

xReality Group Limited
ABN: 39 154 103 607

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ANNUAL REPORT

For the year ended 30 June

2024



XREALITY GROUP LIMITED



Corporate Directory

Directors

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

Company Secretary

Stephen TOFLER

Registered Office

xReality Group Limited
123 Mulgoa Road
Penrith NSW 2750

Place of Business

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

Share Register

Boardroom Pty Limited
Level 8
210 George Street
Sydney NSW 2000

Auditor

Felsers Chartered Accountants t/as
Accru Felsers
Level 9
1 Chifley Square
Sydney NSW 2000

Bankers

Westpac Banking Corporation
Commonwealth Bank of Australia
Silicon Valley Bank
Bank of America

Stock exchange listing code:

XRG

Website

www.xrgroup.com.au

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DIRECTORS' REVIEW OF OPERATIONS

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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 FY25 and beyond.

Enterprise Sector

Throughout FY24, 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 FY24 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 continued in Australia with a major contract awarded by a 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 \$51k ended the financial year contributing significant ARR into FY25.

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 FY24 the company achieved a total income of \$10.24m, a marginal decrease of 2.9% vs

FY23. 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 worldwide, 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.

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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 2024.

DIRECTORS

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

John Diddams

Chairman – Non-Executive

Appointed 24 January 2022

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

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

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

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

Wayne Jones

Director & Chief Executive Officer

Appointed 4 November 2011

Wayne Jones is the CEO of XRG and was appointed to the role on the foundation of the company in November 2011. As Chief Executive, Wayne has developed and managed multiple business ventures and projects within Australia, APAC, China and the US.

Prior to establishing the company, Wayne was a commander in 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 Management (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 maintains his involvement with the Australian Military and the Special Forces community as Chairman of the 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

Chief Product & Technology Officer

Appointed 26 May 2021

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

Kim started working with XRG in 2012 as a supplier, then freelance consultant before joining full time in 2019. Kim holds the position of Chief Product and Technology Officer, overseeing XRG's corporate strategy, technology, current and future products.

Mark Smethurst

Director – Non-Executive

Appointed 15 November 2021

Mark's significant Defence experience spans over 35 years in the Australian Army, with 27

years as a Senior Special Forces Officer commanding at all levels including the Deputy Commander of the Australian Special Forces. Mark Commanded the NATO Special Forces in Afghanistan during 2011/12 and was the Deputy Chief of Operations for the US Special Operations Command in 2013/14.

He currently holds a variety of board and advisory roles with several private and public companies and is an Advisor to the Global Special Operations Foundation and the Chairman of the Commando Welfare Trust. Through his experience and other business interests, Mark is well positioned to support XRG in Australia and International markets.

Mark is a Non-executive Director for Highcom Limited (ASX:HCL).

Philip Copeland

Director – Non-Executive
Appointed 23 January 2023

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

COMPANY SECRETARY

Stephen Tofler

Chief Financial Officer & Company Secretary
Appointed 1 February 2019

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

Throughout his career, he has successfully structured finance teams and implemented effective financial systems for growth throughout all stages of business development.

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

DIRECTORS' MEETINGS

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

Board Meetings		
	Eligible to Attend	Attended
John Diddams	15	15
Wayne Jones	15	15
Danny Hogan	15	14
Kim Hopwood	15	14
Mark Smethurst	15	15
Philip Copeland	15	11

DIRECTORS' SHAREHOLDINGS

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

Director	Number of Shares and Nature of Interest
John Diddams	Indirect interest in 7,600,000 shares and 300,000 options (with an exercise price of \$0.05 and an expiry of 31 January 2025) held by Galdarn Pty Ltd and 1,800,000 shares and 150,000 options (with an exercise price of \$0.05 and an expiry of 31 January 2025) held by Whitfield Investments Pty Ltd.
Wayne Jones	Indirect interest in 47,077,742 Ordinary Fully Paid Shares held as follows: 16,060,000 held by Excalib-air Pty Ltd, 7,757,739 held by Project Flight Pty Ltd ATF Wayne Jones Superannuation Fund, 22,620,003 shares and 357,143 options (with an exercise price of \$0.05 and an expiry of 31 January 2025) held by Project Gravity Pty Ltd ATF Jones Family Trust.
Danny Hogan	Indirect interest in 16,060,000 shares held by Excalib-air Pty Ltd, indirect interest in 242,857 shares and 21,429 options (with an exercise price of \$0.05 and an expiry of 31 January 2025) held by Hogan Superannuation Fund, indirect interest in 3,598,547 shares and 642,857 options (with an exercise price of \$0.05 and an expiry of 31 January 2025) held by Australian Indoor Skydiving Pty Ltd ATF Hogan Family Trust.
Kim Hopwood	Direct interest in 30,087,023 shares and 285,715 options (with an exercise price of \$0.05 and an expiry of 31 January 2025). An indirect interest in 6,228,179 shares held by Hopwood Family SMSF Pty Ltd.

Director	Number of Shares and Nature of Interest
Mark Smethurst	Indirect interest in 1,000,000 shares held by Rivioli Pty Ltd.
Philip Copeland	Direct interest in 7,663,719 shares and 1,428,571 options (with an exercise price of \$0.05 and an expiry of 31 January 2025).

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 Group Limited are leaders in enterprise software development for mission critical simulations for military and law enforcement. The company develops and operates physical and digital simulations. Portfolio companies include Indoor Skydiving facilities, Virtual Reality (VR) and Augmented Reality (AR) entertainment, training, and production.

Operator XR provides Military and Law Enforcement agencies with a unique, integrated Mission Planning & Rehearsal System, which is portable, secure and highly immersive.

Throughout the reporting period the company's trading operations included: iFLY Downunder (Sydney), iFLY Gold Coast (Qld), FREAK Entertainment with locations at Penrith, Bondi, Macquarie, Surfers Paradise, Red Cartel production studio, and Operator XR located in Sydney AUS and Virginia USA.

Changes in the State of Affairs

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 4th July 2024, XRG announced the award of an \$809,600 Government Contract. The sale of multiple systems of its Operator XR Virtual Reality Training System to a new Australian State Government customer was delivered in late August 2024. Full payment was received on 03 July 2024.

On 11 September 2024, the Company announced that it has been awarded a \$5.6M AUD contract to deliver a new immersive training capability to the United States Department of Defence. This project represents the first sale of Operator XR's immersive training systems to a US Federal Government customer, and will be delivered across a period of 20 months starting 11th September 2024. The contract includes pathways for follow-on work within the DoD and broader US Government agencies.

REMUNERATION REPORT (AUDITED)

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

Interests in xReality Group Securities

Details of the xReality Group Ltd securities issued during the year, and the number of

xReality Group Ltd securities on issue as at 30 June 2024 are detailed in Note 10 of the Financial Statements and form part of this Directors' Report.

As at 30 June 2024 xReality Group Ltd had 20,357,143 employee and executive director unlisted options at various exercise prices, vesting conditions and expiry dates, as outlined in Note 13.

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 Group has agreed to indemnify its auditors, Felsers, to the extent permitted by law, against any claim by a third party arising from the Group's breach of their agreement. The indemnity stipulates that the Group will meet the full amount of any such liabilities including a reasonable amount of legal costs. During the financial year, the Group has not paid a premium in respect to a contract to insure the auditor of the Group or any related entity.

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

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

Non-audit services

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

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

The fees paid or payable to Felser Chartered Accountants for non-audit services provided during the year ended 30 June 2024 were nil.

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
11 September 2024
Sydney

Auditor's independence declaration

The Auditor's independence declaration at page 23 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 2024 is available at <https://xrgroup.com.au/investors/charters-and-policies/>.



Wayne Jones
Director & Chief Executive Officer
11 September 2024
Sydney

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REMUNERATION REPORT



REMUNERATION REPORT

1. Introduction

This Remuneration Report for the year ended 30 June 2024 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 FY2024 remuneration matters have been considered by the Board of Directors (Executive Directors excluded) under the auspices of the Remuneration & Nomination Committee Charter which is available at www.xrgroup.com.au.

Remuneration Recommendations

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

Hedging of Remuneration

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

3. Key Management Personnel

The KMP for xReality Group for 2024 comprise the Non-Executive Directors, Executive Directors and the senior executives responsible for planning, directing and controlling the activities of xReality Group.

Executive KMP

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

Non-Executive Directors

Notes

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

4. Remuneration Principles, Strategy and Outcomes

Remuneration principles

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

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

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

Remuneration Strategy

The remuneration strategy for FY2024 included review of executive remuneration more closely align to similar ASX listed companies, resulting in the re-commencement of an 'at risk' executive STI plan in conjunction with the existing LTI plan, and a move toward market level remuneration.

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

Remuneration Outcomes for Executive KMP

The remuneration received by Executive KMP in 2024 and 2023 is set out below.

Executive Remuneration Structure

KMP	Year	Short Term Benefits			Post Employment Benefits	Long Term Benefits	Share Based Payments	Total
		Salary	STI	Non-Monetary	Superann	LTI	Options	
		\$	\$	\$	\$	\$	\$	\$
Wayne Jones CEO	2024	300,000	30,000	5,378	36,300	-	-	371,678
	2023	297,581	-	4,457	31,246	-	-	333,284
Kim Hopwood CPTO	2024	210,000	21,000	-	25,410	-	-	256,410
	2023	204,225	-	-	21,444	-	-	225,669
Stephen Tofler CFO	2024	200,000	20,000	-	24,200	-	33,142	277,342
	2023	197,842	-	-	20,773	-	-	218,615

Remuneration Mix

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

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

Fixed Remuneration

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

Short Term Incentive Structure

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

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

Short term Incentive Outcomes

For FY2024, subject to the above procedure it is estimated that the STI targets were partially met. Once verified they will be paid in FY25.

Long Term Incentive Awards and Outcomes

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

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

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

Summary of Executive Contracts

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

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

5. Non-Executive Director Remuneration

Approved Fee Pool

Non-Executive Director fees are determined within a maximum directors' fee pool limit. The directors' fee pool was set in 2012 as \$500,000. No director's fees are paid to Executive Directors Wayne Jones and Kim Hopwood. Total non-executive remuneration paid during 2024 was \$119,011 (FY23: \$120,000).

Approach to setting Non-Executive Director Remuneration

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

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

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

	Financial Year	Salary and Fees	Superannuation	Share based payments	Total
John Diddams	2024	60,000	-	-	60,000
	2023	60,000	-	-	60,000
Mark Smethurst	2024	28,875	-	-	28,875
	2023	30,000	-	-	30,000
Danny Hogan	2024	27,149	2,986	-	30,135
	2023	27,149	2,851	-	30,000
Philip Copeland	2024	-	-	-	-
	2023	-	-	96,956	96,956

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.

	2020	2021	2022	2023	2024
Revenue - operating	5,002,087	7,265,175	6,574,705	9,753,516	9,155,454
Revenue – non-operating	612,123	6,356,168	618,635	791,102	1,083,133
Total revenue	5,614,210	13,621,343	7,193,340	10,544,618	10,238,587
Net Profit/(Loss) after Tax	(5,440,247)	4,062,456	(6,932,214)	(1,690,511)	(4,111,740)
Share price at 30 June	0.006	0.018	0.029	0.049	0.055

Option/Rights holdings of KMP and Board

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

	Balance at 1 July 2023	Attached with non-renounceable offer	Granted as remuneration	Options/Rights exercised	Balance at 30 June 2024
John Diddams	-	450,000	3,000,000	(3,000,000)	450,000
Wayne Jones	8,435,005	357,144	-	(8,435,005)	357,144
Kim Hopwood	4,400,000	285,715	-	(4,400,000)	285,715
Philip Copeland	-	1,428,571	1,500,000	-	2,928,571
Danny Hogan	-	664,286	-	-	664,286
Mark Smethurst	-		1,000,000	(1,000,000)	-
Stephen Tofler	1,000,000	457,143	3,142,857	(1,000,000)	3,600,000

Shareholdings of KMP and Board

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

KMP	Role	Interest in shares held at 1 July 2023	Interest in shares acquired /(disposed) during the period	Interest in shares issued on exercise of vested options during the period	Balance at 30 June 2024
John Diddams	Non-Executive Director	4,500,000	1,900,000	3,000,000	9,400,000
Wayne Jones	Chief Executive Officer & Director	35,588,451	3,054,286	8,435,005	47,077,742
Kim Hopwood	Executive Director	31,303,773	611,429	4,400,000	36,315,202
Philip Copeland	Non-Executive Director	3,806,576	3,857,143	-	7,663,719
Danny Hogan	Non-Executive Director	18,572,833	125,000	-	18,697,833
Mark Smethurst	Non-Executive Director	-	-	1,000,000	1,000,000
Stephen Tofler	Chief Financial Officer	2,951,606	914,286	1,000,000	4,865,892

2023 Annual General Meeting (AGM)

At the Company's AGM in November 2023, 98.29% 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 2024, I declare that, to the best of my knowledge and belief, there have been:

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



Glenda Nixon

Partner

11 September 2024
Sydney, Australia



FELERS



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FINANCIAL REPORT

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2024

	Notes	Consolidated Group	
		2024 \$	2023 \$
Revenue	5	10,238,587	10,544,618
Cost of Sales		(1,624,385)	(1,949,400)
Gross Profit		8,614,202	8,595,218
Finance Income		17,844	-
Selling and marketing expenses	6(a)	(5,584,988)	(4,104,200)
Administration expenses	6(b)	(1,769,176)	(1,842,607)
Depreciation and amortisation	6(c)	(2,108,526)	(2,216,439)
Legal expenses		(66,074)	(59,067)
Other expenses		(1,474,591)	(1,391,411)
Movement in impairment of asset		-	960,000
Loss before interest and tax		(2,371,309)	(58,606)
Interest expense on borrowings and lease liabilities	6(d)	(1,740,431)	(1,632,005)
Loss before tax		(4,111,740)	(1,690,511)
Income tax	7	-	-
Loss after tax		(4,111,740)	(1,690,511)
Earnings per share			
From continuing operations:			
- Basic earnings per share (cents)	14	(0.81)	(0.40)
- Diluted earnings per share (cents)	14	(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

For the year ended 30 June 2024

		Consolidated Group	
	Notes	2024 \$	2023 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8(a)	1,365,512	751,758
Trade and other receivables	8(b)	2,704,371	844,174
Inventories	9(a)	172,570	31,081
Contract asset	3(a)	151,927	-
Other financial asset	8(c)	-	94,367
TOTAL CURRENT ASSETS		4,394,380	1,721,380
NON-CURRENT ASSETS			
Property, plant & equipment	9(b)	19,266,005	20,264,738
Intangible assets	9(b)	5,119,178	3,059,612
Right-of-use asset	9(c)	12,823,217	13,532,945
Contract asset	3(a)	321,327	-
Other financial asset	8(c)	733,545	774,289
TOTAL NON-CURRENT ASSETS		38,263,272	37,631,584
TOTAL ASSETS		42,657,652	39,352,964
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	8(d)	2,307,313	2,234,996
Lease liability	9(c)	814,649	1,315,388
Deferred revenue	3(a)	2,525,045	1,519,671
Borrowings	8(e)	314,564	300,000
Provisions	9(d)	527,049	438,945
TOTAL CURRENT LIABILITIES		6,488,620	5,809,000
NON-CURRENT LIABILITIES			
Trade and other payables	8(d)	986,580	289,312
Lease liability	9(c)(i)	14,145,319	13,875,491
Deferred revenue	3(a)	1,959,558	367,200
Borrowings	8(e)	8,347,626	7,282,333
Provisions	9(d)	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	10	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	-	-	3,162,505
Change in share based payment reserve	-	174,561	-	174,561
Comprehensive income				
Loss for the year	-	-	(4,111,740)	(4,111,740)
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)
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

	Note	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 and other operational income		163,024	791,102
Finance costs		(693,362)	(894,673)
Payments to suppliers from prior periods		-	-
Net cash inflows from operating activities	12	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 Statement

Notes to the Financial Statements

For the year ended 30 June 2024

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 11 September 2024 by the directors of the company.

NOTE 1: SIGNIFICANT CHANGES IN THE CURRENT REPORTING PERIOD

There have been no significant changes in the current period.

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 business delivering virtual reality solutions to enterprises. It consists of the Red Cartel virtual reality production studio and the development, marketing and sale of the Operator products, both within Australia and internationally.

(iii) Corporate

The Corporate segment provides personnel and business infrastructure to the operational segments, including management, marketing and capital.

NOTE 2: SEGMENT INFORMATION (CONT'D)

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)	(262,784)
Depreciation and amortisation	(413,028)	(68,932)	(1,626,566)	(2,108,526)
Interest	(3,179)	(29,395)	(1,707,856)	(1,740,430)
Income tax	-	-	-	-
Segment NPAT	1,362,961	(1,369,096)	(4,105,605)	(4,111,740)

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

Lease asset depreciation expense recognised under AASB 16 Leases	-	-	(776,743)	(776,743)
Lease asset interest expense recognised under AASB 16 Leases	-	-	(733,142)	(733,142)

Segment analysis by geographical location:

	Asia Pacific	United States	Total
Segment Revenue	9,971,125	267,462	10,238,587
Segment EBITDA	521,952	(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 3: MATERIAL ACCOUNTING POLICY INFORMATION

The accounting policies that are material to the Group are set out below. The accounting policies adopted are consistent with those of the previous year, unless otherwise stated.

New or amended Accounting Standards and Interpretation adopted

The Group has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are mandatory for the current period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

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.

a. Going Concern

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 \$2,094,240 (2023: \$4,087,618). Included within this net deficiency are deferred revenues of \$2,525,045. In total, there are \$4,484,603 of deferred revenues (current and non-current) that will be realised as revenue once the service is recognised as being delivered to the customer.

Offsetting the deferred revenues are the Contract assets, which represent costs incurred in the delivery of the deferred revenue, which are being expensed in line with the recognition of the deferred revenue.

The following matters have been considered by the directors in determining the appropriateness of the going concern basis of preparation in the financial statements:

- a. Management have ensured that no borrowings are due and payable within 12 months.

Note 3: MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

a. Going Concern (continued)

- ii) The Company's new income streams through Operator XR are expected to continue to increase through FY25

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 15 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.

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.

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.

Note 3: MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

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.

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.

Note 3: MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

e. 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.

f. Impairment of Assets

Non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such impairment exists, then the asset's recoverable amount is estimated. For goodwill, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets, known as CGU's. For the purpose of goodwill impairment testing, CGU's to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGU's that are expected to benefit from the acquisition synergies.

Key assumptions of impairment testing

Cash-generating Unit	Discount rate (WACC)	YoY Growth rate	
		%	Period
Penrith iFly	8.17%	3.95	5yrs
		2.80	>5yrs
Gold Coast	8.17%	3.95	5yrs
		2.80	>5yrs
Red Cartel	8.17%	2.50	Ongoing
FREAK	8.17%	3.95	1yr
		2.80	>1yr

Note 3: MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

g. 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.

h. 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.

i. 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.

In accordance with AASB 15, revenue relating to contracts covering a defined period of time, is recognised over that period of time. In all cases the contract is paid in advance so the revenue is certain. However, it has been determined that a conservative approach is to be taken, and the revenue is to be recognised over the period that the service is delivered. Costs relating to the delivery of that service are matched to the revenue, and also recognised over the period of the contract.

j. 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.

k. 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 10 years.

Note 3: MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

k. Intangible assets (continued)

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

Class of Intangible Asset	Useful Life
Goodwill	Indefinite
Intellectual Property	10 years

l. 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.

m. Financial Instruments

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

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

Financial assets

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

Classification

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

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

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

Amortised cost

Assets measured at amortised cost are financial assets where:

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

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

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

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

Note 3: MATERIAL ACCOUNTING POLICY INFORMATION (CONTINUED)

Financial assets through profit or loss

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

Net gains or losses, including any interest or dividend income are recognised in profit or loss.

Impairment of financial assets

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

Financial assets at amortised cost

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

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

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

Financial liabilities

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

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

NOTE 4: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

a. Useful lives, Residual Values and Classification of Property, Plant and Equipment

There is a degree of judgement required in estimating the residual values and useful lives of the Property, Plant and Equipment. There is also a degree of judgement required in terms of the classification of such Property, Plant and Equipment. The Group's main assets at present comprise the Vertical Wind Tunnel (VWT) Equipment and its related Building Infrastructure. The construction of these assets are typically foreseen in the lease agreements, however the Board has exercised their judgement in determining that the nature of these assets are that of buildings and equipment, rather than leasehold improvements. To this extent, the Board has confirmed the useful life of the buildings to be 40 years and VWT equipment to be 20 years and the residual values of both these classes of assets to be nil.

b. 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.

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

d. 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.

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 in note 3(k). 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.

NOTE 5: REVENUE FROM CONTRACTS WITH CUSTOMERS

	2024 \$	2023 \$
Revenue		
Entertainment revenue	8,435,157	9,187,971
Enterprise revenue	720,297	565,545
Grant Income	1,083,133	791,102
	<u>10,238,587</u>	<u>10,544,618</u>

NOTE 6: OTHER INCOME AND EXPENSE ITEMS

Other Expenses

	2024 \$	2023 \$
6(a) Selling and Marketing Expenses		
Marketing expenses	1,228,737	650,717
Employment expenses	4,356,251	3,453,483
	<u>5,584,988</u>	<u>4,104,200</u>
6(b) Administration Expenses		
Occupancy expenses	285,814	275,047
Employment expenses	1,367,462	1,450,318
Directors' fees – current year	115,898	117,242
	<u>1,769,176</u>	<u>1,842,607</u>
6(c) Depreciation and amortisation		
Depreciation and amortisation expenses	1,331,783	1,479,518
Depreciation – AASB16	776,743	736,921
	<u>2,108,526</u>	<u>2,216,439</u>
6(d) Finance Expenses		
Interest expense	1,007,289	894,673
Interest from AASB16	733,142	737,332
	<u>1,740,431</u>	<u>1,632,005</u>

NOTE 7: INCOME TAX

The Group has tax losses that arose in Australia for which no deferred tax asset of \$23,713,183 is recognised on the Statement of Financial Position. The tax losses are available indefinitely for offsetting against future taxable profits of the Group.

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 2024 is as follows:

	2024 \$	2023 \$
Accounting loss before income tax	(4,111,740)	(1,690,511)
At the statutory income tax rate of 25.0%	(1,027,935)	(422,628)
Tax losses recognised / (not recognised)	984,022	333,788
Non-deductible expenses for tax purposes:		
Entertainment expenses	3,001	4,757
Share based payments	40,912	84,083
Income Tax Benefit	-	-

Notes to the Financial Statements

For the year ended 30 June 2024

NOTE 8: FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group holds the following financial instruments:

Financial Assets	Notes	2024 \$	2023 \$
<i>At amortised cost</i>			
Current			
Cash and cash equivalents	8(a)	1,365,512	751,758
Trade receivables	8(b)	2,704,371	844,174
Other financial assets	8(c)	-	94,367
Non-current			
Other financial assets	8(c)	733,545	774,289

Financial Liabilities	Notes	2024 \$	2023 \$
<i>At amortised cost</i>			
Current			
Trade and other payables	8(d)	2,307,313	2,234,996
Borrowings	8(e)	314,564	300,000
Non-current			
Trade and other payables	8(d)	986,580	289,312
Borrowings	8(e)	8,347,626	7,282,333

These are detailed below:

8(a) Cash and cash equivalents

Cash at bank and on hand	1,365,512	751,758
	<u>1,365,512</u>	<u>751,758</u>

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.

8(b) Trade receivables

Trade receivables	2,363,462	427,250
Prepaid expenses	340,909	416,924
	<u>2,704,371</u>	<u>844,174</u>

8(c) Other Financial Assets

Current

Royalty holiday	-	94,367
	<u>-</u>	<u>94,367</u>

Notes to the Financial Statements

For the year ended 30 June 2024

NOTE 8: FINANCIAL ASSETS AND FINANCIAL LIABILITIES (cont'd)

8(c) Other Financial Assets (cont'd)

	2024 \$	2023 \$
Non- current		
Deposits	30,800	26,125
Make good asset	55,542	111,073
Bank guarantee	647,203	637,091
	<u>733,545</u>	<u>774,289</u>

8(d) Trade and other payables

Current

Trade payables	1,540,147	1,198,388
Other accruals	767,166	1,036,608
	<u>2,307,313</u>	<u>2,234,996</u>

Non-Current

Other accruals	986,580	289,312
	<u>986,580</u>	<u>289,312</u>

9(e) Borrowings

Current

Smart Ease	14,564	-
Causeway debt facility (a)	300,000	300,000
	<u>314,564</u>	<u>300,000</u>

Non-Current

Smart Ease	51,365	-
Causeway debt facility (a)	3,950,000	3,250,000
Birkdale Holdings (Qld) Pty Ltd (b)	4,346,261	4,032,333
	<u>8,347,626</u>	<u>7,282,333</u>

Notes to the Financial Statements

For the year ended 30 June 2024

NOTE 8: FINANCIAL ASSETS AND FINANCIAL LIABILITIES (cont'd)

- (a) The Company has in place a 4.5-year loan facility of \$4,250,000 with Causeway Wholesale Private Debt Income Fund, with a maturity date of September 2025. Originally it was a \$4.0M facility which since January 2022, has been paid down by \$300,000pa. The principal has been increased by Causeway by \$500,000 in September 2023, and again by \$500,000 in June 2024.

Interest is payable to Causeway based on the applicable rates set out in the loan agreement, over a maximum period of 4.5 years. Security is provided by:

Fully Interlocking Guarantee and Indemnity by:

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

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

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

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

- (b) The company has in place a loan facility of \$4,346,261 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 2027.

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

Fully Interlocking Guarantee and Indemnity by:

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

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

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

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

NOTE 9: NON-FINANCIAL ASSETS AND LIABILITIES

9(a): Inventories

	2024 \$	2023 \$
Goods held for sale	172,570	31,081
	172,570	31,081

Notes to the Financial Statements

For the year ended 30 June 2024

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

	2024 \$	2023 \$	2024 \$	2023 \$	2024 \$	2023 \$
	Cost		Depreciation		Carrying Value	
Vertical wind tunnel building and equipment						
Balance at Beginning of year	26,985,954	25,668,491	(7,500,279)	(6,748,089)	19,485,675	18,920,402
Acquisitions / depreciation	116,480	47,463	(968,323)	(752,190)	(851,844)	(704,727)
Disposals / transfers	-	-	-	-	-	-
Impairment	-	1,270,000	-	-	-	1,270,000
Balance at end of year	27,102,434	26,985,954	(8,468,602)	(7,500,279)	18,633,831	19,485,675
IT Equipment						
Balance at Beginning of year	3,029,039	2,552,464	(2,271,740)	(1,572,356)	1,067,299	980,108
Acquisitions / depreciation	171,893	786,575	(315,267)	(699,384)	(143,374)	87,191
Disposals / transfers	-	-	-	-	-	-
Impairment	-	(310,000)	-	-	-	(310,000)
Balance at end of year	3,200,932	3,029,039	(2,587,007)	(2,271,740)	613,925	1,067,299
Furniture and fittings						
Balance at Beginning of year	219,328	205,246	(201,190)	(195,865)	18,138	9,381
Acquisitions / depreciation	3,549	14,082	(5,918)	(5,325)	(2,369)	8,757
Disposals / transfers	-	-	-	-	-	-
Balance at end of year	222,877	219,328	(207,108)	(201,190)	15,769	18,138
Office Equipment						
Balance at Beginning of year	13,258	9,319	(9,633)	(6,488)	3,626	2,832
Acquisitions / depreciation	1,860	3,939	(3,006)	(3,145)	(1,146)	794
Disposals / transfers	-	-	-	-	-	-
Balance at end of year	15,118	13,258	(12,639)	(9,633)	2,480	3,626
Balance at Beginning of year	30,247,580	28,435,521	(9,982,842)	(8,522,797)	20,264,738	19,912,724
Acquisitions / depreciation	293,782	852,059	(1,292,515)	(1,460,045)	(988,733)	(607,986)
Disposals / transfers	-	-	-	-	-	-
Impairment	-	960,000	-	-	-	960,000
Balance at end of year	30,541,362	30,247,580	(11,275,357)	(9,982,842)	19,266,005	20,264,738

Notes to the Financial Statements

For the year ended 30 June 2024

9(b)(ii): Intangible Assets

	2024 \$	2023 \$	2024 \$	2023 \$	2024 \$	2023 \$
	Cost		Depreciation		Carrying Value	
<i>Intangible Assets (Software)</i>						
Balance at Beginning of year	2,506,975	-	(19,473)	-	2,487,502	-
Acquisitions / depreciation	2,098,833	2,506,975	(39,267)	(19,473)	2,059,566	2,487,502
Disposals / transfers	-	-	-	-	-	-
Balance at end of year	4,605,808	2,506,975	(58,740)	(19,473)	4,547,068	2,487,502
<i>Goodwill</i>						
Balance at Beginning of year	572,110	572,110	-	-	572,110	572,110
Acquisitions / depreciation	-	-	-	-	-	-
Disposals / transfers	-	-	-	-	-	-
Balance at end of year	572,110	572,110	-	-	572,110	572,110
Balance at Beginning of year	3,079,085	572,110	(19,473)	-	3,059,612	572,110
Acquisitions / depreciation	2,098,833	2,506,975	(39,267)	(19,473)	2,059,566	2,487,502
Disposals / transfers	-	-	-	-	-	-
Balance at end of year	5,177,918	3,079,085	(58,740)	(19,473)	5,119,178	3,059,612

Notes to the Financial Statements

For the year ended 30 June 2024

9(c): Leases

(i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	2024 \$	2023 \$
Right-of-use assets		
Premises	12,823,217	13,517,853
Equipment	-	15,092
Total	12,823,217	13,532,945
Lease liabilities		
Current		
Premises	814,649	1,299,593
Equipment	-	15,795
Total	814,649	1,315,388
Non-current		
Premises	14,145,319	13,875,491
Equipment	-	-
Total	14,145,319	13,875,491

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

	2024 \$	2023 \$
Depreciation charge over right-of-use assets		
Premises	776,743	700,701
Equipment	-	36,220
Total	776,743	736,921

Company as a lessee

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

- **Gold Coast Wind Tunnel Lease** – commenced 14 October 2014 for a term of 20 years, with two further options of 10 years each. The Group has every expectation of exercising these options.
- **Penrith Wind Tunnel Lease** – commenced 26 April 2014 for a term of 20 years, with two further options of 10 years each. The Group has every expectation of exercising these options.
- **FREAK Entertainment Leases** – there are three short term leases for premises with no renewal option.
- **Corporate** – there are two premises leases which expire October and November 2024.

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.

9(c): Leases (continued)

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.

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.

Notes to the Financial Statements

For the year ended 30 June 2024

9(c): Leases (continued)

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.

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.

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.

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.

(iii) Amounts included in the statement of cash flows

	2024 \$	2023 \$
Lease payments		
Premises	1,031,700	851,655
Equipment	-	38,133
Total	<u>1,031,700</u>	<u>889,788</u>

Notes to the Financial Statements

For the year ended 30 June 2024

9(c): Leases (continued)

(iv) Right-of-use Asset

	2024 \$	2023 \$	2024 \$	2023 \$	2024 \$	2023 \$
	Cost		Depreciation		Carrying Value	
<i>Premises</i>						
Balance at Beginning of year	15,546,176	13,842,272	(2,028,322)	(1,248,946)	13,517,854	12,593,326
Acquisitions / depreciation	-	1,703,904	(761,651)	(779,376)	(761,651)	924,528
Disposals	67,014	-	-	-	67,014	-
Balance at end of year	15,613,190	15,546,176	(2,789,973)	(2,028,322)	12,823,217	13,517,854
<i>Equipment</i>						
Balance at Beginning of year	108,660	215,562	(93,568)	(164,250)	15,092	51,312
Acquisitions / depreciation	-	-	(15,092)	70,682	(15,092)	70,682
Disposals	-	(106,902)	-	-	-	(106,902)
Balance at end of year	108,660	108,660	(108,660)	(93,568)	-	15,092
Balance at Beginning of year	15,654,836	14,057,834	(2,121,890)	(1,413,196)	13,532,945	12,644,638
Acquisitions / depreciation	-	1,703,904	(776,743)	(708,695)	(776,743)	995,209
Disposals	67,014	(106,902)	-	-	67,014	(106,902)
Balance at end of year	15,721,850	15,654,836	(2,898,633)	(2,121,891)	12,823,217	13,532,945

9(d): Provisions

	2024 \$	2023 \$
Current		
Employee benefit obligations	527,049	438,945
Total	527,049	438,945
Non-current		
Employee benefit obligations	139,908	120,529
Make good provision	232,311	353,941
Red Cartel	304,775	487,640
Bank guarantee	621,215	611,104
Total	1,298,209	1,573,214

Notes to the Financial Statements

For the year ended 30 June 2024

9(d): Provisions (cont'd)

	Carrying amount 1 July 2023 \$	Additional Provisions \$	Amount utilised \$	Carrying amount 30 June 2024 \$
Provision for Employee Benefits	559,474	398,981	(291,498)	666,957
Provision for Bank Guarantee	611,104	10,111	-	621,215
Provision for Site Restoration	353,941	(121,630)	-	232,311
Provision for Red Cartel	487,640	-	(182,865)	304,775
Provision for Rent	-	-	-	-
Total Provisions	2,012,159	287,462	(474,363)	1,825,258

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

a) Provisions for 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.

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 3.6% inflationary escalation and discounted to present value at 9.17% after consideration of the associated risks.

Notes to the Financial Statements

For the year ended 30 June 2024

NOTE 10: ISSUED CAPITAL

	2024 \$	2023 \$
Issued Capital		
Opening Balance	48,044,123	46,963,421
Shares Issued	3,435,114	1,080,702
Closing Balance	51,479,237	48,044,123
Share issue costs		
Opening Balance	(2,368,855)	(2,357,892)
Shares Issued	(222,609)	(10,963)
Closing Balance	(2,591,464)	(2,368,855)
Share Capital	48,887,773	45,675,268
Ordinary Shares	No.	No.
At the beginning of the reporting period	446,346,595	421,245,554
Shares issued	106,792,742	25,101,041
	553,139,337	446,346,595

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 11: CASH FLOW INFORMATION

	2024 \$	2023 \$
Reconciliation of Cash Flow from Operations with Profit/(Loss) after Income Tax		
Loss after income tax	(4,111,740)	(1,690,511)
Non-cash flows in loss:		
- Impairment of asset	-	(960,000)
- Unwind of make good discount	(121,630)	147,775
- Interest expense on lease liability	733,142	737,332
- Capitalisation of interest expense	313,927	220,084
- Depreciation expense – property, plant and equipment	1,331,784	1,479,518
- Depreciation expense – right-of-use asset	776,743	736,921
- Change in reserves	174,561	336,333
- Provision for bank guarantee	10,110	6,488
Changes in assets and liabilities:		
- (increase) in trade and term receivables	(1,860,197)	(683,644)
- (increase)/decrease in other financial assets	(338,143)	516,197
- increase/(decrease) in trade payables and accruals	769,585	214,348
- (decrease)/increase in inventories	(141,488)	50,750
- increase in unearned revenue	2,597,732	911,822
- (decrease)/increase in provisions	(75,382)	51,375
Cash flow provided by operations	59,004	2,074,790

NOTE 12: 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-.

	2024 \$	2023 \$
Cash and Term Deposits:		
Cash at bank and on hand	1,365,512	751,758
	<u>1,365,512</u>	<u>751,758</u>

NOTE 12: 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.

NOTE 12: FINANCIAL RISK MANAGEMENT (continued)

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

	Within 1 Year		1 to 5 Years		Over 5 Years		Total	
	2024	2023	2024	2023	2024	2023	2024	2023
	\$	\$	\$	\$	\$	\$	\$	\$

Financial liabilities due for payment

Borrowings	300,000	300,000	8,347,626	7,282,333	-	-	8,647,626	7,582,333
Trade and other payables	2,307,313	2,234,996	986,580	289,312	-	-	3,293,893	2,524,308
Total contractual outflows	2,607,313	2,534,996	9,334,206	7,571,645	-	-	11,941,519	10,106,641
Total expected outflows	2,607,313	2,534,996	9,334,206	7,571,645	-	-	11,941,519	10,106,641

Financial assets –realisable

Cash and cash equivalents	1,365,512	751,758	-	-	-	-	1,365,512	751,758
Trade and other receivables	2,704,371	844,174	-	-	-	-	2,704,371	844,174
Total anticipated inflows	4,069,883	1,595,932	-	-	-	-	4,069,883	1,595,932
Net cash inflows/(outflows)	1,462,570	(939,064)	(9,334,206)	(7,571,645)	-	-	(7,871,635)	(8,510,709)

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 12: FINANCIAL RISK MANAGEMENT (CONT)

(ii) Foreign exchange risk

With sales originating in the US, there is some exposure to foreign exchange risk, however with customers paying for their contracted period up front, and funds being remitted back to Australia as required, foreign exchange exposure is minimised. This situation will be monitored and if a material foreign exchange risk is identified, mitigation strategies will be effected.

(iii) Other price risk

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

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

Sensitivity analysis

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

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

(iv) Sensitivity analysis

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

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

	Profit \$	Equity \$
Year ended 30 June 2024		
+/-1% in interest rates	86,622	86,622
Year ended 30 June 2023		
+/-1% in interest rates	75,823	75,823

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.

NOTE 12: FINANCIAL RISK MANAGEMENT (CONT)

(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	2024 \$		2023 \$	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets					
Cash and cash equivalents		1,365,512	1,365,512	751,758	751,758
Trade and other receivables	(i)	2,704,371	2,704,371	844,174	844,174
Total financial assets	(i)	4,069,883	4,069,883	1,595,932	1,595,932
Financial liabilities					
Trade and other payables	(i)	3,293,893	3,293,893	2,524,308	2,524,308
Borrowings	(ii)	8,647,626	8,647,626	7,582,333	7,582,333
Total financial liabilities		11,941,519	11,941,519	10,106,641	10,106,641

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 9.
- (ii) Debt is recorded at the current carrying value which is considered equivalent to fair value.

NOTE 13: SHARE BASED PAYMENTS

Year Ended 30 June 2024

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 2023	19,585,005
Granted during the year	20,314,286
Expired during the year	(2,957,143)
Exercised during the year	(16,585,005)
Outstanding as at 30 June 2024	20,357,143

The following tables list the inputs to the model used for the Employee Incentive Option Plan for the year ended 30 June 2024:

Quantity	Expiry	Share Price at grant/ approval date (weighted average)	Exercise Price	Expected Volatility	Expected life (weighted average number of days)	Expected dividends	Risk-free rate (weighted average)
1,000,000	22/08/2024	\$0.034	\$0.05	50%	724	0%	3.25%
357,143	21/11/2024	\$0.035	\$0.00	50%	366	0%	3.25%
500,000	23/11/2024	\$0.060	\$0.00	50%	675	0%	3.50%
1,000,000	17/01/2025	\$0.060	\$0.07	50%	730	0%	3.50%
1,000,000	22/08/2025	\$0.034	\$0.08	50%	1089	0%	3.25%
2,000,000	22/08/2026	\$0.034	\$0.15	50%	1454	0%	3.25%
7,250,000	1/12/2026	\$0.035	\$0.05	50%	923	0%	3.25%
7,250,000	1/06/2028	\$0.035	\$0.05	50%	1471	0%	3.25%

Notes to the Financial Statements

For the year ended 30 June 2024

NOTE 13: SHARE BASED PAYMENTS (cont'd)

Year Ended 30 June 2023

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

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

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

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

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

Quantity	Expiry	Share Price at grant/ approval date (weighted average)	Exercise Price	Expected Volatility	Expected life (weighted average number of days)	Expected dividends	Risk-free rate (weighted average)
15,585,005	31/01/24	\$0.049	\$0.021	50%	215	0%	1.08%
2,000,000	29/11/24	\$0.042	\$0.000	50%	518	0%	1.91%
2,000,000	29/11/25	\$0.042	\$0.000	50%	883	0%	1.91%

Service Rights have been agreed to be issued as below:

Phil Copeland	<p>3,000,000 Rights (being Options) issued in two tranches and subject to continuing to be a Director of the Company:</p> <p>Tranche 1: 1,000,000 Rights with \$0.00 exercise price, 50% of which will vest on shareholder approval, and 50% will vest on the first anniversary of the shareholder approval. The exercise period is 12 months from the date of vesting.</p> <p>Tranche 2: 2,000,000 Rights with \$0.065 exercise price, 50% of which will vest on 23 January 2024, and 50% will vest on the 23 January 2025. The exercise period is 12 months from the date of vesting.</p>
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Notes to the Financial Statements

For the year ended 30 June 2024

NOTE 14: EARNINGS PER SHARE

Earnings per share (cents per share)	2024 Cents	2023 Cents
From continuing operations:		
- basic earnings per share	(0.81)	(0.40)
- diluted earnings per share	(0.72)	(0.38)

	2024 \$	2023 \$
a. Reconciliation of earnings to profit or loss:		
Loss for the year after tax	(4,111,740)	(1,690,511)
Earnings used to calculate basic EPS – continuing operations	(4,111,740)	(1,690,511)
Earnings used to calculate basic EPS – discontinuing operations	-	-
Earnings used in the calculation of dilutive EPS – continuing operations	(4,111,740)	(1,690,511)
Earnings used in the calculation of dilutive EPS – discontinuing operations	-	-
	No.	No.
b. Weighted average number of ordinary shares for basic EPS	508,825,955	426,894,488
Weighted average number of ordinary shares for diluted EPS	574,693,314	446,479,493

Notes to the Financial Statements

For the year ended 30 June 2024

NOTE 15: 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.

NOTE 16: 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	
	2024 \$	2023 \$	2024 \$	2023 \$
Short term employee benefits	815,253	734,105	815,253	734,105
Post employment benefits	85,910	73,463	85,910	73,463
Share Based Payments	33,142	-	33,142	-
	934,305	807,568	934,305	807,568

NOTE 17: 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.

	2024 \$	2023 \$
Statement of Financial Position		
Assets		
Current assets	2,238,867	1,817,903
Non-current assets	35,228,363	33,750,979
Total Assets	37,467,230	35,568,882
Liabilities		
Current liabilities	1,757,840	4,576,387
Non-current liabilities	11,161,217	7,733,883
Total Liabilities	12,919,057	12,310,270
Equity		
Issued capital	48,887,773	45,675,268
Share based payments reserve	534,268	370,621
Retained earnings	(24,873,868)	(22,787,277)
Total Equity	24,548,173	23,258,612
Statement of Profit or Loss and Other Comprehensive Income		
Total comprehensive loss for the year	(2,086,593)	(1,794,335)
	(2,086,593)	(1,794,335)

Contingent liabilities

The parent entity does not have any contingent liabilities as at 30 June 2024.

Contractual commitments

Other than amounts disclosed in the financial statements, the parent entity has no additional contractual commitments as at 30 June 2024.

NOTE 18: AUDITOR'S REMUNERATION

	2024 \$	2023 \$
(i) Remuneration of the auditor for:		
- Audit fees	60,000	56,146
- Half year review	23,760	23,249
	<u>83,760</u>	<u>79,395</u>

The auditor for financial year 2023 and 2024 was Felsers, Chartered Accountants.

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

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

NOTE 19: CONTINGENT LIABILITIES

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

NOTE 20: EVENTS AFTER REPORTING DATE

On 4th July 2024, XRG announced the award of an \$809,600 Government Contract. The sale of multiple systems of its Operator XR Virtual Reality Training System to a new Australian State Government customer was delivered in late August 2024. Full payment was received on 03 July 2024.

On 11 September 2024, the Company announced that it has been awarded a \$5.6M AUD contract to deliver a new immersive training capability to the United States Department of Defence. This project represents the first sale of Operator XR's immersive training systems to a US Federal Government customer, and will be delivered across a period of 20 months starting 11th September 2024. The contract includes pathways for follow-on work within the DoD and broader US Government agencies.

The financial statements have been prepared based on the conditions existing at 30 June 2024 and considering those events occurring subsequent to that date.

Consolidated Entity Disclosure Statement

xReality Group Ltd

As at 30 June 2024

Entity name	Entity type	Country of Incorporation	Ownership interest %	Tax Residency
Indoor Skydiving Penrith Holdings Pty Ltd	Body corporate	Australia	100	Australia
Indoor Skydiving Penrith Pty Ltd	Body corporate	Australia	100	Australia
Indoor Skydiving Gold Coast Pty Ltd	Body corporate	Australia	100	Australia
ISA Flight Club Pty Ltd	Body corporate	Australia	100	Australia
Indoor Skydiving Perth Pty Ltd	Body corporate	Australia	100	Australia
Freak Entertainment Pty Ltd	Body corporate	Australia	100	Australia
Operator XR Pty Ltd	Body corporate	Australia	100	Australia
Operator XR LLC	Body corporate	United States	100	United States of America
Red Cartel Pty Ltd	Body corporate	Australia	100	Australia

Directors' Declaration

For the year ended 30 June 2024

In the opinion of the Directors of xReality Group Limited:

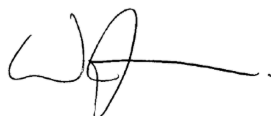
- a. the financial statements and notes, as set out on pages 24 to 65, are in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the financial position as at 30 June 2024 and of its performance for the financial year ended on that date; and
 - ii. complying with 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.
- c. the information disclosed in the attached consolidated entity disclosure statement is true and correct.

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 2024.

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
11 September 2024
Sydney

For personal use only

Two men in police uniforms are shown from the waist up, wearing VR headsets and holding controllers. They are standing against a dark background with a faint grid pattern. The man in the foreground is holding a controller in his right hand, while the man behind him is holding a controller in his left hand and has his right hand raised in a palm-forward gesture. Both are wearing dark blue polo shirts and black tactical pants with belts.

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 Controlled Entities (the Group), which comprises the consolidated statement of financial position as at 30 June 2024, 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 material accounting policy information, the consolidated entity disclosure statement 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 2024 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

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

The Group financial statements do not include any adjustments that would result if the Group were unable to continue as a going concern.

Key Audit Matters

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

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

Key audit matter	How our audit addressed the key audit matter
Revenue – Note 5	
<p>The group recognised revenue derived from the sales of goods and services as well as the sale of prepaid gift cards.</p> <p>Total revenue derived from entertainment and enterprise divisions for the year ended 30 June 2024 was \$9,155,454. 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 2024, gift card revenue or 'breakage' of \$453,371 was recognised along with a corresponding deferred revenue balance of \$636,353. Deferred revenue is further composed of \$3,848,249 in relation to upfront receipts on long term contracts derived from the Group's enterprise division, Operator XR and Operator LLC.</p> <p>Given the management judgement and inherent subjectivity in the development and application of appropriate accounting policies in compliance with Australian Accounting Standards as well as adherence to proper cut-off procedures as to the timing of the revenue, we believe this constitutes a key audit matter.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> + Assessing whether the Group's revenue recognition policies were in compliance with Australian Accounting Standards; + Evaluating the operating effectiveness of revenue recognition; + Testing the appropriateness and accuracy of general ledger revenue journals; + Reviewing the mathematical accuracy of management's calculation of the gift card revenue recognised and tracing a sample of general journals posted to supporting documentation; + Evaluating the reasonableness of management's estimates relating to gift card breakage rates including corroborating management's assertions to historical redemption rates; and + Performing testing on a sample of sales at year end to determine that the revenues recorded relate to the appropriate period.

Impairment of non-current assets – Note 9(b)(i), 9(c)(i)

As at 30 June 2024, the carrying amount of the Group's property, plant and equipment totaled \$19,266,005. In addition, the carrying amount of the Group's right-of-use asset totaled \$12,823,817.

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

Right of use asset and lease liability – 9(c)(i)

The group performed a reassessment of the calculations for the right-of-use asset and lease liabilities due to the flow on effect of higher sustained inflation and the impact on future rent increases.

The right-of-use assets and lease liability calculations involves a degree of complexity and judgement around potential rent increases based on inflation.

We considered in the persistent inflationary environment reviewing the right-of-use asset and lease calculations are a key audit matter due to the significant uncertainty around the current period of economic volatility. The value of the right-of use assets also forms part of our impairment assessment described above.

Our audit procedures included, among others:

- + Performed an assessment and recalculated the discount rates in the form of the incremental borrowing rate which were applied in the calculation of the lease liabilities;
- + Verified the accuracy of the underlying lease data agreeing to signed lease agreements and the accuracy of the consolidated AASB 16 Leases calculation
- + Performed a sensitivity analysis to develop a point range estimate on consideration of the impact of persistent high inflation in relation to leases with clauses stipulating increases in the base rent in line with the consumer price index (CPI);

	+ Determined if the disclosures made in the annual report with respect to AASB 16 were in compliance with relevant Accounting Standards.
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 3a, there is significant uncertainty as at 30 June 2024 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 combined with uncertainty surrounding management's ability to realise its shifting corporate strategy to the enterprise division. The basis of accounting in relation to the year-ended 30 June 2024 thus constitutes a key audit matter.</p>	<p>Our audit procedures included, among others:</p> <ul style="list-style-type: none"> + Evaluation of the underlying data used as the basis of cash flow projections prepared by management and those charged with governance; + Analysing the impact of potential changes in projected cash flows and their timing, to the projected periodic cash positions; + Assessing the resulting impact on the ability of the Group to pay debts as and when they fall due and the Group's ability to continue as a going concern; + Obtaining and reviewing correspondence between existing financiers and the Group to determine the options available to the Group inclusive of variable debt facilities; + Evaluating the Group's disclosures in the financial report by comparing them to our understanding of the matter, the events or conditions incorporated into the cash flow projection assessment, the Group's plans, and accounting standard requirements.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2024 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 (other than the consolidated entity disclosure statement) that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and the consolidated entity disclosure statement that is true and correct in accordance with the Corporations Act 2001. The directors are responsible for such internal control as the directors determine is necessary to enable the preparation of the financial report (other than the consolidated entity disclosure statement) that gives a true and fair view and is free from material misstatement, whether due to fraud or error and the consolidated entity disclosure statement that is true and correct and is free of misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- + Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- + Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- + Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- + Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- + Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

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

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included on pages 13 to 21 of the directors' report for the year ended 30 June 2024.

In our opinion, the Remuneration Report of xReality Group Limited, for the year ended 30 June 2024, complies with section 300A of the Corporations Act 2001.

Responsibilities

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



Glenda Nixon
Partner

11 September 2024
Sydney, Australia



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SHAREHOLDER INFORMATION

Shareholder Information

The following information is current as at 13 August 2024

1. Shareholder Information

Distribution of Shareholders	Number	Ordinary Shares
Category (size of holding):		
1 – 1,000	59	17,167
1,001 – 5,000	63	167,036
5,001 – 10,000	186	1,591,845
10,001 – 100,000	787	30,126,250
100,001 and over	335	521,237,039
	1,430	553,139,337

The number of shareholdings held in less than marketable parcels is 40.

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	18.013%
IPSGROUP PASTORAL COMPANY PTY LTD	52,138,348	9.426%
MR KIM HOPWOOD	30,087,023	5.439%

Voting Rights

xReality Group has 553,139,337 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.

Shareholder Information

The following information is current as at 13 August 2024

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	18.013%
IPSGROUP PASTORAL COMPANY PTY LTD	52,138,348	9.426%
MR KIM HOPWOOD	30,087,023	5.439%
PROJECT GRAVITY PTY LTD <THE JONES FAMILY A/C>	22,620,003	4.089%
HGL INVESTMENTS PTY LTD	18,253,967	3.300%
BNP PARIBAS NOMS (NZ) LTD	17,061,630	3.085%
EXCALIB-AIR PTY LTD <EXCALIB-AIR UNIT ACCOUNT>	16,060,000	2.903%
PATAGORANG PTY LTD <ROGER ALLEN FAMILY A/C>	13,968,254	2.525%
QUAD INVESTMENTS PTY LTD	11,916,667	2.154%
PROJECT FLIGHT PTY LTD <WAYNE JONES SUPER FUND A/C>	7,757,739	1.402%
MR PHILIP RAEBURN COPELAND	7,663,719	1.385%
GALDARN PTY LTD	7,600,000	1.374%
HOPWOOD FAMILY SMSF PTY LTD <HOPWOOD FAM SF A/C>	6,228,179	1.126%
DRILL INVESTMENTS PTY LTD	5,000,000	0.904%
HAREBREN PTY LTD <HAREBREN SF A/C>	5,000,000	0.904%
CURRY GROUP PTY LTD	4,366,171	0.789%
HOWARD-WILLIS LIMITED	4,293,759	0.776%
MR MICHAEL ADAM CREBAR	4,222,384	0.763%
RICKTARR PTY LTD <SG & F SUPER FUND A/C>	4,000,000	0.723%
WYNDLEY PTY LTD <WYNDLEY SMSF A/C>	3,673,679	0.664%
	341,549,685	61.747%

Shareholder Information

The following information is current as at 13 August 2024

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

5. Stock Exchange Listing

Quotation has been granted for all 553,139,337 ordinary shares of xReality Group on all Member Exchanges of the Australian Securities Exchange Limited.

6. Unquoted Securities

xReality Group has 20,357,143 incentive options on issue to eligible executive Directors and senior management personnel. The incentive options have expiry, exercise and vesting details as outlined in Note 13.

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xReality Group Ltd
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www.xrgroup.com.au

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