

Annual Report

2020



2020

XMReality serves the global market with our product Remote Guidance that connects people regardless of where they are. XMReality Remote Guidance is a 'see-what-I-see' video stream software powered by Augmented Reality that connects workers with a remote expert to plan, assess and solve different scenarios. Our solution is used all over the world by some of the top industry leaders and Fortune 500 companies. We believe in creating high value for our customers at the same time as we contribute to a more sustainable business climate.



XMReality's CEO Jörgen Rimmelg gives a demonstration of our product to U.S. Ambassador Howery during his visit to Linköping.

During 2020 XMReality moved to new office space better suited for agile teamwork and collaboration.



11

2020 has been a year of global change where digital transformation was accelerated and XMReality Remote Guidance shifted position from a 'nice-to-have' product to a 'need-to-have' product. The existing customer base has scaled up usage and we have signed a large number of new customers, which is clearly shown in an more than doubled Annual Recurring Revenues during the year. To summarize: it's been a great year for XMReality!"

Jürgen Rummelg

CEO of XMReality

Read more on page 6.

Highlights from 2020

- ◆ XMReality was selected by the world's largest Food & Beverage company, Nestlé, as their supplier of Remote Guidance.
- ◆ Customer usage increased almost ten times during the year with uninterrupted high quality services to all users.
- ◆ During the year XMReality has roughly doubled top line with a cost growth of only 7 percent.

New customer highlights

Nestlé | ABInBev | Saab | Esko | Multivac | IMI | Electrolux Professional

Read more about how the customers use our product on page 14.

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2020 – A strong year for XMReality

Favourable market outlook

XMReality acts on a very healthy market where the growth is strong and expected to remain so. Enterprise augmented reality software, i.e. gaming and hardware excluded, is expected to have a CAGR of at least 50 percent between 2019–2025. Majority of this growth is expected in areas where XMReality is already active and successful, such as manufacturing industry, healthcare, facility management and automotive. During the year of 2020 XMReality has not only kept pace with the overall market growth – the company has actually surpassed the market and almost doubled top line. Which indicates a strong competitive position within the market space.

Sales developing in the right direction

Order Intake is growing at a good pace and XMReality's customers are satisfied with the product; its functionality, stability and availability of the service. A clear trend during the year has been more competitive and structured procurements within our market space. This is a sign of maturity and we note that we have won the majority of the ones we have participated in, which drives new sales. Also, up-sales to existing customers is increasing where we sell more branding of the application which increases our stickiness.

The Annual Recurring Revenues (ARR) make up some 80 percent of our business and is a central metric in the SaaS (Software as a Service) model. During the spring strategy work, XMReality re-defined the activity formula with the objective to accelerate ARR growth significantly which resulted in an ARR-growth of 117 percent (see figure on page 5). At the same time Churn has been only 8 percent, which was well within the target to keep it under 10 percent.

For the full year Net Sales grew with 74 percent and the corresponding cost increase was only 7 percent.

Change is here to stay

As a result of the pandemic the industry has been forced to maximize their use of digital communication aids for collaboration, knowledge transfer and problem solving. There are strong signs and expectations that this will become a permanent behavior as the financial upside is tangible and the CO2-footprint

minimal. One example is one of XMReality's new customers within the packaging industry that reduced their support travelling with 60 percent for a specific machine type. When we asked our larger customers how they see the future, 70 percent answered that they did expect their increased use of Remote Guidance during the pandemic to become permanent.



XMReality's Management Team.
From the left: Claes Pettersson, Jörgen Rummelg,
Johanna Edepil, Per Unell, Marcin Szymanski.

+76%

26.0 MSEK

Order Intake

Order intake consists of both hardware sales, pilot projects and software subscriptions which constitutes the majority.

+117%

17.5 MSEK

ARR

During the spring strategy work, XMReality re-defined the activity formula with the objective to accelerate ARR growth significantly which resulted in an ARR-growth of 117 percent.

+74%

20.7 MSEK

Net Sales

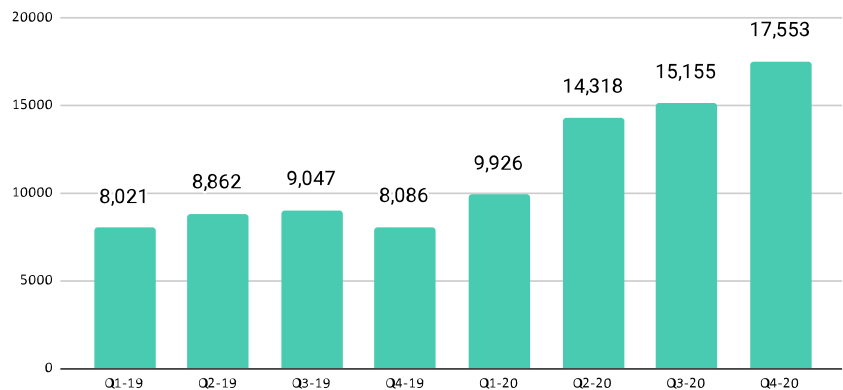
For the full year Net Sales grew with 74 percent and the corresponding cost increase was only 7 percent.

+7%

Cost Growth

Cost increase was only 7 percent despite the strong growth which is a good foundation for scalability.

Annual Recurring Revenues (ARR)



Backed by satisfied owners

During 2020 XMReality has established themselves as a strong player on a growing global market and we are confident in the new CEO and his team. Leaving 2020 behind us we saw an impressive number of new logos added and a strong year over year growth in Annual Recurring Revenue, with just a small cost increase. This is really impressive since XMReality at the same time expanded into several new verticals and started new partnerships with global partners around the world.

With a strong cash position and a sustainable service that can overcome the challenge of distance, minimizing the need for travel, we are thrilled to keep on supporting the company on its journey to become the world's most used remote guidance solution.



Björn Persson

Chairman of the board and representative for Investment AB Spiltan, XMReality's largest owner.

The new direction is set!

In addition to achieving the targeted growth in 2020, we now also have a clear forward looking direction which puts us in a unique position in the strongly growing augmented reality market. 2020 has been a great year for the company and the evolution that is happening at our customers is clearly in line with our strategic direction.

The Market

The unfortunate COVID-19 pandemic accelerated the augmented reality software market during 2020. Already prior to the pandemic, this market was expected to grow in excess of 50 percent the coming years. Our offering has a perfect fit in relation to imposed travel restrictions, ambitions to reduce CO2-footprint and fully supports the future digital enterprise. So yes, I do expect a strong market growth also after the pandemic!

The Company

We have during the year worked hard with our revised vision and strategies. Coming out of 2020 we now have a much more focused team. We have gone from being active in many verticals and a wide spectrum of customers to instead have clearly identified verticals, a structured product offering and most importantly, we understand which use cases we will solve and which we will not. We are all moving in the same direction now!

The Product and its distribution

We have been able to maintain one product that solves a large number of our customers' use cases instead of having to divide our attention between several different products. During 2020 we have added many important new features and functions such as better adapted license models, increased possibilities to connect with non-XMReality users and additional capabilities and support for smart glasses.

The re-production and distribution of our solution through App Store, Google Play and our website have a very low cost and are ideal for scalability. All in all we do have one of the strongest offerings on the market with a fantastic gross margin of some 90 percent!

The Customers and Value Creation

During 2020 we have added some very large new customers to our portfolio. Examples are Nestlé, Electrolux and Saab. We are also starting to get good traction in the medical sector with customers such as Baxter Medical, Cytiva and Alfasigma. Another interesting new vertical for us has been Facility Management where we now have a handful of customers in the UK.

During the year we have supported many customers with proof-of-concept (pilot) projects. Most of these prove a very quick Return Of Investment for the customer, typically half a year. The absolute majority of the proof-of-concept projects have subsequently entered a subscription contract with automatic renewal. Time and time again we prove that our solution helps ensure that up-time on production lines are maximized, spare part inventory is reduced, knowledge transfer increases and that training and certifications can be done remotely. With this proven track record we are able to land larger customers and in selected verticals.

The Financial Impact on XMReality

The impact of all the above is a 74 percent increase in Net Sales, a corresponding 7 percent increase in cost and a 117 percent increase in Annual Recurring Revenues!

Looking forward

In summary, we are set for a successful 2021!

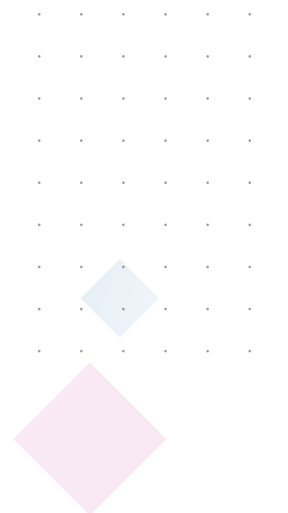




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*In summary,
we are set for
a successful
2021.”*

Jörgen Rimmelg
CEO



A strong underlying market growth



Looking back at the year of 2020, companies' operating models have been heavily impacted by the COVID-19 pandemic. Already during the onset of the pandemic businesses started to realize that they had to make changes and a Gartner survey in March 2020 found that only 2 percent of business representatives believed that their business could carry on as normal¹. Many companies explored remote working options as risk mitigation actions, which had a direct impact on XMReality as well as the entire Enterprise Augmented Reality market².

COVID-19 has propelled digitalization

McKinsey & Company believes that COVID-19 will result in a new definition of what a normal operating model is, now that companies are adopting new ways to work. Companies willing, and able, to switch to new behaviors and practices during the pandemic have in many cases achieved previously unimaginable gains in speed and productivity. Something that clearly signals that part of the changes brought on by the pandemic are here to stay³.

Already by the middle of 2020, seven out of ten boards of directors had accelerated digital business initiatives as a result of the ongoing pandemic⁴. Companies have as a result developed or implemented technologies for remote work that in many cases also create opportunities for increased efficiency. For customer-facing teams technology resources have been focused on solving customer needs quickly and facilitating the work of the customer facing team. One of the tools employed for this is remote support technology, to connect with customers and coworkers remotely⁵.

Enterprise Augmented Reality now at front lines

Augmented Reality, AR, has since 2016 become more common for industrial solutions due to maturing hardware and software offerings and now lately the COVID-19 pandemic⁶. During 2020 the AR and VR (Virtual Reality) market received more than US\$2 billion in investment and M&A activity also picked up compared to before⁷.

The market for Augmented Reality solutions can be split into different application areas where 'Enterprise AR' is the area which XMReality is active within. Here the compounded annual growth rate, CAGR, is expected to be 56 percent between 2019-2025, which can be seen in figure 1⁸. Remote support solutions powered by AR were quite well established before COVID-19, however, few companies considered the technology as a must-have. With lockdowns and social distancing measures this has changed. Many companies now view remote support solutions as a method to maintain normal working processes⁹. As long as these technologies improve business performance, companies will have no justification for turning back to old ways of doing business according to McKinsey. Instead, Business leaders will try to lock-in the newly emerged best practices and partly reinvent their companies¹⁰.

¹ <https://www.gartner.com/smarterwithgartner/10-pillars-of-pandemic-preparation/>

² Mordor Intelligence – Global Enterprise Augmented Reality Market, 2020

³ McKinsey, How COVID defined the next normal operating system, 2020

⁴ <https://www.gartner.com/smarterwithgartner/COVID-19-accelerates-digital-strategy-initiatives/>

⁵ McKinsey, How COVID defined the next normal operating system, 2020

⁶ Verdantix, Smart Innovators: Augmented Reality Solutions For Remote Assistance, 2020

⁷ ABI Research – Funding and M&A Value in AR/VR Ecosystem Surpasses US\$ Billion in 2020

⁸ Mordor Intelligence – Global Enterprise Augmented Reality Market, 2020

⁹ Verdantix, Smart Innovators: Augmented Reality Solutions For Remote Assistance, 2020

¹⁰ McKinsey, How COVID defined the next normal operating system, 2020

Global Enterprise Augmented Reality Software Market

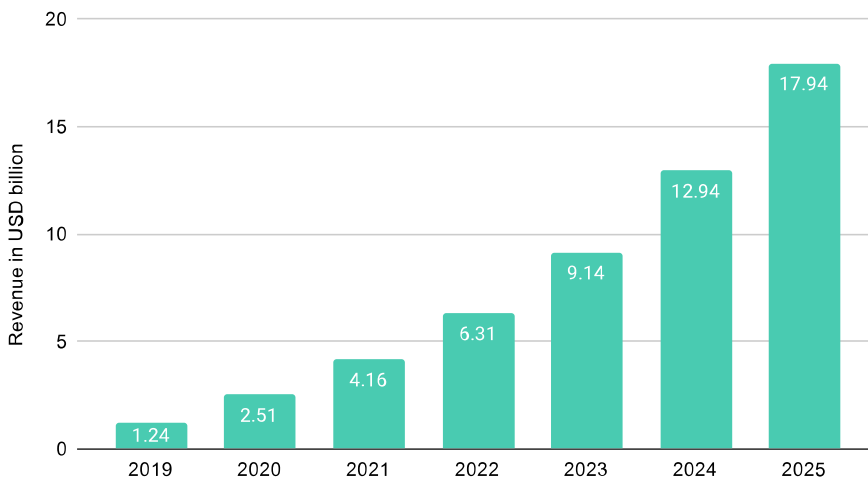


Figure 1

For XMReality an increased demand for remote support solutions during 2020 has been clear, which is also reported by several other market players¹¹. The pandemic has in some cases triggered or accelerated the purchasing decision for the customer. Still, the majority of these customers view remote support as a long-term solution to improve operations, increase efficiency and cut down on cost and travel. Verdantix points

out the fact that COVID-19 has spurred interest and adoption of remote support, but it's innovation and technology development that will determine the continued growth. So despite a very positive market outlook and underlying growth for Enterprise AR, continuous product development and a competitive offer will be key for XMReality's future growth.

Verdantix points out the fact that COVID-19 has spurred interest and adoption of remote support, but it's innovation and technology development that will determine the continued growth.

¹¹Verdantix, Smart Innovators: Augmented Reality Solutions For Remote Assistance, 2020



XMReality's Vision and Strategies

In addition to achieving the targeted growth in 2020, XMReality now also has a clear direction forward which aims to put the company in a unique position in the fast growing augmented reality market. A strong vision and supporting strategies need to be understood by the people who are going to execute them and consequently lead to the right activities. During the year we have worked hard to make sure that each employee at XMReality understands why we change in a certain direction, and how our vision guides all of us in the company to take the right decisions on a daily basis.

XMReality's vision and four supporting strategies:



1

Top level strategy one

The first strategy, easy-to-use, will result in a low threshold in terms of cost and time for implementation. Each user shall need a minimum of training and the use shall be intuitive. The benchmark availability will allow our solution to be used in operationally critical industrial processes, which in turn will mean a redundant back-end.

2

Top level strategy two

The second strategy, customer centric, will allow us to collect industrial use cases that we condense into a functional specification for the single software package. Hence, a package that solves the majority of the use cases and do create superior customer value.

3

Top level strategy three

The third strategy, compatibility with commercially off the shelf hardware, will allow us to use the existing I-Phones, Androids and PC's already available to the industries. This in turn will result in easy deployment, fast Return-on-Investment and easy scalability. This is why we also ensure backwards compatibility between the software and the hardware.

4

Top level strategy four

The fourth strategy, SaaS - Software as a Service, tells us to quickly as possible convert new customers to an annual subscription contract with automatic renewal. This is why we push smaller customers to our on-line offering and also offer two and three year enterprise contracts. It tells us also to focus on Net Retention of existing customers. This is why we during 2021 will launch a dedicated Customer Experience (CX) Team.

We will now push forward in this direction with the clear ambition to grow the top line in excess of the market growth.

Company vision

The vision 'the world's most used Remote Guidance' makes us focused on selling and distributing recurring software licenses as opposed to selling hardware or hours. This in turn will keep the gross margin at a very high level of around 90 percent.



Product development strategy

XMReality is continuously investing in product development to make sure we maintain our position as a leading vendor within remote guidance. Based on our vision of being the world's most used remote guidance solution we focus our development on a few prioritized areas:



1 Low barriers of entry

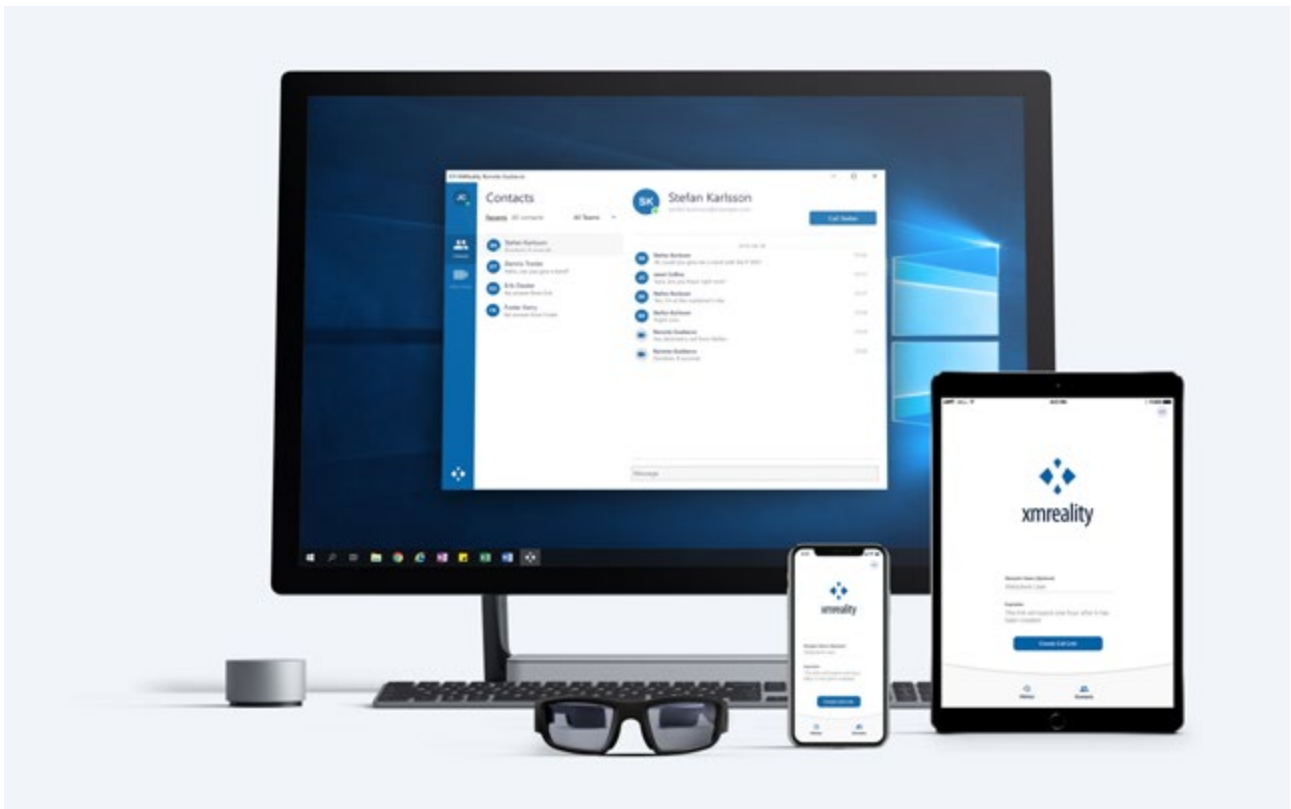
Implementing a new concept such as remote guidance that changes how you interact internally, with customers and perhaps your partners, can be a daunting experience. New or changed processes and ways of working are often needed. To enable a smooth transition towards these new ways of working, it is important that the solution itself is as easy as possible to roll out. At XMReality we therefore focus a lot on ease-of-use of our product and a smooth onboarding experience. Both for the individual users and for the organization as a whole.

2 In call experience

This is of course where the real customer value is created. We firmly believe in providing a simple user experience and a balanced set of features that lets the user get on with the business at hand, help them solve their problem fast, and not focus too much on the tool itself. Since our solution is often used to connect with someone who has never before used XMReality Remote Guidance, it's imperative that it's also an intuitive experience for that person.

3 Integration

Our solution is often used as an integrated part of our customers' processes. It is therefore important that XMReality can easily be integrated with other systems used to support these processes and be part of the overall solution used by the customer. Here our focus is to offer our customers wide integration possibilities that they can carry out themselves rather than choosing to support just a few standard integrations. We do this by maintaining a strong set of API's (Application Programming Interfaces).



2020 in retrospect

Per Unell, Chief Technical Officer



2020 was a year of shifting priorities from a product development perspective. We started the year with a clear focus on further lowering barriers of entry by introducing an additional online test version of the solution for free. We also facilitated how you could reach out to contacts from your desktop with an integrated SMS (text) function for call links and we introduced the ability to integrate with enterprise authentication management systems.

As we saw a massive uptake in usage during the spring (partly fuelled by the pandemic), we shifted our efforts to focus even more on availability, scalability and quality assurance which enabled us to handle a more than tenfold increase in traffic, while we at the same time reduced the number of support issues.

During the second half of 2020 we widened our support for smart glasses to the solution by adding Zebra and Iristick to the list of supported vendors. We also further improved the in-call experience on smart glasses by adding remote control capabilities, allowing the guide to control functions on the smart glasses from a distance.

An important part of the XMReality solution is the ability to send out a link to connect with whoever you want - even if they are not a registered user of XMReality. During 2020 a number of important additions have been made to further leverage this possibility and lower barriers to connect. Something which has been well received by our customer base.

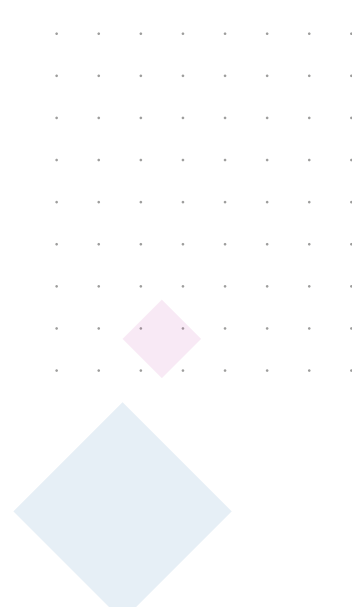
At the end of the year we also updated our license models to make it even more flexible for our customer to pay for the way they use our solution. Customers can now choose between individual licenses or shared licenses depending on intended use. Regardless of choice, they maintain a full audit trail of each user's usage.

Outlook 2021

Inspired by the great user uptake during 2020 and based on solid customer feedback we have an exciting roadmap lined up for 2021. Highlights in the roadmap is a fully web-based solution that will even further simplify deployment and integration and a completely new remote guidance conference solution. Apart from these we

will continue to improve on our strategic focus areas: low barriers of entry, in-call experience and integrations to take us one step closer to our vision of being the world's most used remote guidance solution.

/Per Unell



MOST COMMON USE CASES

Customer value creation



During 2020 both the number of customers, number of users, and the usage of XMReality Remote Guidance have increased. We have a tight collaboration and dialogue with our customers, especially during their initial evaluation phase, where many larger companies choose to first deploy the software through a 'POC – Proof of Concept' phase. As a result we have during 2020 been able to develop deeper insights into which industries we should have as primary focus, which use cases that are most common and most importantly – how our solution creates value for our different customers.

Marcin Szymanski, Chief Sales Officer

Proven customer value



Reduced CO2 emissions



Reduced OPEX



Increased CAPEX utilization



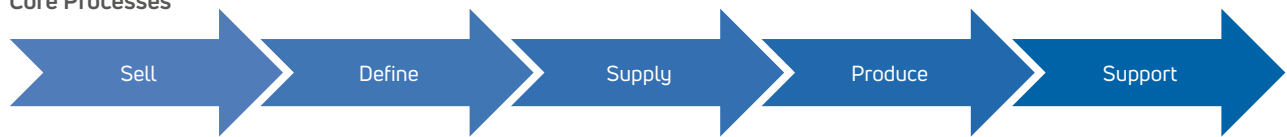
Improved quality

Value creation at a large Food and Beverage manufacturer

If we take a closer look at how XMReality Remote Guidance is deployed at one of our large Food and Beverage customers it becomes clear that the solution is well aligned to support a large part of their core processes.



Core Processes



Typical customer use cases in the Food and Beverage industry:

1. Intermittent problem solutions without travel and faster resolution
2. Periodic maintenance support
3. Remote Guidance of process changes and H/W changes
4. Visual inspections, own, supplier and authorities
5. Training, e.g. new machinery and/or new processes
6. Material Review Boards, i.e. dispositions of derogations (Non-Conformances)

These use cases have a clear mapping towards all of the different core processes at the customer apart from the 'Sell' phase. However, depending on if the customer chooses to incorporate XMReality Remote Guidance as part of their service offering there is a connection also to this process. For example, a packaging company supporting and maintaining the food producer's or brewery's production line.

For this customer a number of pain points were mapped as the starting point for their POC-phase, these pain points also apply to most Food and Beverage companies. The purpose of the POC (Proof of Concept) phase was then to determine if XMReality was the right solution to address these pain points:

1. Travel restrictions due to COVID-19
2. Don't want to tie up key competence with too much travelling time
3. Need to minimize production line downtime
4. Increase knowledge transfer between employees and better key competence retention
5. Get a competitive edge in the market
6. Strengthen the company's sustainability work

During the POC phase different metrics were set up to measure the effects that using XMReality Remote Guidance had on these pain points, including both quantitative and qualitative KPIs. At the end it was concluded that the solution helped save money, reduce CO2 emission, increase CAPEX utilization and also contribute to continued high quality in the production. Which resulted in the company officially choosing XMReality as their supplier.



Supporting sustainable business practices

Even though XMReality is a small company, we believe that we can have a big impact by helping companies globally when they develop and adopt more sustainable business models. For us a sustainable business model creates and delivers value to all its stakeholders – without depleting the natural, economic and social capital that it's built upon.



How we at XMReality help support sustainable business models:

◆ Contribution to a better environment

Many of our resources are finite and a business model is not truly sustainable if it has a negative impact on our overall global environment. Apart from contributing to less travels, and hence CO2 emissions, XMReality's solution also helps with areas such as inventory optimization and pro-longed machine lifetime through better support. By minimizing production downtime we also help increase utilization of existing resources.

◆ Businesses need to be profitable over time

For most businesses, at least privately owned, being profitable is a must for long term survival. Here XMReality Remote Guidance can contribute to profitability both by cutting operating costs and also by adding new service revenues.

◆ Human capital, the most important resource

Behind every successful company is a team of skilled individuals. Having employees with the right skills and competence is central, but often also a challenge. XMReality Remote Guidance makes it easier to connect people across distance and facilitates knowledge transfer and training.

We reduced CO2 emission with 10 000 tonnes during 2020!

During 2020 XMReality carried out a survey which focused on understanding how our customers perceived that our solution contributed to their operations. The customers who responded represented around 50 percent of the net sales at the time of the survey. For these respondents the following aspects were deemed to be the most important for their business:

- The solution being user friendly
- Improved utilization of internal expert knowledge
- Increased resource efficiency at end customer
- Decreased travelling

A majority of the customers also stated that XMReality Remote Guidance has been an important or very important tool during COVID-19. Furthermore, 70 percent of the respondents said that XMReality Remote Guidance will be an important or very important tool in their business also when the pandemic has passed.

From the survey it's clear that the customer base perceive several different benefits of using XMReality Remote Guidance and that our solution contributes to a more sustainable business climate – something which we are very proud of!

Around 16 percent of the global greenhouse gas emissions comes from transportation and travels. For many companies business travels can represent up to 50 percent of their greenhouse gas emissions. **Cutting down on travels** is therefore one important action we can take to reduce CO2 emissions.

For example **a round-trip flight from London to New York emits around 980 kg of CO2**. There are 56 countries in the world where the average person emits less carbon dioxide than this in a whole year – from Burundi in Africa to Paraguay in South America.

Replacing part of business travels, especially international flights, with Remote Guidance calls is therefore a very effective way to cut down CO2 emissions for companies. Based on our customers' input **our solution replaces at least 25 000 travels per year**. If we assume that the average travel is a two hours flight, and then return, this corresponds to more than 10 000 tonnes of reduced CO2 emission annually*. Not too bad contribution from a 30 people company in Linköping!

*calculated using https://co2.myclimate.org/en/flight_calculators/



Board of Directors



Björn Persson

*Chairman since 2020.
Before that Director between
2014–2018 and 2019*

Born: 1975

Education and experience:
Björn Persson has an

MSc in Industrial Engineering and Management from Linköping University. He is currently an investment manager at Investment AB Spiltan. Previously, he served as the CEO of Almi Invest Östra Mellansverige AB. As an investor and company director, Björn has wide-ranging experience working with Swedish SaaS companies that are establishing multinational operations, with particular focus on the US. He has an international network of investors and companies working in the B2B SaaS segment.

Holdings in XMReality: 1,127,849 shares held through Klösen AB, a wholly owned company and 160,000 warrants.



Anders Ferntoft

Director since 2014

Born: 1960

Education and experience:
Anders Ferntoft has a licentiate degree in economics and an MSc in

Industrial Engineering and Management from Linköping University. He is currently business coach at the LEAD start-up incubator and provides consultancy services to small and growing tech companies in the areas of business development, management, and corporate governance. Anders also served previously as business development manager at Agama Technologies AB and as CEO of Anelda AB. He has previously worked for XMReality as a business development consultant.

Holdings in XMReality: 140,001 shares held through A Ferntoft Consulting AB, a wholly owned company and 80,000 warrants.



Carina Qvarngård

Director since 2018

Born: 1959

Education and experience:
Carina Qvarngård has an MSc from the Swedish Royal Institute of Tech-

nology, KTH. She is currently a senior consultant at Ability2Sustain with assignments in strategic business development, sustainability, leadership and service development. She has served in senior positions at Cavarion, Sodexo and, for many years, Ericsson. Carina is business-driven and has developed service organizations and headed up skills transfer processes at nordic and international level. She has a clear customer orientation and profound understanding of the customer processes in which XMReality's solutions provide maximum benefit.

Holdings in XMReality: 5,000 shares and 80,000 warrants.



Tommy Johansson

Director since 2019

Born: 1956

Education and experience:
Tommy Johansson has an MSc in Industrial Engineering and Management from

Linköping University. He has held senior positions with companies including Saab, Ericsson and Nokia Data and is the former deputy CEO of IFS AB. For the past 12 years, Tommy has been CEO of two successful start-ups: C3 Technologies AB and AMRA Medical AB. He has strong experience with building high-growth companies for a global market in the software sector.

Holdings in XMReality: 95,988 shares held through TopSolutions AB, a wholly owned company and 80,000 warrants.



Åsa Arvidsson

Director since 2020

Born: 1972

Education and experience:
Åsa Arvidsson has a Master's degree in Information Science and a MBA

from Henley Management College. She has extensive experience within IT and Telecom and has held CEO positions at Iver, portfolio companies within EQT and the Swedish bransch of Avanade. Åsa has more than 10 years of experience from leading roles at IBM and today works at Microsoft with focus on ERP systems and transformation.

Holdings in XMReality: 80,000 warrants.



Peter Gille

Director since 2020

Born: 1962

Education and experience:
Peter Gille has a Bachelor's degree in Computer Science from

Uppsala University and an Executive MBA from Paris/Edinburgh University. He is currently CEO at Cambio Healthcare Systems and was before that CEO at Nexus. Peter has held several leading positions at fast growing IT companies, including Oracle. He is passionate about sales, innovation and product development, and coaching his team members.

Holdings in XMReality: 80,000 warrants.

Management



Jörgen Rimmelg

CEO since 2020

Born: 1964

Education and experience:

Jörgen Rimmelg has an MSc from the Swedish Royal Institute of Technology, KTH. He has headed various industrial business units since 2000. In his most recent role before joining XMReality, he was senior vice president of Ruag, responsible for business units in Austria, Germany, Switzerland, and the United States, and for operations and business with major companies including Airbus, Boeing, Lockheed-Martin, Space-X, and Thales. He was also responsible for business with companies in the automotive industry, semiconductor industry, and medical devices industry.

Holdings in XMReality: 100,000 shares and 250,000 warrants.



Claes Pettersson

CFO since 2017

Born: 1953

Education and experience:

Claes Pettersson's academic background is in mechanical engineering and economics, as well as a number of courses in leadership development, finance, business development, sales, and board service. He has more than 40 years' experience running and developing more than 25 companies in senior operational executive roles and through serving on boards of directors. His experience was gained within private and public listed and unlisted companies.

Holdings in XMReality: 2,220 shares.

Auditor

At the Annual General Meeting held 27th of April 2020, Öhrlings PricewaterhouseCoopers was reappointed as the company's statutory auditor. Authorized Public Accountant Nicklas Kullberg, a member of FAR, was appointed to represent the auditing firm. Öhrlings PricewaterhouseCoopers AB is based at Torsgatan 21, 113 21 Stockholm. The auditing firm, represented by authorized public accountant Nicklas Kullberg, has been the company's statutory auditor for all years related to historical financial information.



Per Unell

CTO since 2018

Born: 1965

Education and experience:

Per Unell has an MSc in Engineering Physics from Linköping University. He has more than fifteen years' experience in senior positions within technology-intensive companies including Sectra, Ericsson, and Agama Technologies.

Holdings in XMReality: 1,000 shares and 178,874 warrants.



Marcin Szymanski

CSO since 2018

Born: 1982

Education and experience:

Marcin Szymanski has an MSc in Strategic Management in Dynamic Organizations from Växjö University. He has about 13 years' experience in business processes, ERP implementation and rollout of digital platforms working at senior level at companies like, Jeeves, Meritglobe and iStone. He also has extensive experience in complex sales and building go-to-market offerings for SaaS solutions.

Holdings in XMReality: 69,984 shares and 178,874 warrants.



Johanna Edepil

CMO since 2020

Born: 1988

Education and experience:

Johanna Edepil has a MSc in Industrial Engineering and Management from Linköping University with a specialization towards Industrial Marketing. Johanna has several years experience from working in international B2B companies and has held positions within sales, market analysis and strategic marketing. Resulting in experience from the entire sales- and marketing process.

Holdings in XMReality: 26,300 shares and 100,000 warrants.

Risk factors

Risk factors assessed as specific to XMReality's operations and the company's potential for future performance are described below. The risk factors currently assessed as the most material are presented first in each category, while those that follow are presented in no particular order. The following report was based on information available at the reporting date.

Business and industry-related risk

Technical advances

The market in which XMReality operates is characterized by rapid development. XMReality's products are based on ongoing technical development and refinements. The company's success is highly dependent upon its capacity to lead and adapt to technological developments, primarily in the market for AR and Remote Guidance. There is risk that the company's software and other technical solutions will not evolve so that their features meet the needs, demands, and preferences of customers and that the company could consequently become less competitive and lose market shares. An increase or decrease of the company's direct billing and accrued revenues by +/- 10 percent, based on conditions during the 2020 financial year, would affect the company's net sales by approximately SEK 2 million. There is moreover a risk that planned software development will be more costly and take longer to align with market needs than planned. If the company fails, partially or entirely, in its ongoing technical development and refinement, it could have adverse impact on the company's sales and profitability. *XMReality assesses the risk level as medium-high.*

Sales

Customers may be very careful about investing in new technology and XMReality does business in a market characterized by long retooling processes, which are time and resource-consuming for the company and entail a high level of uncertainty in forecasts. There is risk that bringing forward or postponing orders will have significant

impact on the company's annual sales and earnings, which would also result in variations in the company's cash flow from one quarter to the next. *XMReality assesses the risk level as medium-high.*

Production capacity

XMReality often delivers software to its customers by making the server software and associated server capacity available and delivered to customers as a service. Server capacity is purchased from a third party. The company is dependent upon available internet connections to maintain the server and provide support to its customers. There is risk that the company will be unable to obtain the necessary server capacity for the operation service from third-party suppliers or that the company will not have an available internet connection to deliver services to customers. If the company is unable to meet customer demands or delivery expectations, this could have adverse impact on the company's net sales and results of operations. *XMReality assesses the risk level as low.*

Competition

The Remote Guidance market is generally characterized by rapid technical progress and fierce competition. Several of XMReality's current and potential future competitors could have a competitive edge in the form of e.g., a longer history, a more well-established brand, firmer relationships with end customers, and greater financial, technical, and marketing resources. If XMReality is unable to adapt the company's business and solutions to technical advances in the market, there is risk that the company could become less competitive, which could have adverse impact on the company's potential to develop. *XMReality assesses the risk level as medium.*

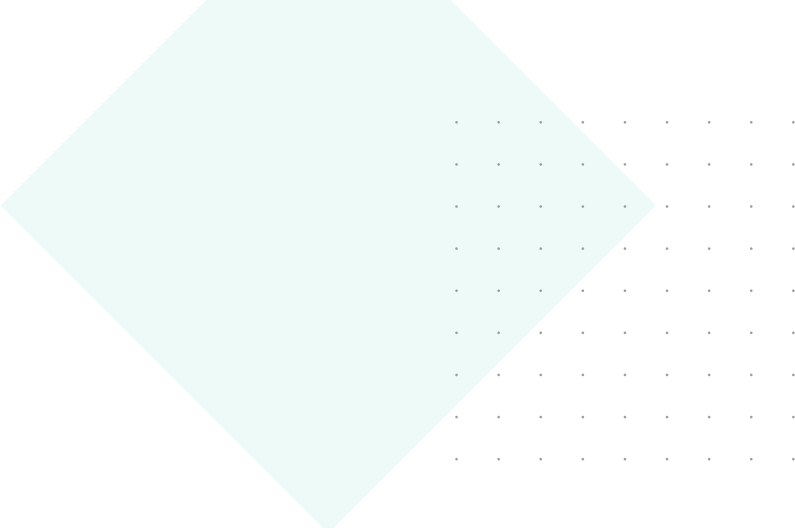
Dependence on key individuals and skilled employees

Advanced software development requires flexibility, efficiency, and a high level of technical expertise among employees. There are a number of key individuals at XMReality who are important to the successful development of the company's operations. The capacity to recruit and retain skilled employees is essential to securing the level of expertise in the company. The company has a number of employees regarded as such key individuals, working in management, sales, and development. If these key individuals were to leave the company, it could have adverse impact on the business, particularly in the short term. There is risk that XMReality will be unable to recruit or retain the individuals necessary to run and develop the company's operations, which could have adverse impact on the business and thus reduce the company's net sales and results of operations and increase the company's employee benefits expenses. *XMReality assesses the risk level as medium.*

Financial risks

Multinational business and changes in exchange rates

A high percentage of XMReality's costs are denominated in SEK, while a significant share of revenues and the costs of certain purchases are generated in foreign currency, primarily EUR, which increases the company's currency exposure. Appreciation/depreciation of EUR against SEK by 10 percent, based on conditions during the 2020 financial year, would have a currency effect on the company's revenues of approximately SEK 0.9 million and on the company's costs of about SEK 0.2 million.



Significant changes in exchange rates could have adverse impact on XMReality's costs and future revenues, which would in turn affect the company's financial position and results of operations. *XMReality assesses the risk level as medium.*

Credit risks

XMReality has established rules for extending credit to customers. There is risk that XMReality's assessment and evaluation of the credit risk associated with a counterparty will be in error. If a customer is unable or unwilling to perform its financial obligations to XMReality, it could have adverse impact on the company's business and cash flow. *XMReality assesses the risk level as low.*

Need for additional financing

There is risk that XMReality will have insufficient revenues in the future to fully finance its operations. XMReality is not currently generating positive cash flow and could thus be forced to seek additional external financing to continue operating. Such financing could be provided by existing shareholders or an external party. There is risk that it will be impossible to raise fresh capital when it is needed, that it will be impossible to obtain fresh capital on satisfactory terms, or that capital raised will be insufficient to finance operations in accordance with established business development plans and objectives, which would have adverse impact on the company's ability to maintain its market position and competitiveness. This could lead to material adverse impact on the company's net sales, interest expenses, and earnings before tax. The terms and conditions of available financing could also have adverse impact on the company's operations or the rights of shareholders. If the company opts to raise additional financing by issuing shares or

share-related securities, shareholders who choose not to participate may suffer due to the dilutive effect. Debt financing could potentially contain terms and conditions that limit the company's flexibility. *XMReality assesses the risk level as medium.*

Legal risks


XMReality's intellectual property, know-how, and trade secrets

As of the reporting date, the company owns intellectual property including patents, copyrights, and trademarks. As a result of rapid technological development in XMReality's field, the company has not and will not be able to patent large segments of its intellectual property without investing disproportionately large resources. The company's strategy is therefore to patent only particularly unique parts of its technology and to otherwise protect its software development through unregistered intellectual property rights, such as copyright. There is risk that XMReality will be unable to fully protect its technology through patents or other intellectual property rights. Nor can it be precluded that the company could be found to have infringed upon patents or other intellectual property owned by another party, this is especially pronounced on the US market where XMReality is active and has a subsidiary. XMReality is also dependent upon know-how and business secrets, and the company requires non-disclosure agreements with employees, consultants, and partners. However, it is impossible to fully protect the company against the unauthorized spread of information, which entails a risk that competitors will become privy to and benefit from the know-how developed by XMReality. Moreover, the dissemination of business secrets could

affect the company's opportunities to be granted patents for inventions. If any of the aforementioned risks were to occur, it could have material adverse impact on the company's business, net sales, and results of operations, and could increase the company's costs. *XMReality assesses the risk level as medium.*

Tax loss carryforwards

XMReality has a preliminarily recognized accumulated loss carryforwards of approximately SEK 82.5 million as of 31st of December 2020. The accumulated loss carryforwards could reduce any taxable profits made by the company in future and thus reduce the corporate tax that would be due on any future profits. The tax effect of the accumulated loss carryforwards could be carried as an asset on the balance sheet. Whether or not the company is able to use the accumulated loss carryforwards will be determined by factors including future ownership changes in XMReality, which are beyond the company's control. If the loss carryforwards cannot be used to reduce future profits, the company's tax expenses would be higher. *XMReality assesses the risk level as low.*



Shareholder information

Shares

All shares in XMReality are of the same share class and are denominated in Swedish kronas (SEK). By the fiscal year end the capital stock in XMReality AB (publ) totaled 1,705,000 SEK divided among 34,100,000 shares at a nominal value of 0.05 SEK each.

The XMReality shares are listed on Nasdaq First North Growth Market. The stock sticker is XMR and the ISIN-code is SE0009664188.

Each share has the voting power of one (1) vote at Shareholders Meetings and each

shareholder is entitled to a number of votes corresponding to the holder's number of shares in the company.

All shares give equal rights to dividends as well as the company's assets and any surpluses in the event of liquidation.

During February 2021 a directed issue was carried out comprising 6,820,000 shares. The issue brought in approx. 56.3 SEKk to the company before deduction of issue costs.

Stock options program

XMReality AB (publ) has three active stock option programs, 2019/2022 totals the rights to sign up to 107,748 shares, 2020/2023L totals the rights to sign up to 600,000 shares and 2020/2024S totals the rights to sign up to 560,000 shares.

The maximum number of active stock options, at the time of adoption of this Annual Report, corresponds to the rights to sign up for 1,267,748 new shares which in that case will increase the share capital with 63,387 SEK, corresponding to a dilution of 3.1 percent.

Change in capital stock

Year	Activity	Increase in number of shares	Total shares	Increase in share capital (SEK)	Total share capital (SEK)	Nominal value (SEK)
2007	Formation of the company	-	1,000	-	100,000	100
2012	New share issue	158	1,158	15,800	115,800	100
2013	New share issue	219	1,377	21,900	137,700	100
2014	New share issue	360	1,737	36,000	173,700	100
2014	New share issue ¹	48,080	221,780	48,080	221,780	1
2015	New share issue	34,884	256,664	34,884	256,664	1
2016	Use of warrant	17,297	273,961	17,297	273,961	1
2016	New share issue	144,460	418,421	144,460	418,421	1
2017	New share issue	93,000	511,421	93,000	511,421	1
2017	New share issue ²	4,379,562	14,607,982	218,978.10	730,399.10	0.05
2018	New share issue	2,442,018	17,050,000	122,100.90	852,500.00	0.05
2020	New share issue	17,050,000	34,100,000	852,500.00	1,705,000.00	0.05
2021	New share issue ³	6,820,000	40,920,000	341,000.00	2,046,000.00	0.05

¹ On June 9th, 2014 the AGM resolved a split of shares, 100:1.

² On February 9th, 2017 the EGM resolved a split of shares, 20:1.

³ On February 16th, 2021 the Board, based on an authorization from the AGM 2020, resolved a directed issue.

Ownership structure

2,907 (1,626) institutional and private investors owned XMReality AB (publ) on December 30th, 2020.

Largest shareholders December 30th, 2020

	Number of shares/votes	%
Investment AB Spiltant	8,538,924	25.04 %
Försäkringsaktiebolaget, Avanza Pension	2,200,814	6.45 %
Rambas AB	1,974,639	5.79 %
Nordnet Pensionsförsäkring AB	1,653,489	4.85 %
Klösen AB	992,755	2.91 %
Christer Svensson	804,448	2.36 %
Göran Gustavsson	657,483	1.93 %
Euroclear Bank SA/NV W8-IMY, Bruxelles, Belgium	445,000	1.30 %
Peter Norman Eggers	426,066	1.25 %
Six SIS AG, W8IMY, Zürich, Schweiz	406,520	1.19 %
Total, 10 largest stockholders (over 400,000 each)	18,100,138	53.08 %
Other owners	15,999,862	46.92 %
Total number of shares	34,100,000	100.00 %

Share development, 2020



The share graph above shows the development of share price and numbers of traded shares per day on Nasdaq First North Growth Market for the fiscal year 2020.

— Share price, SEK
— Number of shares traded, thousands

Shareholders agreements

As far as XMReality's board of Directors knows there are no existing shareholders agreements or similar agreements between shareholders in the company which aims to create a common influence over the company. The Board of Directors also does not know of any shareholders agreements or similar agreements which could lead to a change of control of the company.

Dividend policy

The company is still in its development phase and has so far not yet paid any dividends. The company will primarily focus on business opportunities that can be profitably developed, which is why no dividend is currently planned. The Board of Directors will establish a dividend policy when the business has been consolidated.

Stock option program

There are currently three active stock option programs, series 2019/2022 totals the rights to sign up to 107,748 shares, 2020/2023L totals the rights to sign up to 600,000 shares and 2020/2024S totals the rights to sign up to 560,000 shares. The stock option programs have been issued on customary terms to employed personnel and the Board of Directors. If all warrants will be exercised the numbers of shares will increase by 1,267,748 shares, corresponding to a dilution of 3.1 percent.

Stock option program plans

Series	Issuing date	Exercise period	Paid subscription price	Number of warrants	Number of shares	Subscription price per share, SEK
2019/2022	Sep 16 th , 2019	Dec 1-31 st , 2022	0.29	107,748	107,748	12.66
2020/2023L	Oct 7 th , 2020	Nov 1-15 th , 2023	1.29	600,000	600,000	4.20
2020/2024S	Oct 7 th , 2020	Mar 1-15 th , 2024	1.19	560,000	560,000	4.20

The warrants are distributed as follows:

Warrant holder	Role	Number of warrants	Giving the right to sign for up to (number of shares)
Björn Persson	Chairman of the Board	160,000	160,000
Anders Ferntoft	Board member	80,000	80,000
Tommy Johansson	Board member	80,000	80,000
Peter Gille	Board member	80,000	80,000
Åsa Arvidsson	Board member	80,000	80,000
Carina Qvarngård	Board member	80,000	80,000
Jörgen Rimmelg	CEO	250,000	250,000
Marcin Szymanski	CSO	178,874	178,874
Per Unell	CTO	178,874	178,874
Johanna Edepil	CMO	100,000	100,000

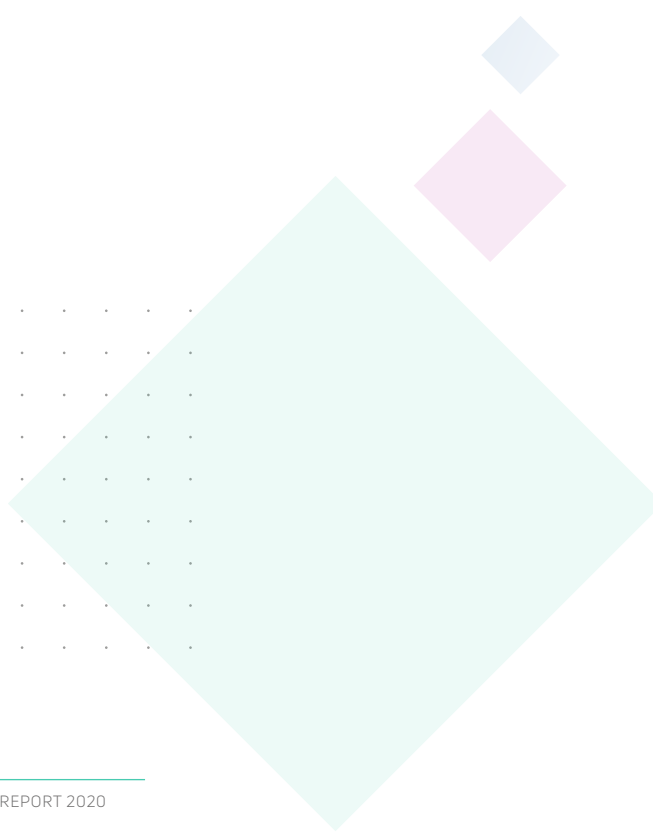
Overview of financial performance (SEKk)

The financial performance of XMReality AB (publ) for the period of 2016–2020 is summarized below. All figures for the financial years of 2016–2019 are based on material taken from official, published annual reports.

(SEKk)	2020	2019	2018	2017	2016
Net sales	20,701	11,921	10,155	6,683	5,155
Operating profit (-loss)	-24,623	-27,300	-29,250	-22,633	-9,976
Profit (-loss) after net financial income	-24,925	-27,364	-29,317	-22,741	-10,041
Group contribution received	0	29	0	0	0
Profit (-loss) after appropriations	-24,925	-27,335	-29,317	-22,741	-10,041
Profit margin, %	Neg	Neg	Neg	Neg	Neg
Intangible assets	13,452	16,039	14,754	12,458	6,595
Tangible assets	345	405	528	1,705	901
Financial assets	51	59	8	0	25
Inventories	255	184	261	306	587
Current receivables	8,964	6,792	5,978	6,014	2,297
Cash and bank balances	18,615	9,347	37,798	46,241	22,100
Equity	24,847	20,273	47,608	56,827	26,556
Non-current liabilities	50	383	844	1,535	2,428
Current liabilities	16,784	12,169	10,875	8,362	3,521
Total assets	41,681	32,826	59,327	66,724	32,505
Return on average capital employed, %	Neg	Neg	Neg	Neg	Neg
Return on average equity, %	Neg	Neg	Neg	Neg	Neg
Equity/assets ratio, %	59.6	61.8	80.2	85.2	81.7
Debt/equity ratio, multiple	0.01	0.04	0.04	0.04	0.1
Interest coverage ratio, %	Neg	Neg	Neg	Neg	Neg
Quick ratio, %	164.3	132.6	402.5	624.9	693.0
Number of employees (end of the period)	18	17	23	19	14
Investments					
Intangible assets	2,224	5,289	5,478	6,687	2,999
Tangible assets	125	32	140	1,908	901
Financial assets	-8	51	8	0	0
Earnings per share before and after dilution, SEK	-0.80	-1.60	-1.72	-1.56	-1.20
Average number of shares during the period	31,063,699	17,050,000	14,982,648	13,175,227	7,202,593
Number of shares at the end of the period	34,100,000	17,050,000	17,050,000	14,607,982	8,368,420

Definitions of key data

Profit margin	Profit after net financial income or expense divided by sales
Equity	The sum of shareholders' equity, restricted reserves and non-restricted equity
Return on average capital employed	Profit or loss before interest expense divided by average capital employed
Return on average equity	Profit or loss after tax divided by average equity
Equity/assets ratio	Equity divided by total assets
Debt/equity ratio	Interest-bearing liabilities divided by equity
Interest coverage ratio	Earnings before interest divided by interest expenses
Earnings per share	Profit or loss after tax divided by average number of shares outstanding
Quick ratio	Cash and current assets excluding inventories divided by current liabilities
ARR (Annual Recurring Revenue)	Value representing the annual recurring revenue from signed subscription agreements with automatic renewals (As long as no changes are made in the agreements)



Board of directors' report

The board of directors and CEO of XMReality AB (publ), company registration number 556722-7284 and registered office in Linköping hereby present the annual report for the financial year that began on 1st of January 2020 and ended 31st of December 2020, the company's fourteenth year in operation.

About the business

Market

XMReality offers a Remote Guidance service to large multinationals as well as small and medium-sized companies via a range of subscription offerings.

Products and services

Software development continued during the financial year and included improvement stages and further simplification of the user interface, as well as the addition of new and complementary features. Development primarily took place in dialogue with customers in order to optimally meet customer needs and expectations. The objective is to offer easy-to-use software that becomes the most widely used Remote Guidance service. The software is aligned with the latest standards of the dominant hardware and software platforms in the market. XMReality also offers a platform- and app-independent web client.

As in previous years, portions of the company's software development costs related to new features were capitalized.

The company also offers its proprietary PointPad hardware and smart glasses from leading suppliers, although hardware sales generate a minor portion of sales.

Sales

Sales during the year were focused on larger customers with global presence and businesses that require Remote Guidance to increase their customer value and sales. Customer value can for example increase through improved operational performance, shorter dismantling times, and contributes to improved sustainability work and decreased environmental footprint. The company has observed that the ongoing COVID-19 pandemic has accelerated the maturation of the market for the new type of equipment offered by the company, as reflected in rapid sales growth.

Financial outcomes

Net sales amounted to SEK 20,701 thousand (11,921). Subscriptions are billed in advance. Order intake and thus subsequent billing rose by 76 percent to SEK 25,992 thousand (14,785). Annual Recurring Revenue (ARR) rose by 117 percent to SEK 17,553 thousand (8,086).

Billing not yet recognized in revenue amounted to SEK 12,725 thousand (6,897) at the end of the year.

The operating loss before appropriations was SEK -24,925 thousand (-27,364). The loss, which has declined slightly compared to previous years, was attributable to continued investments in addressing the market, including the US venture to establish closer proximity to the market. The company decided during the year to discontinue the subsidiary in Germany.

The financial outcome illustrates the scalability of the company's business as revenue growth is not directly related to cost increases, which will be highly favorable to long-term financial performance. During the year cost increased with 7 percent.

Investments in intangible assets and in property, plant, and equipment totaled SEK 2,349 thousand (5,321) and comprised mainly software development costs. Investments in financial assets amounted to SEK 0 thousand (51).

Financing and cash flow

The company had cash reserves of SEK 18,615 thousand (9,347) at the end of the period. Cash flow in 2020 amounted to SEK 9,267 thousand (-28,451), distributed among financing activities at SEK 28,906 thousand (-482), operating activities at SEK -17,297 thousand (-22,647) and investing activities at SEK -2,341 thousand (-5,321).

Employees and organization

The company had 18 (17) employees at the end of the year.

During the year a number of people were engaged on a consultancy basis. Apart from this there were also people employed through the company's subsidiary. In total there were 13 (8) people, equivalent to 8 (6) full-time employees who managed tasks within sales, product development, administration, financials and HR-services.

XMReality shares and shareholders

Shares in the company are listed on Nasdaq First North Growth Market. The stock ticker is XMR and the ISIN code is SE0009664188.

Share capital at the end of the year totaled SEK 1,705,000 divided among 34,100,000 shares, each with a quotient (par) value of SEK 0.05.

At the end of the year, the company had three outstanding stock options/warrant plans. The 2019/2022 plan covered warrants for up to 107,848 shares, the 2020/2023L plan covered warrants for up to 600,000 shares, and the 2020/2024S warrants for up to 560,000 shares.

At year-end, the company was owned by 2,907 shareholders (1,626), which included institutional investors as well as the company's founders and employees and other private investors. The holdings of the 10 largest shareholders totaled about 56 percent of total shares and votes outstanding.

Work of the board of directors

The board of directors held 14 minuted meetings during the year. At these meetings, the board addressed business related to ongoing operations, financial position, forecasts, interim reports, and the annual report. The board also addressed strategic matters including business planning, financing and organizational matters during the financial year.

Five-year review

(SEKk)	31 st Dec 2020	31 st Dec 2019	31 st Dec 2018	31 st Dec 2017	31 st Dec 2016
Net sales	20,701	11,921	10,155	6,683	5,155
Earnings before tax	-24,925	-27,364	-29,317	-22,741	-10,041
Total assets	41,681	32,826	59,327	66,724	32,505
Equity/assets ratio, %	59.6	61.8	80.2	85.2	81.7

In the board of directors' assessment, the company is in a financial position by which operations are secure for more than 12 months from the reporting date.

Significant events after the end of the financial year

The COVID-19 pandemic

A viral epidemic began in China in early 2020 that rapidly spread across the world. The WHO declared in March 2020 that COVID-19 had developed into a pandemic. For precautionary reasons, many countries subsequently chose to sharply restrict people's opportunities for travel and social interaction. These decisions have had a negative impact on business and the global economy. The effects of these restrictions have accelerated acceptance of the new technology offered by the company, which has had a positive impact on the company's economic development.

As of the date this annual report was signed, comprehensive vaccination programs have commenced in most of the countries where the company's products are used. Nevertheless, there was no clear indication of how long the partial or total shutdown of activities will last in various countries, which makes it particularly difficult to estimate the future development of the business.

XMReality's business is still being affected insofar as that certain operations are being managed remotely, as a majority of employees are working from home. A few cases of illness were confirmed among employees during the past year. Fortunately, however, overall impact on the company's business has been limited.

In the company's judgment, delivery of subscription services will not be affected as long as internet communications are not interrupted. Hardware deliveries are still marginal, and the current assessment is that the company has continued access to current delivery volumes.

If the social shutdowns are protracted, there is risk of adverse impact on the company's business and financial position.

Directed equity issue

As authorized by the annual general meeting held 27th of April 2020, the company decided to execute a private placement through an accelerated bookbuilding process on 16th of February 2021. The private placement was directed at the company's main shareholder, Investment AB Spiltan, the Adrigo Small & Midcap investment fund, and about thirty qualified private investors and family offices. The private placement raised about SEK 56.3 million for the company before issuance costs, which are estimated at about SEK 2 million.

Proposed allocation of profit and treatment of loss

The board of directors proposes allocation of retained earnings as follows:

	Amount in SEK
Retained earnings	35,805,757
Loss for the year	-24,925,429
	10,880,328
To be retained	10,880,328

For further information concerning the company's financial performance and position, please refer to the following financial statements and associated notes.

Income statements (SEKk)	Note	2020	2019	Balance sheets (SEKk)	Note	Dec 31 2020	Dec 31 2019
Operating income				Assets			
Net sales		20,700.5	11,921.3	Non-current assets			
Capitalized work for own account		2,223.9	5,288.8	<i>Intangible assets</i>			
Other operating income		209.0	427.3	Capitalized development expenses	4	13,451.6	16,038.5
Total operating income		23,133.5	17,637.4	Total Intangible assets		13,451.6	16,038.5
Operating costs				<i>Property, plant and equipment</i>			
Raw material and consumables		-1,999.7	-1,282.3	Machinery and plant	6	0	0
Other operating expenses	2	-20,290.2	-19,889.7	Equipment, tools and systems	7	344.8	404.6
Personnel costs	3	-19,852.7	-19,455.7	Total property, tools and systems		344.8	404.6
Depreciation, amortization and impairment of property, plant and equipment and intangible assets		-4,996.1	-4,159.9	<i>Financial assets</i>			
Other operating costs		-617.8	-149.4	Investments in associates	8	51.0	51.0
Total operating costs		-47,756.5	-44,937.0	Cash in deposit		0.0	8.4
Earnings before interest and taxes (EBIT)		-24,623.0	-27,299.6	Total financial assets		51.0	59
Financial income and expense				Total non-current assets		13,847.3	16,502.5
Financial income and similar profit items		0	0	Current assets			
Result of impairment-loss of shares in subsidiary company	8	-260.8	0	Inventories			
Financial expenses and similar loss items		-41.7	-64.1	Finished goods and goods for resale		255.3	183.7
Net financial income (-expense)		-302.4	-64.1	Total inventories		255.3	183.7
Earnings before taxes (EBT)		-24,925.4	-27,363.8	<i>Current receivables</i>			
Group contribution received		0	29.0	Trade receivables		7,290.8	5,474.9
Income taxes		0	0	Current receivable, group		29.8	0.0
Net profit (-loss) for the year		-24,925.4	-27,334.8	Other current receivables		411.4	346.1
Net profit (-loss) per share, before and after dilution, (SEK)		-0.80	-1.60	Prepayments and accrued income		1,231.8	970.9
Average number of shares during the period		31,063,699	17,050,000	Total current receivables		8,963.9	6,791.9
Share outstanding at the end of the period		34,100,000	17,050,000	<i>Cash and bank balances</i>		18,614.9	9,347.4
				Total current assets		27,834.1	16,323.1
				Total assets		41,681.5	32,825.6

Balance sheets (SEKk)	Note	Dec 31 2020	Dec 31 2019
Equity and liabilities			
Equity			
Restricted equity			
Share capital		1,705.0	852.5
Fund development expenditure		12,261.8	14,228.0
Total restricted equity		13,966.8	15,080.5
<i>Non-restricted equity</i>			
Share premium reserve		164,000.4	129,047.9
Retained profit or loss		-128,194.7	-96,520.7
Profit (-loss) of the year		-24,925.4	-27,334.8
Total non-restricted equity		10,880.3	5,192.4
Total equity		24,847.1	20,272.9
<i>Non-current liabilities</i>			
	9		
Other liabilities to credit institutions		0.0	333.3
Other non-current liabilities		50.0	50.0
Total non-current liabilities		50.0	383.3
<i>Current liabilities</i>			
Liabilities to credit institutions ¹		333.3	510.4
Prepayment from customer		22.0	0.0
Trade payables		1,652.0	2,152.5
Debt to group company		99.8	-
Current tax liabilities		57.4	262.1
Other current liabilities		621.5	532.1
Accrued expenses and prepaid income		13,998.4	8,712.2
Total current liabilities		16,784.3	12,169.4
Total equity and liabilities		41,681.5	32,825.6
¹ Of which interest bearing liabilities			
Collateral provided		3,700.0	3,700.0
Contingent liabilities		none	none

Statement of changes in equity (SEKk)	Share capital	Restricted reserves	Non-restricted equity	Total equity
Balance at January 1st, 2019	852.5	12,322.4	34,432.7	47,607.7
Capitalization of development costs	-	1,905.5	-1,905.5	-
Profit (-loss) for the year	-	-	-27,334.8	-27,334.8
Total changes for the year	0.0	1,905.5	-29,240.3	-27,334.8
Balance at December 31st, 2019	852.5	14,228.0	5,192.4	20,272.9
New share issue	852.5	-	34,952.5	35,805.0
Issue costs	-	-	-6,305.4	-6,305.4
Capitalization of development costs	-	-1,966.2	1,966.2	-
Profit (-loss) for the year	-	-	-24,925.4	-24,925.4
Total changes for the year	852.5	-1,966.2	5,687.6	4,574.2
Balance at December 31st, 2020	1,705.0	12,261.8	10,880.3	24,847.1

Specification of share capital

	Number of shares	Quotient value per share (SEK)
Balance at January 1 st , 2020	17,050,000	0.05
Balance at December 31 st , 2020	34,100,000	0.05

Statement of cash flow (SEKk)	Note	Jan-Dec 2020	Jan-Dec 2019
<i>Operating activities</i>			
Profit (-loss) after depreciation, amortization and impairment		-24,623.0	-27,299.6
Adjustment for non-cash items depreciation, amortization and impairment	10	4,996.1	4,159.9
<i>Other items</i>			
Interest paid		-41.7	-64.1
Unrealized exchange rate differences		67.7	75.9
Income tax paid		-480.6	-328.3
Cash flow from operating activities before changes in working capital		-20,081.5	-23,456.2
<i>Changes in working capital</i>			
Change in inventories		-71.7	76.6
Change in receivables		-2,239.6	-889.9
Change in current liabilities		5,095.5	1,622.4
Cash flow from (-used in) operating activities		-17,297.2	-22,647.2
<i>Investing activities</i>			
Purchases/sales of property, plant and equipment and intangible assets		-2,223.9	-5,288.8
Purchases/sales of property, plant and equipment and tangible assets		-125.3	-32.4
Sales of financial assets		8.4	0
Cash flow from (-used in) investing activities		-2,340.9	-5,321.1
<i>Financing activities</i>			
New share issue		29,499.6	0.0
Group contribution received		0.0	29.0
Shares in subsidiaries		-260.8	-51.0
Debt repayment		-333.3	-460.4
Cash flow from financing activities		28,905.5	-482.4
Net change in cash and cash equivalents		9,267.5	-28,450.8
Cash and cash equivalents at January 1st		9,347.4	37,798.2
Cash and cash equivalents at December 31st		18,614.9	9,347.4
Cash balance at December 31 st , percent		164.3	132.6

Notes to the financial statements

All amounts in SEK if nothing else is specified.

◆ Note 1 Accounting policies and notes to the financial statement

General accounting policies

The annual report was prepared in compliance with the Swedish Annual Accounts Act and BFNAR 2012:1, Annual and Consolidated Accounts (K3). The accounting policies have not changed compared to the preceding year.

Measurement policies, etc.

Assets, provisions and liabilities have been measured at cost unless otherwise specified below.

Foreign currencies

Transactions denominated in foreign currencies are converted at the spot rate on effect on the transaction date.

Revenue recognition

Goods

Sales of goods are recognized when significant risks and rewards of ownership are transferred from the seller to the buyer in accordance with the terms of sale. Sales are recognized less deductions for VAT and discounts.

Subscription revenues from the grant of license rights

The company grants license rights to customers that are billed and paid in advance for a specific agreed period. Revenue from these contracted and billed subscription fees is allocated straight-line over the term of the contract.

Intangible assets

Intangible assets are recognized at cost less accumulated amortization and impairment losses. As of 2014, the capitalization model is applied for internally generated intangible assets.

Amortization is taken on a straight-line basis over the estimated useful life of the asset. The amortization period for internally generated intangible assets is five years from the date the products begin generating revenue.

Non-current assets

Intangible assets and items of property, plant and equipment are recognized at cost less accumulated amortization/scheduled depreciation, and any impairment losses.

Depreciation

Depreciation is taken on a straight-line basis over the estimated useful life of the asset, taking significant residual value into account.

The following depreciation periods are applied:

Property, plant and equipment

Machinery and plant	2 years
Computers	3 years
Equipment, tools and systems	5 years

Trade receivables and other current receivables

Trade receivables and other current receivables are recognized as current assets at the amount expected to be paid less any individually assessed doubtful receivables.

Loan liabilities and trade payables

Loan liabilities and trade payables are initially recognized at cost less transaction costs. If the recognized amount differs from the amount to be repaid at maturity date, the difference is recognized as interest expense over the term of the loan using the instrument's effective interest rate. Upon maturity, the recognized amount and the amount to be repaid thus correspond.

Impairment testing of non-current financial assets.

At each reporting date, non-current financial assets are tested to determine whether there are any indications of impairment. If such an indication exists, the recoverable amount of the asset is calculated. If the recoverable amount is less than the carrying amount, an impairment loss is recognized in profit and loss. The impairment need is tested individually for all material assets.

Leases

All leases where the company is a lessee are recognized as operational leasing (rental agreement), whether the agreements are classified as financial or operational. Leasing payments are recognized straight-line basis over the term of the lease.

Inventories

Inventory has been measured at the lower of cost and net realizable value on the reporting date. Net realizable value refers to the estimated sales price of the goods, less selling costs. The chosen measurement method means that inventory obsolescence has been taken into account.

Employee benefits

"Employees benefits" refer to all form of remuneration from the company to the employees. Short-term benefits include salaries, paid annual leave, paid sick leave, bonuses and post-employment benefits (pensions), Short-term benefits are recognized as a cost and a liability when there is legal or constructive obligation to pay benefits as a result of past events and a reliable estimate of the obligation can be made.

Definitions of key data

Net sales

Main operating income, billed costs, ancillary revenue and revenue corrections.

Earnings before taxes (EBT)

Earnings after financial income and expense, but before taxes.

Balance sheet total

Total assets of the company.

Equity ratio (%)

Adjusted equity (equity and untaxed reserves less deferred taxes) as a percentage of the balance sheet total.

Statement of cash flow

The statement of cash flow is prepared according to the indirect method. The reported cash flow covers only transactions that have resulted in cash inflows and outflows.

As cash and cash equivalents, the company classifies only available balances with banks.

Note 2 Leases

	2020-01-01 – 2020-12-31	2019-01-01 – 2019-12-31
Lease payments expensed during the financial year (SEK)	1,530,342	2,327,258

Note 3 Employees and personnel costs

Average number of employees	2020	2019
Female	5	5
Male	13	15
Total	18	20

Salaries, other remuneration and social security costs including pension expenses	2020-01-01 – 2020-12-31	2019-01-01 – 2019-12-31
Salaries and other remunerations	12,290,142	13,091,172
Social security costs and pension expenses (of which pension expenses)	5,393,355 (1,136,932)	5,730,424 (1,201,446)
Total salaries, other remuneration, social security costs and pension expenses	17,683,497	18,821,596

Note 4 Capitalized costs of research and development and comparable work

	2020-12-31	2019-12-31
<i>Accumulated cost</i>		
Cost, opening balance	25,043,987	19,755,230
This year's capitalized expenses, internal development	597,734	1,493,367
This year's capitalized expenses, purchases	1,626,200	3,795,390
Accumulated cost, closing balance	27,267,921	25,043,987
<i>Accumulated amortizations</i>		
Amortization, opening balance	-7,143,366	-3,139,383
Amortization for the year	-4,810,893	-4,003,983
Accumulated amortization, closing balance	-11,954,259	-7,143,366
<i>Accumulated impairment losses</i>		
Impairment losses, opening balance	-1,862,102	-1,862,102
Impairment losses for the year	0	0
Impairment losses, closing balance	-1,862,102	-1,862,102
Carrying amount, closing balance	13,451,560	16,038,519

Note 5 Estimates and assessments

Estimates and the application of accounting policies are often based on management's judgements, estimates and assumptions deemed reasonable when the estimate is made.

Estimates and assessments are based on historical experience and other factors deemed reasonable under current circumstances. The results of these estimates and assessments are used to assess the carrying amounts of assets and liabilities that are not otherwise apparent from other sources. The actual outcome may differ from these estimates and assessments. Estimates and assessments are reviewed regularly.

Capitalization of non-current intangible assets

To report own development of non-current intangible assets, the company must make a series of assessments regarding the future. Decisions to capitalize assets are taken by the board of director and head of business development based on assessment of whether the following criteria are met:

- It is technically feasible to complete the asset
- The company intends to complete the asset
- It is probable that the asset will generate future economic benefits
- There are adequate resources to complete the asset

Impairment testing

The company has substantial values reported in the balance sheet representing non-current intangible assets. These assets are tested for impairment in accordance with the policies described in Note 1. When calculating recoverable values, certain estimates must be made regarding future cash flow and adequate assumptions concerning, for example, yield requirements.

◆ Note 6 Machinery and plant

	2020-12-31	2019-12-31
<i>Accumulated cost</i>		
Cost, opening balance	974,353	1,480,083
Purchases	0	0
Sales and disposals	-974,353	-505,730
Reclassification	0	0
Cost, closing balance	0	974,353
<i>Accumulated depreciations</i>		
Depreciation, opening balance	-929,009	-1,421,745
Reversed depreciation on sales and disposals	929,009	-929,009
Depreciation, closing balance	0	-929,009
<i>Accumulated impairment losses</i>		
Impairment losses, opening balance	-45,344	-58,338
Reversed impairment losses	45,344	0
Impairment losses for the year	0	12,994
Impairment losses, closing balance	0	-45,344
Carrying amount, closing balance	0	0

◆ Note 7 Equipment, tools and systems

	2020-12-31	2019-12-31
<i>Accumulated costs</i>		
Cost, opening balance	815,310	782,911
Purchases	125,337	32,399
Cost, closing balance	940,647	815,310
<i>Depreciation</i>		
Depreciation, opening balance	-410,665	-254,763
Depreciation for the year	-185,191	-155,902
Depreciation, closing balance	-595,856	-410,665
Carrying amount, closing balance	344,791	404,645

Specification of the parent company's holdings of shares and participations in group companies

The ownership share of capital is meant, which also corresponds to the share of the votes of the total number of shares.

Subsidiaries / Reg. no. / Residence	Number of shares	in %	Carrying amount
XMReality Värdepapper AB, 559209-5805 Linköping	50,000	100	50,000
XMReality Inc, Delaware USA	100	100	991
XMReality GmbH, Hamburg Tyskland	100	100	0

The subsidiary in Germany is in liquidation.

◆ Note 8 Shares in group companies

	2020-12-31	2019-12-31
<i>Accumulated costs</i>		
Opening balance	50,991	0
Acquisitions	260,750	50,991
Impairment loss	-260,750	0
	50,991	50,991

◆ Note 9 Non-current liabilities

	2020-12-31	2019-12-31
<i>Matures later than one year but within five years after the reporting date</i>		
Almi	0	333,333
	0	333,333

Collateral provided	2020-12-31	2019-12-31
For liabilities to credit institutions:		
Floating charges	3,700,000	3,700,000
	3,700,000	3,700,000

◆ Note 10 Adjustment for non-cash items

	2020-12-31	2019-12-31
Amortization	4,996,085	4,159,885
	4,996,085	4,159,885

◆ Note 11 Significant events after the end of the financial year.

The COVID-19 pandemic

A viral epidemic began in China in early 2020 that rapidly spread across the world. The WHO declared in March 2020 that COVID-19 had developed into a pandemic. For precautionary reasons, many countries subsequently chose to sharply restrict people's opportunities for travel and social interaction. These decisions have had a negative impact on business and the global economy. The effects of these restrictions have accelerated acceptance of the new technology offered by the company, which has had a positive impact on the company's economic development.

As of the date this annual report was signed, comprehensive vaccination programs have commenced in most of the countries where the company's products are used. Nevertheless, there was no clear indication of how long the partial or total shutdown of activities will last in various countries, which makes it particularly difficult to estimate the future development of the business.

XMReality's business is still being affected insofar as that certain operations are being managed remotely, as a majority of employees are working from home. A few cases of illness were confirmed among employees during the past year. Fortunately, however, overall impact on the company's business has been limited.

In the company's judgment, delivery of subscription services will not be affected as long as internet communications are not interrupted. Hardware deliveries are still marginal, and the current assessment is that the company has continued access to current delivery volumes. If the social shutdowns are protracted, there is risk of adverse impact on the company's business and financial position.

Directed equity issue

As authorized by the annual general meeting held 27th of April 2020, the company decided to execute a private placement through an accelerated bookbuilding process on 16th of February 2021. The private placement was directed at the company's main shareholder, Investment AB Spiltan, the Adrigo Small & Midcap investment fund, and about thirty qualified private investors and family offices. The private placement raised about SEK 56.3 million for the company before issuance costs, which are estimated at about SEK 2 million.

SIGNATURES

Linköping, March 25th, 2021

Björn Persson

Chairman of the board

Jörgen Rimmelg

CEO

Anders Ferntoft

Member of the board

Carina Svedberg Qvarngård

Member of the board

Tommy Johansson

Member of the board

Peter Gille

Member of the board

Åsa Arvidsson

Member of the board

My audit report was submitted March 25th, 2021.
Öhrlings PricewaterhouseCoopers AB

Nicklas Kullberg

Authorized Public Accountant



Auditor's report

To the general meeting of the shareholders of XMReality AB (publ), corporate identity number 556722-7284

Report on the annual accounts

Opinions

We have audited the annual accounts of XMReality AB (publ) for the year 2020.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of XMReality AB (publ) as of 31 December 2020 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section. We are independent of XMReality AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and that they give a fair presentation in accordance with the Annual Accounts Act. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden 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 these annual accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsinspektionen's website: www.revisorsinspektionen.se/revisornsansvar. This description is part of the auditor's report.



Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts, we have also audited the administration of the Board of Directors and the Managing Director of XMReality AB (publ) for the year 2020 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section. We are independent of XMReality AB (publ) in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's type of operations, size and risks place on the size of the company's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsinspektionen's website: www.revisorsinspektionen.se/revisorsansvar. This description is part of the auditor's report.

Stockholm 25 mars 2021
Öhrlings PricewaterhouseCoopers AB

Nicklas Kullberg
Authorized Public Accountant

CONTACT US

Want to know more?

Contact us at XMReality to learn more about our solutions, best practice for remote guidance, and how we can contribute to value creation at other companies.

Email: contact@xmreality.com

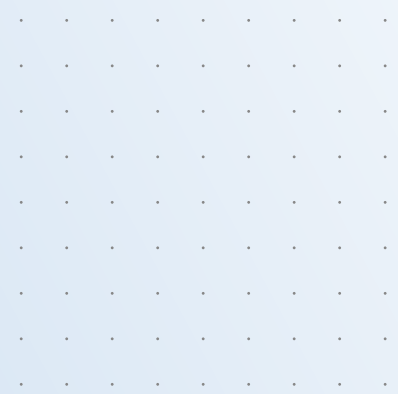
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About XMReality

XMReality develops and sells solutions that revolutionize knowledge sharing through Augmented Reality (AR). The company is a market leader in Remote Guidance, which uses AR to guide onsite staff to enable quick dispositions, resolutions and/or problem prevention. The product is currently used in almost 60 countries. ABB, Nestlé, Electrolux, AB Inbev, Sidel, Hexagon, Bühler and Minibea Intec are some of the more than 80 customers. With operations in Sweden and US, XMReality is listed on Nasdaq First North (ticker: XMR). Further information is available under www.xmreality.com



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