595,679)
Impairment of asset	1(i)	960,000	(3,352,000)
Profit/Loss Before Interest and Tax		<u>(58,505)</u>	<u>(5,421,647)</u>
Finance expense		(1,632,005)	(1,510,567)
Profit/Loss before tax from continuing operations		<u>(1,690,511)</u>	<u>(6,932,214)</u>
Loss before tax from discontinuing operations		-	-
Total Profit/Loss from operations		<u>(1,690,511)</u>	<u>(6,932,214)</u>
Income tax benefit		-	-
Profit/Loss After Tax		<u>(1,690,511)</u>	<u>(6,932,214)</u>
Other comprehensive income			
Exchange differences on translation of foreign operations		-	-
Other comprehensive income for the period		-	-
Total comprehensive income for the period		<u>(1,690,511)</u>	<u>(6,932,214)</u>
Earnings per share			
From continuing operations:			
- Basic earnings per share (cents)		(0.40)	(2.02)
- Diluted earnings per share (cents)		(0.38)	(1.92)

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

Consolidated Group

Consolidated Statement of Financial Position

As at 30 June 2023

	2023 \$	2022 \$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	751,758	2,053,208
Trade and other receivables	844,174	160,530
Inventories	31,081	18,225
Other financial asset	94,367	566,188
TOTAL CURRENT ASSETS	1,721,380	2,861,758
NON-CURRENT ASSETS		
Property, plant and equipment & intangible assets	20,264,738	19,912,724
Intangible assets	3,059,612	512,110
Right-of-use asset	13,532,945	12,644,638
Other financial asset	774,289	818,665
TOTAL NON-CURRENT ASSETS	37,631,585	33,948,137
TOTAL ASSETS	39,352,965	36,809,895
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	2,234,996	1,215,568
Lease Liability	1,315,388	914,803
Deferred revenue	1,519,671	975,048
Borrowings	300,000	300,000
Provisions	438,945	221,656
TOTAL CURRENT LIABILITIES	5,809,000	3,627,075
NON-CURRENT LIABILITIES		
Trade and other payables	289,312	1,094,392
Lease Liability	13,875,491	12,700,461
Deferred revenue	367,200	-
Borrowings	7,282,333	7,362,249
Provisions	1,573,214	1,584,866
TOTAL NON-CURRENT LIABILITIES	23,387,550	22,741,968
TOTAL LIABILITIES	29,196,550	26,369,043
NET ASSETS	10,156,414	10,440,852
EQUITY		
Share capital	45,675,268	44,605,529
Reserves	370,621	34,287
Accumulated losses	(35,889,475)	(34,198,964)
TOTAL EQUITY	10,156,414	10,440,852

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2023

	Issued Capital	Reserves	Retained Earnings	Total
	\$	\$	\$	\$
Balance at 1 July 2022	44,605,529	34,287	(34,198,964)	10,440,852
Shares issued during the year	1,069,739	-	-	1,069,739
Change in share based payment reserve	-	336,334	-	336,334
Comprehensive income				
Loss for the year	-	-	(1,690,511)	(1,690,511)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	-	-	(1,690,511)	(1,690,511)
Balance at 30 June 2023	45,675,268	370,621	(35,889,475)	10,156,414
Balance at 1 July 2021	42,513,283	41,438	(27,266,750)	15,287,971
Shares issued during the year	2,092,246	-	-	2,092,246
Change in share based payment reserve	-	(7,151)	-	(7,151)
Comprehensive income				
Loss for the year	-	-	(6,932,214)	(6,932,214)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	-	-	(6,932,214)	(6,932,214)
Balance at 30 June 2022	44,605,529	34,287	(34,198,964)	10,440,852

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2023

	Consolidated Group	
	2023	2022
	\$	\$
Cash Flows from Operating Activities		
Receipts from customers	10,045,224	7,623,007
Payments to suppliers and employees	(7,866,863)	(5,985,933)
	2,178,361	1,637,074
Grant income received	791,102	618,635
Operator development costs	-	(752,905)
Finance costs	(894,673)	(867,480)
Payments to suppliers from prior periods	-	(690,661)
	2,074,790	(55,337)
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(3,359,034)	(699,768)
Sale of property, plant and equipment	-	-
	(3,359,034)	(662,476)
Cash Flows from Financing Activities		
Proceeds from issue of securities	1,080,702	2,160,000
Proceeds from borrowings	-	-
Repayment of borrowings	(300,000)	(150,000)
Share issue costs	(10,964)	(67,754)
AASB leases repayment	(786,944)	(895,119)
	(17,206)	1,047,127
Net increase in cash held	(1,301,450)	292,022
Cash and cash equivalents at beginning of year	2,053,208	1,761,186
Cash and cash equivalents at end of year	751,758	2,053,208

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR YEAR ENDING 30 JUNE 2023

NOTE 1: 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.

Basis of Accounting

The Group incurred a loss for the year after tax of \$1,690,511 (2022: loss of \$6,932,214) and has a net current deficiency in assets of \$4,087,618 (2022: \$765,317). Included within current liabilities are deferred revenue of \$1,519,671, included in a total of \$1,886,871 that will be realised as revenue once the service has been delivered to the customer.

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 liabilities through the normal cyclical nature of receipts and payments.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Critical Accounting Estimates and Judgements

i. Impairment of Asset AASB 136

Following extensive analysis of the NPV of the anticipated EBITDA from two of the FREAK venues, it was determined to impair their carrying costs by a total of \$310,000. Further, after reviewing the impairment of the Gold Coast facility, it was determined that the impairment of this asset should be reduced by \$1,270,000, to still ensure that it is reported at no more than its recoverable value. Non-Current Assets now total \$37.6m.

ii. 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.

iii. Gift Card Revenue

Gift card revenue from the sale of gift cards is recognised when the card is redeemed for the purchase of flight time (Flight Revenue), or when the gift card is no longer expected to be redeemed (Gift Card Revenue). At 30 June 2023, \$199,998 of Gift Card Revenue is recognised (2022: \$520,741). The key assumption in measuring the liability for gift cards and vouchers is the expected redemption rates by customers with a portion recognised upfront, which are reviewed based on historical information. Any reassessment of expected redemption rates in a particular period impacts the revenue recognised from expiry of gift cards and vouchers (either increasing or decreasing). Any foreseeable change in the estimate is unlikely to have a material impact on the financial statements.

iii. 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 6% inflationary escalation for three years and then 3.0% thereafter, and discounted back at 7.94% (2022: 7.86%), which is a change in estimate from the prior year, after consideration of the associated risks. The discount rate has been amended to reflect the time value of money and risks specific to the operation of the tunnels. The site restoration asset is depreciated over the remainder of each extended lease period being 40 years in the case of each of iFLY Downunder (Penrith) and iFLY Gold Coast. The unwinding of the effect of discounting on the site restoration provision is included within finance costs in the statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: REVENUE AND EXPENSES

	Consolidated Group	
	2023	2022
a) Revenue	\$	\$
Entertainment sector	9,187,971	6,476,280
Enterprise revenue	565,545	98,425
	9,753,516	6,574,705
Other Income		
Grant Income	791,102	557,252
Other	-	61,383
	791,102	618,635
b) Selling and Marketing Expenses		
Marketing Expenses	650,717	479,903
Employment Expenses	3,453,483	2,611,928
	4,104,200	3,091,831
c) Administration Expenses		
Occupancy Expenses	275,047	46,855
Employment Expenses	1,450,318	797,273
Directors' fees – current year	117,242	63,234
	1,842,607	907,362
d) Depreciation and amortisation		
Depreciation and Amortisation Expenses	1,479,518	1,437,314
Depreciation – AASB 16	736,921	684,227
	2,216,439	2,121,541
e) Finance Expenses		
Interest Expense	894,673	867,481
Interest - AASB 16	737,332	643,086
	1,632,005	1,510,567

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: INTEREST IN SUBSIDIARIES

Set out below are the Group's subsidiaries at 30 June 2023. The subsidiaries listed below have share capital consisting solely of ordinary shares, which are held directly by the Group and the proportion of ownership interests held equals the voting rights held by the Group. Each subsidiary's country of incorporation or registration is also its principal country of business.

Subsidiaries	Country of Incorporation	2023 %	2022 %
Indoor Skydiving Penrith Holdings Pty Ltd	Australia	100	100
Indoor Skydiving Penrith Pty Ltd	Australia	100	100
Indoor Skydiving Gold Coast Pty Ltd	Australia	100	100
ISA FLIGHT Club Pty Ltd	Australia	100	100
Indoor Skydiving Perth Pty Ltd	Australia	100	100
ISA Asia Holdings Pty Ltd	Australia	** N/A	100
ISA Asia Operations Pty Ltd	Australia	** N/A	100
Freak Entertainment Pty Ltd	Australia	100	100
Operator XR Pty Ltd	Australia	100	100
Operator XR LLC	United States	*** 100	N/A
Red Cartel Pty Ltd	Australia	100	* 100

* Registered 16th August 2021

** Deregistered 10th May 2023

*** Registered 2nd March 2023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: 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.

	Entertainment	Enterprise	Corporate	Total
Segment Revenue	\$ 9,242,611	\$ 447,758	\$ 854,250	\$ 10,544,618
Segment EBITDA	\$ 2,105,202	\$ 177,815	(\$ 125,084)	\$ 2,157,934
Depreciation and amortisation	(\$ 483,954)	(\$ 28,623)	(\$ 1,703,861)	(\$ 2,216,439)
Interest	(\$ 110)	\$ 0	(\$ 1,631,895)	(\$ 1,632,005)
Segment NPAT	\$ 1,621,137	\$ 149,192	(\$ 3,460,840)	(\$ 1,690,511)

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

Net reversal of impairment of PP&E	960,000	-	-	960,000
Lease asset amortisation recognised under AASB 16 Leases	-	-	972,611	972,611

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5: EARNINGS PER SHARE

	2023 Cents	2022 Cents
Earnings per share (cents per share)		
From continuing operations:		
- basic earnings per share	(0.40)	(2.02)
- diluted earnings per share	(0.38)	(1.92)
 a. Reconciliation of earnings to profit or loss:		
 Earnings used to calculate basic EPS - continuing operations	 (1,690,511)	 (6,932,214)
Earnings used in the calculation of dilutive EPS - continuing operations	 (1,690,511)	 (6,932,214)
 b.	 No.	 No.
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	 426,346,595	 343,714,887
Average number of dilutive performance rights outstanding	 19,585,005	 16,585,005
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	 446,479,493	 360,299,892

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