

xReality Group Limited

ACN 154 103 607

APPENDIX 4E PRELIMINARY FINAL REPORT

For the year ended 30 June 2024

Results for announcement to the Market

Reported	30 June 2024 \$000's	30 June 2023 \$000's	Change \$000's	Change %
Revenue from ordinary activities	10,239	10,545	(306)	(2.9)
Loss from ordinary activities after tax attributable to members	(4,112)	(1,691)	(2,421)	(143.2)
Loss attributable to members	(4,112)	(1,691)	(2,421)	(143.2)
Dividends	Nil	Nil	Nil	n/a

Dividends

No dividends have been declared or are payable for the year ended 30 June 2024.

Net Tangible Asset Information

	30 June 2024 (cents)	30 June 2023 (cents)	Change %
Net tangible assets per share*	0.8	1.6	(51)

*Derived by dividing the net assets less intangible assets attributable to equity holders of the Company by the total ordinary shares at 30 June 2024 (553,139,337) and 30 June 2023 (446,346,595) respectively.

Please note that throughout the financial year the company has increased its intangible assets by \$2.1m and increased its intangible liabilities (deferred revenue) by \$2.6m, both of which are subtracted in calculating the Net tangible assets.

Commentary and results for the year

Delivering on Strategy and Outperforming Expectations

XRG's achievements in FY24, particularly in validating and expanding the Operator XR software products, underscore a pivotal year of strategic execution and market penetration. The company not only met but also surpassed its strategic milestones, demonstrating effective growth management and the appeal of its innovative solutions in global markets. This success has set a strong precedent for continued growth and innovation throughout FY2025 and beyond.

Enterprise Sector

Throughout FY2024, xReality Group Limited made substantial strides in expanding its customer base for the Operator XR platform. The year saw a marked increase in new customers, particularly in the U.S. and Australian markets.

The company is using 3 key indicators to track its success in the new sector; Total Contract Value (TCV), Annual Recurring Revenue (ARR) and total customers world-wide.

For FY2024 our TCV was \$4.1m, an increase of 193% on FY23 (FY23 \$1.4m). The ARR grew by 505% from \$365k to \$2.21m, and by the end of the financial year we had 29 customers around the world including Law Enforcement agencies, Military Units, Education and Training agencies and other government agencies.

Key Markets Penetration

The two key markets of focus have been Australia and the United States. Sales efforts have been concentrated on these markets.

In the first half of the year, the company focused on expanding its U.S. operations. Initial market engagement involved trade shows and selective customer interactions, leading to the establishment of a permanent Sales team and Operations unit and securing its first law enforcement client in Colorado. This early foundation paved the way for an extremely successful second half of the year where the company added a further 24 customers in the US across law enforcement and training organisations.

The success in North America has also carried through to the Australian market, with a major contract awarded by a state government agency in late June with a TCV of \$810k (signed 3rd July). This State Government sale and a further Australian military sale valued at \$317k ended the financial year contributing significant ARR into FY25 and beyond.

Other Global Opportunities

In parallel with the direct sales strategy in Australia and the US, Operator XR has now established a distributor network in S/E Asia and Europe through partnership agreements to market, deliver, and support Operator XR products and software into those regions. These arrangements are expected to commence to deliver sales in FY25.

Product Development and Growth Investment

Throughout the financial year the company invested \$2.3m in developing the Operator XR products and IP, resulting in a world leading technology that has to date disrupted the legacy

systems currently on the market. This investment along with the lived experience of its military and law enforcement developers has culminated in a technology that meets the objectives of its end users, being a mobile, offline, virtual reality training and operational planning system.

The company invested an additional \$1.8m in setting up its operations and sales teams in Australia and the US.

To assist in funding the development and growth, the company conducted a rights issue in November to raise \$2.4m which was strongly supported. The company also increased its working capital debt facility by \$1m to help fund the growth strategy.

Entertainment Sector

Positive Cashflow from XRG's existing Entertainment businesses played an important role in the expansion of the company. Both iFLY and FREAK Entertainment performed steadily in a soft retail market. The iFLY facilities in Western Sydney and Surfers Paradise provided \$1,636k cash receipts throughout the year with the FREAK Entertainment facilities located in NSW and QLD contributing a further \$254k in cash.

The iFLY facilities were both upgraded to a more efficient electrical system and iFLY Gold Coast was fitted with solar panels providing further savings on electricity for the future.

2024 Financial Performance

In FY2024 the company achieved a total income of \$10.24m, a marginal decrease of 2.9% vs FY2023. The majority of the revenue for the financial year has been realised through the Entertainment sector. The company achieved a further \$4.1m in total contract value through Operator XR, however the revenue from these sales will be recognised over a 36-month period as Annual Recurring Revenue. Given the timing of most of the Operator XR sales in FY24, only \$691k is included as recognised revenue this financial year. The remainder is reflected on the balance sheet as deferred revenue which has increased by 138% from \$1.89m to \$4.48m.

FY2025 Outlook

The investment into Operator XR throughout FY24 has laid the foundations for an exciting year ahead. With a dynamic and motivated sales, operations and marketing team now established, over 29 current customers world-wide, and a product that is disrupting the global market in law enforcement and military simulation, the growth outlook is very promising.

The company has an ever-growing qualified pipeline of sales, currently at \$29m and has recently added some high profile end users in the US and Australia which reiterates the trust in our products and reinforces the market fit.

Although the company does not anticipate all of the current pipeline to manifest as new sales and revenue within the financial year, the financial outlook for FY25 is very encouraging.

Closing Remarks

Our performance in FY24 is the result 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 2024 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 2024, which is currently being 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 2024

		Consolidated Group	
		2024	2023
	Note	\$	\$
Revenues	2(a)	10,238,587	10,544,618
Cost of Sales		(1,624,385)	(1,949,400)
Gross Profit		<u>8,614,202</u>	<u>8,595,218</u>
Finance Income		17,844	-
Selling and marketing expenses	2(b)	(5,584,988)	(4,104,200)
Administration expenses	2(c)	(1,769,176)	(1,842,607)
Depreciation and amortisation	2(d)	(2,108,526)	(2,216,439)
Legal expenses		(66,074)	(59,067)
Other expenses		(1,474,591)	(1,391,411)
Impairment of asset	1(i)	-	960,000
Loss Before Interest and Tax		<u>(2,371,309)</u>	<u>(58,505)</u>
Finance expense		(1,740,431)	(1,632,005)
Profit/Loss before tax		<u>(4,111,740)</u>	<u>(1,690,511)</u>
Income tax		-	-
Loss After Tax		<u>(4,111,740)</u>	<u>(1,690,511)</u>
Other comprehensive income			
Other comprehensive income for the period		-	-
Total comprehensive income for the period		<u>(4,111,740)</u>	<u>(1,690,511)</u>
Earnings per share			
From continuing operations:			
- Basic earnings per share (cents)		(0.81)	(0.40)
- Diluted earnings per share (cents)		(0.72)	(0.38)

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

As at 30 June 2024

	Consolidated Group	
	2024	2023
	\$	\$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	1,365,512	751,758
Trade and other receivables	2,704,371	844,174
Inventories	172,570	31,081
Contract asset	151,927	-
Other financial asset	-	94,367
TOTAL CURRENT ASSETS	4,394,380	1,721,380
NON-CURRENT ASSETS		
Property, plant and equipment	19,266,005	20,264,738
Intangible assets	5,119,178	3,059,612
Right-of-use asset	12,823,217	13,532,945
Contract asset	321,327	-
Other financial asset	733,545	774,289
TOTAL NON-CURRENT ASSETS	38,263,272	37,631,585
TOTAL ASSETS	42,657,652	39,352,965
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	2,307,313	2,234,996
Lease Liability	814,649	1,315,388
Deferred revenue	2,525,045	1,519,671
Borrowings	314,564	300,000
Provisions	527,049	438,945
TOTAL CURRENT LIABILITIES	6,488,620	5,809,000
NON-CURRENT LIABILITIES		
Trade and other payables	986,580	289,312
Lease Liability	14,145,319	13,875,491
Deferred revenue	1,959,558	367,200
Borrowings	8,347,626	7,282,333
Provisions	1,298,209	1,573,214
TOTAL NON-CURRENT LIABILITIES	26,737,292	23,387,550
TOTAL LIABILITIES	33,225,912	29,196,550
NET ASSETS	9,431,740	10,156,414
EQUITY		
Share capital	48,887,773	45,675,268
Reserves	545,182	370,621
Accumulated losses	(40,001,215)	(35,889,475)
TOTAL EQUITY	9,431,740	10,156,414

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 2024

	Issued Capital	Reserves	Retained Earnings	Total
	\$	\$	\$	\$
Balance at 1 July 2023	45,675,268	370,621	(35,889,475)	10,156,414
Shares issued during the year	3,212,505	-	-	3,212,505
Change in share based payment reserve	-	174,561	-	174,561
Comprehensive income				
Loss for the year	-	-	(4,111,740)	(4,111,740)
Total comprehensive loss for the year	-	-	(4,111,740)	(4,111,740)
Balance at 30 June 2024	48,887,773	545,182	(40,001,215)	9,431,740
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)
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

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 2024

	Consolidated Group	
	2024	2023
	\$	\$
Cash Flows from Operating Activities		
Receipts from customers	9,402,249	10,045,224
Payments to suppliers and employees	(8,812,277)	(7,866,863)
	(589,972)	2,178,361
Grant income received	163,024	791,102
Finance costs	(693,362)	(894,673)
Net cash inflows from operating activities	59,634	2,074,790
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(2,392,615)	(3,359,034)
Sale of property, plant and equipment	-	-
Net cash outflows from investing activities	(2,392,615)	(3,359,034)
Cash Flows from Financing Activities		
Proceeds from issue of securities	3,435,113	1,080,702
Proceeds from borrowings	1,068,831	-
Repayment of borrowings	(302,901)	(300,000)
Share issue costs	(222,608)	(10,964)
AASB leases repayment	(1,031,700)	(786,944)
Net cash inflows from financing activities	2,946,735	(17,206)
Net increase in cash held	613,754	(1,301,450)
Cash and cash equivalents at beginning of year	751,758	2,053,208
Cash and cash equivalents at end of year	1,365,512	751,758

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 2024

NOTE 1: MATERIAL ACCOUNTING POLICY INFORMATION

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.

The Group has adopted the amendments to AASB 101 Presentation of Financial Statements which require only the disclosure of material accounting policy information rather than significant accounting policies and therefore policy information which does not satisfy one of the following requirements has been removed from these financial statements:

- Relates to a change in accounting policy
- Policy has been developed in the absence of an explicit accounting standard requirement
- Documents an accounting policy choice
- Relates to an area of significant judgement or estimation
- Relates to a complex transaction and is required to explain the treatment to the user.

Basis of Accounting

The Group produced a loss for the year after tax of \$4,111,740 (2023: loss of \$1,690,511). The Group has a net deficiency in current assets of \$1,772,913 (2023: \$4,087,618). Included within this net deficiency are deferred revenues of \$2,525,045. In total, there are \$4,484,602 of deferred revenues (current and non-current) that will be realised as revenue once the service is recognised as being 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. 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.

ii. Useful lives, Residual Values and Classification of Intellectual Property

There is also a degree of judgement required in the creation and estimating the useful lives of the software releases for the respective Operator projects. These intangible assets are being created based on the products to be sold to the market, and then depreciated based on the estimated life of the products. The costs incurred in development of the products is aggregated into that product. The Board has made the judgement that the products developed have a reasonable economic life estimate of 10 years.

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 2024, \$453,371 of Gift Card Revenue is recognised (2023: \$199,998). 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 3.6% inflationary escalation per annum, and then discounted back at 9.17% (2023: 7.94%), 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	
	2024	2023
	\$	\$
a) Revenue		
Entertainment sector	8,435,157	9,187,971
Enterprise revenue	720,297	565,545
Grant income	1,083,133	791,102
	10,238,587	10,544,618
b) Selling and Marketing Expenses		
Marketing Expenses	1,228,737	650,717
Employment Expenses	4,356,251	3,453,483
	5,584,988	4,104,200
c) Administration Expenses		
Occupancy Expenses	285,814	275,047
Employment Expenses	1,367,462	1,450,318
Directors' fees – current year	115,898	117,242
	1,769,176	1,842,607
d) Depreciation and amortisation		
Depreciation and Amortisation Expenses	1,331,783	1,479,518
Depreciation – AASB 16	776,743	736,921
	2,108,526	2,216,439
e) Finance Expenses		
Interest Expense	1,007,289	894,673
Interest - AASB 16	733,142	737,332
	1,740,431	1,632,005

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: INTEREST IN SUBSIDIARIES

Set out below are the Group's subsidiaries at 30 June 2024. 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	2024 %	2023 %	Tax Residency
Indoor Skydiving Penrith Holdings Pty Ltd	Body corporate	Australia	100	100	Australia
Indoor Skydiving Penrith Pty Ltd	Body corporate	Australia	100	100	Australia
Indoor Skydiving Gold Coast Pty Ltd	Body corporate	Australia	100	100	Australia
ISA FLIGHT Club Pty Ltd	Body corporate	Australia	100	100	Australia
Indoor Skydiving Perth Pty Ltd	Body corporate	Australia	100	100	Australia
Freak Entertainment Pty Ltd	Body corporate	Australia	100	100	Australia
Operator XR Pty Ltd	Body corporate	Australia	100	100	Australia
Operator XR LLC	Body corporate	United States	100	100	United States of America
Red Cartel Pty Ltd	Body corporate	Australia	100	100	Australia

At the end of the financial year, no entity within the consolidated entity was a trustee of a trust within the consolidated entity, a partner in a partnership within the consolidated entity, or a participant in a joint venture within the consolidated entity.

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.

Segment analysis by operation:

	Entertainment	Enterprise	Corporate	Total
Segment Revenue	8,463,942	717,299	1,057,346	10,238,587
Segment EBITDA	1,779,168	(1,270,769)	(771,183)	(262,783)
Depreciation and amortisation	(413,028)	(68,932)	(1,626,566)	(2,108,526)
Interest	(3,179)	(29,395)	(1,707,856)	(1,740,431)
Income tax	-	-	-	-
Segment NPAT	1,362,962	(1,369,096)	(4,105,605)	(4,111,740)

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

Lease asset depreciation expense
recognised under AASB 16

Leases	-	-	(776,743)	(776,743)
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Lease asset interest expense
recognised under AASB 16

Leases	-	-	(733,142)	(733,142)
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4: SEGMENT INFORMATION (CONTINUED)

Segment analysis by geographical location:

	Asia Pacific	United States	Total
Segment Revenue	9,971,125	267,462	10,238,587
Segment EBITDA	512,952	(784,735)	(262,783)
Depreciation and amortisation	(2,108,526)	-	(2,108,526)
Interest	(1,740,431)	-	(1,740,431)
Income tax	-	-	-
Segment NPAT	(3,327,005)	(784,735)	(4,111,740)

NOTE 5: EARNINGS PER SHARE

	2024 Cents	2023 Cents
Earnings per share (cents per share)		
From continuing operations:		
- basic earnings per share	(0.81)	(0.40)
- diluted earnings per share	(0.72)	(0.38)
 a. Reconciliation of earnings to profit or loss:		
Earnings used to calculate basic EPS - continuing operations	(4,111,740)	(1,690,511)
Earnings used in the calculation of dilutive EPS - continuing operations	(4,111,740)	(1,690,511)
 b.	No.	No.
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	508,825,955	426,346,595
Average number of dilutive performance rights outstanding	65,867,359	19,585,005
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	574,693,314	446,479,493