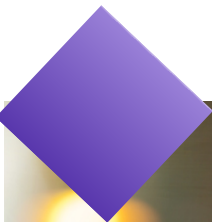


Interim report, *April - June*

XMReality 2022



XMReality Interim report, Group overview, April – June 2022

The Annual Recurring Revenues (ARR) increased 3 percent. The Net Sales decreased by 17 percent. The Gross Margin rose from 90 percent to 95 percent.

The Quarter April – June 2022, The Group

- Net sales amounted to SEK 4,616 thousand (5,565)
- Costs totaled SEK -18,431 thousand (-13,909)
- The operating loss before appropriations and taxes was SEK -9,395 thousand (7,749)
- Cash flow was SEK -12,349 thousand (-6,206) and the equity/assets ratio at the end of the period was 60.6 (80.0) percent

Net sales decreased with 17 percent to SEK 4,616 thousand (5,565). The Annual Recurring Revenues (ARR) increased with 3 percent to SEK 18,045 thousand (17,555). The absolute majority of the revenues were recurring software subscriptions. The Gross margin continued to be high at 95 (90) percent for the quarter. The Order backlog, Order intake that at the end of the period remains to be recognized as Net sales, decreased 12 percent to SEK 13,293 thousand (15,136). The increase in cost mainly comes from forward looking additional sales resources in our wholly owned U.S. subsidiary, and significantly increased investments in product development.

The Order intake for the quarter was much lower compared with last year and decreased 64 percent to SEK 2,344 thousand (6,589). The main reason being absence of larger deals during the quarter 2022. The 2021 reference quarter had a large two-year renewal that individually amounted to about SEK 2 million.

From this quarter going forward, we will adjust our assessment basis for capitalization of own product development. Previously we have chosen to capitalize only a smaller share of our product development. As a result of our new product strategy, resulting in much fewer product variants and less adaptation work for the different hardware platforms that we are compatible with, we have confirmed a significantly increased efficiency. The judgement is that a larger share of the product development fulfills the requirements for capitalization. This means that the booked value of the balanced expenses increases.

The half year April – June 2022, The Group

- Net sales amounted to SEK 9,426 thousand (11,322)
- Costs totaled SEK -35,023 thousand (-26,427)
- The operating loss before appropriations and taxes was SEK -20,184 thousand (-14,006)
- Cash flow for the period was SEK -21,389 thousand (44,210)

Notable events during the quarter

- XMReality AB signed new deals with several Swedish energy companies and municipalities for the use of XMReality Remote Guidance. The main use case is technical support directly to the end customer.
- The Thai unit of a large Japanese car manufacturer placed an order for XMReality Remote Guidance through NTT (Nippon Telegraph and Telephone). XMReality has a partnership agreement in place with NTT since October 2020 so that NTT can market and sell XMReality Remote Guidance.
- XMReality launched new product functionality to easily schedule future guide calls in advance and have up to 20 people in a call. Historically XMReality's product has targeted aftermarket processes with focus on intermittent problem resolution. Since 2021, product development has focused on increasing the number of use cases and hence market potential. This new functionality to schedule large group calls is another step in that direction.

- XMReality received an order from Coor, a leading provider of Facility Management services in the Nordic region, for licenses of XMReality Remote Guidance. The contract is a subscription agreement with automatic renewal. The main area of use is maintenance within Facility Management and to begin with, the service will be used for the Swedish market.

Notable events after the quarter

- XMReality launched several new product capabilities making the product tailored for planned remote activities such as inspections and audits. Customers can now schedule sessions in advance, use pre-defined step-by-step instructions in a live call and automatically generate PDF documentation for the call. This helps customers both perform and document planned activities with consistency and high quality.

Message from the CEO



Jörgen Rimmelg, XMReality's CEO

As a result of a cautious market, order intake was lower than planned. The upswing during the pandemic has now been replaced by a market where many larger companies are slowing down their digitalization projects. Their focus is instead on solving component shortages and pausing or shutting down operations in Russia. Nonetheless, we launched our new product beginning of July, which has initially been very well received by both potential and existing customers. We also see good underlying progress in the US.

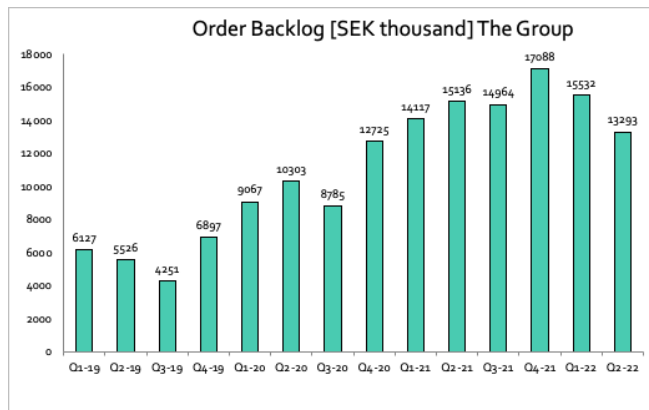
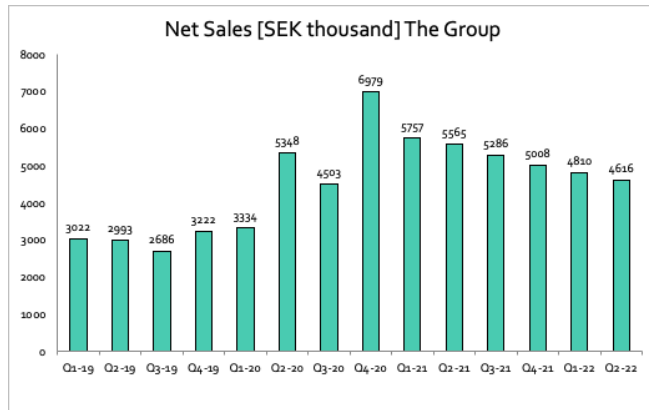
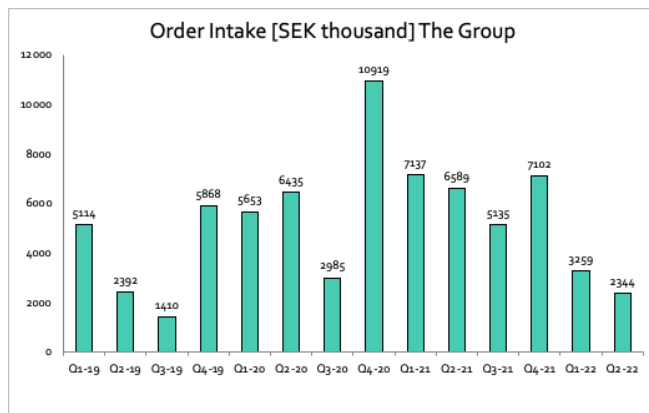
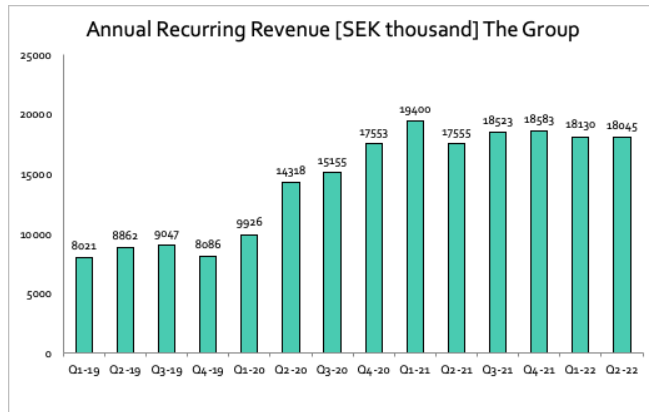
As announced in the last quarterly report, the last year's product development indeed culminated in the product that was released to the market beginning of July. The purpose is to broaden the use within industrial companies. The new product enables training and certification of up to 20 people in a planned conversation, with all Augmented Reality functions maintained, which is requested by our larger customers such as Nestlé and Electrolux Professional. Furthermore, the product now contains step-by-step instructions with automatic reporting and documentation of the result in PDF format in the call. The latter functionality is directly intended to be used for inspections, audits, troubleshooting and repairs at both new and existing customers.

For existing customers, the total number of licenses is largely unchanged. Churn during the quarter was once again low (a few percent), which also applies to upsell. We are now carrying out a major marketing effort to achieve additional sales of the new product to existing customers. Since we have signed new contracts during the period with several energy companies, we will also continue with targeted activities towards this vertical in Sweden and the US. The total number of enterprise customers is growing and has now passed 125.

During the quarter, we exhibited at five trade shows with focus on new sales: Palm Springs, Stockholm, Manchester and two in Berlin. In June alone, we performed over 100 demonstrations to potential customers. We were also in London in July, showcasing the new product to decision makers at major industrial players in Europe, which was well received. The goal is for all of this to result in orders within a 1-3 quarters timeframe.

In the US we have good discussions with both smaller and larger companies. We are now starting to establish a clear market presence and here we are also participating in relevant trade shows. The team in the US closed their first own deals during H1 and we see a stronger sales pipeline generation with a complete team in place in the US. This is a long-term investment that we strongly believe in, which was started after the last share issue, even though the pandemic caused a delay and increased costs.

Jörgen Rimmelg, CEO
Linköping August 11th, 2022



Financial basis for the interim report, April – June 2022

Income statements in summary (SEKk), The Group

	April - June		Januari - June		Full year 2021
	2022	2021	2022	2021	
Net sales	4,616	5,565	9,426	11,322	21,616
Capitalized production costs	4,124	565	4,932	1,065	2,211
Other operating income	295	26	481	27	150
Total income	9,035	6,156	14,839	12,413	23,977
Raw materials and consumables	-245	-598	-513	-1,155	-1,707
Other operating expenses	-7,591	-5,617	-14,324	-10,468	-25,040
Employee benefits expenses	-9,046	-6,291	-17,220	-12,075	-25,209
Depreciation, amortization and impairment of property plant and equipment and intangible assets	-1,439	-1,347	-2,837	-2,665	-5,298
Other operating costs	-108	-46	-128	-36	-385
EBIT	-9,394	-7,742	-20,183	-13,986	-33,662
Financial income and similar profit items	0	0	0	0	16
Financial expenses and similar loss items	-1	-7	-1	-20	-27
Profit(-loss) after net financial income	-9,395	-7,749	-20,184	-14,006	-33,672
Income tax expense for the period	0	-4	0	-8	-15
Profit(-loss) for the period	-9,395	-7,753	-20,184	-14,014	-33,687
Earnings per share, before and after dilution (SEK)	-0.23	-0.19	-0.49	-0.37	-0.85
Average number of shares during the period	40,920,000	40,920,000	40,920,000	38,320,110	39,630,740
Shares outstanding at the end of the period	40,920,000	40,920,000	40,920,000	40,920,000	40,920,000

Balance sheets in summary (SEKk), The Group

	30 June 2022	30 June 2021	31 Dec 2021
Assets			
Non-current assets			
Capitalized development costs	12,560	11,951	10,430
Equipment, tools and systems	173	289	148
Total non-current assets	12,732	12,240	10,577
Current assets			
Inventories	271	282	395
Current receivables	4,887	5,623	7,993
Cash and bank balances	23,754	62,924	45,143
Total current assets	28,912	68,829	53,531
Total assets	41,644	81,069	64,109
Equity and liabilities			
Equity	25,240	64,880	45,315
Non-current liabilities	0	0	0
Current liabilities ¹	16,404	16,189	18,793
Total equity and liabilities	41,644	81,069	64,109
¹ Of which interest-bearing liabilities	0	83	0
Collateral provided	3,700	3,700	3,700
of which in own custody	3,000	0	3,000
Contingent liabilities	None	None	None

Statements of change in equity in summary (SEKk), The Group

	April - June		January - Jun		Full year 2021
	2022	2021	2022	2021	
Balance at the beginning of the period	34,511	72,659	45,315	24,999	24,999
New share issue (net of issue costs)	0	0	0	53,902	53,805
Exchange rate difference	125	-26	109	-7	198
Profit(-loss) for the period	-9,395	-7,753	-20,184	-14,014	-33,687
Belopp vid periodens utgång	25,240	64,880	25,240	64,880	45,315
Average number of shares during the period ²	40,920,000	40,920,000	40,920,000	38,320,110	39,630,740
Shares outstanding at the end of the period ²	40,920,000	40,920,000	40,920,000	40,920,000	40,920,000
		0		0	0

² New issue of 6.820.000 shares subscribed in February 2021.

Statements of cash flow (SEKk), The Group

	April - June		January - June		Full year 2021
	2022	2021	2022	2021	
Operation activities					
Cash flow (-used) before changes in working capital	-7,964	-6,486	-17,436	-11,728	-28,799
Change in working capital	-349	905	929	3,142	3,496
Cash flow from (-used in) operation activities	-8,313	-5,580	-16,507	-8,586	-25,303
Cash flow from (-used in) investing activities	-4,159	-599	-4,989	-1,098	-2,271
Cash flow from (-used in) financing activities	0	0	0	53,902	53,805
Exchange rate difference	123	-26	107	-8	198
Cash flow from (-used in) the period	-12,349	-6,206	-21,389	44,210	26,430
Cash and cash equivalents at the beginning of period	36,103	69,129	45,143	18,714	18,714
Cash and cash equivalents at the end of period	23,754	62,924	23,754	62,924	45,143

Parent company income statements in summary (SEKk)

	April - June		January - June		Full year 2021
	2022	2021	2022	2021	
Net sales	4,926	5,654	10,042	11,498	21,975
Capitalized production costs	4,124	565	4,932	1,065	2,211
Other operating income	295	26	481	27	150
Total income	9,345	6,246	15,455	12,590	24,337
Raw materials and consumables	-245	-598	-513	-1,155	-1,707
Other operating expenses	-9,746	-6,113	-18,659	-11,475	-27,002
Employee benefits expenses	-7,185	-5,885	-13,913	-11,246	-23,393
Depreciation, amortization and impairment of property plant and equipment and intangible assets	-1,439	-1,347	-2,837	-2,665	-5,287
Other operating costs	-108	-46	-128	-36	-385
EBIT	-9,378	-7,744	-20,594	-13,987	-33,436
Financial income and similar profit items	0	0	42	0	16
Financial expenses and similar loss items	-1	-5	-1	-16	-20
Profit(-loss) after net financial income	-9,379	-7,749	-20,554	-14,003	-33,440
Group contribution received	0	0	0	0	0
Income tax expense for the period	0	0	0	0	0
Profit(-loss) for the period	-9,379	-7,749	-20,554	-14,003	-33,440
Earnings per share before and after dilution (SEK)	-0.23	-0.19	-0.50	-0.37	-0.84
Average number of shares during the period	40,920,000	40,920,000	40,920,000	38,320,110	39,630,740
Shares outstanding at the end of the period	40,920,000	40,920,000	40,920,000	40,920,000	40,920,000

Parent company balance sheets in summary (SEKk)

	30 June 2022	30 June 2021	31 Dec 2021
Assets			
Non-current assets			
Capitalized development costs	12,560	11,951	10,430
Equipment, tools and systems	154	278	131
Financial assets	51	51	51
Total non-current assets	12,764	12,280	10,612
Current assets			
Inventories	271	282	395
Current receivables	4,660	5,623	7,993
Cash and bank balances	23,294	62,825	45,098
Total current assets	28,225	68,730	53,486
Total assets	40,989	81,010	64,098
Equity and liabilities			
Equity	24,659	64,746	45,212
Non-current liabilities	50	50	50
Current liabilities ³	16,281	16,214	18,835
Total equity and liabilities	40,989	81,010	64,098
³ Of which interest-bearing liabilities	0	83	0
Collateral provided	3,700	3,700	3,700
of which in own custody	3,000	0	3,000
Contingent liabilities	None	None	None

Parent company statements of change in equity in summary (SEKk)

	April - June		Januari - June		Full Year 2021
	2022	2021	2022	2021	
Balance at the beginning of the period	34,038	72,495	45,212	24,847	24,847
New share issue (net of issue costs)	0	-0	0	53,902	53,805
Profit(-loss) for the period	-9,379	-7,749	-20,554	-14,003	-33,440
Balance at the end of the period	24,659	64,746	24,659	64,746	45,212
Average number of shares during the period ⁴	40,920,000	40,920,000	40,920,000	38,320,110	39,630,740
Shares outstanding at the end of the period ⁴	40,920,000	40,920,000	40,920,000	40,920,000	40,920,000
		0		0	0

⁴New issue of 6 820 000 shares subscribed in February 2021.

Parent company statements of cash flow (SEKk)

	April - June		January - June		Full year 2021
	2022	2021	2022	2021	
Operating activities					
Cash flow (-used) before changes in working capital	-7,948	-6 482	-17,847	-11 717	-28 545
Change in working capital	-245	883	990	3 123	3 494
Cash flow from (-used in) operating activities	-8,194	-5 599	-16,857	-8 594	-25 051
Cash flow from (-used in) investing activities	-4,159	-599	-4,989	-1 098	-2 271
Cash flow from (-used in) financing activities	0	0	42	53 902	53 805
Cash flow from (-used in) the period	-12,353	-6 198	-21,805	44 210	26 483
Cash and cash equivalents at the beginning of period	35,646	69 023	45,098	18 615	18 615
Cash and cash equivalents at the end of period	23,294	62 825	23,294	62 825	45 098

The Group Overview of financial performance in summary (SEKk)

Below is a summary of XMReality Group financial development of the years 2018 – 2021. All information for the financial years 2019-2021 (pro forma) based on material taken from the parent company's officially published annual reports and the subsidiaries' accounts converted to group level. 2018 is based on material taken from the published annual report for XMReality AB (publ).

	The,Group	2019,-,2021,XMReality.,The,Group			XMR,AB
	Jan,-,Jun	Full,year			Full,year
	2022	2021	2020	2019	2018
Net sales	9,426	21,616	20,164	11,921	10,155
Operating profit (-loss)	-20,183	-33,662	-24,420	-27,205	-29,250
Profit (-loss) after net financial income	-20,184	-33,672	-24,471	-27,243	-29,317
Taxes	0	-15	-35	0	0
Profit (-loss) after taxes	-20,184	-33,687	-24,506	-27,243	-29,317
Profit margin, %	neg	neg	neg	neg	neg
Intangible assets	12,560	10,430	13,452	16,039	14,754
Tangible assets	173	148	355	405	528
Financial assets	0	0	0	8	8
Inventories	271	395	255	184	261
Current receivables	4,887	7,993	8,934	6,792	5,978
Cash and bank balances	23,754	45,143	18,714	9,417	37,798
Equity	25,240	45,315	24,999	20,339	47,608
Non-current liabilities	0	0	0	333	844
Current liabilities	16,404	18,793	16,711	12,172	10,875
Total assets	41,644	64,109	41,710	32,844	59,327
Return on average capital employed, %	neg	neg	neg	neg	neg
Return on average equity, %	neg	neg	neg	neg	neg
Equity/assets ratio, %	60.6	70.7	59.9	61.9	80.2
Debt/equity ratio, multiple	0.00	0,00	0,01	0,04	0,04
Interest coverage ratio, %	neg	neg	neg	neg	neg
Quick ratio, %	174.6	282.7	165.5	133.2	402.5
Number of employees (end of period)	28	26	20	19	23
Investments					
Intangible assets	4,932	2,211	2,224	5,289	5,478
Tangible assets	58	59	139	91	140
Deposits	0	0	-8	0	8
Basic earnings (-loss) per share. before and after dilution. SEK	-0.49	-0.85	-0.79	-1.60	-1.72
Average number of shares during the period	40,920,000	39,630,740	31,063,699	17,050,000	14,982,648
Shares outstanding at the end of the period	40,920,000	40,920,000	34,100,000	17,050,000	17,050,000

Definition of key figures

Profit margin	Profit after net financial items divided by sales
Equity	The sum of shareholder's equity, restricted reserves and non-restricted equity
Return on average capital employed	Profit or loss before interest expenses 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
Dept/equity ratio	Interest-bearing liabilities divided by equity
Interest coverage ratio	Earnings before interest divided by interest expenses
Earnings per shares	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)	The annual value of subscriptions subscribed. (Provided no changes are made in the agreement).
The Group	The Parent company (XMReality AB (Publ.) and all subsidiaries. XMReality Inc., XMReality Värdepapper AB and XMReality GmbH (liquidated January 2022)
The Parent Company	XMReality AB (publ.)
Churn	The value of terminated subscriptions in relation to the Annual Recurring Revenue (ARR)
Upsales	Additional subscriptions (ARR) with existing customers
Contraction	Reduction of existing subscriptions (ARR) with existing customer

Accounting policies

The interim report is 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 previously reported periods. But, from this report going forward also the group, including the wholly owned subsidiaries and mainly the US XMReality Inc. will be reported. Assets, provisions and liabilities have been valued at cost unless otherwise specified. Transactions denominated in foreign currency are converted at the spot rate in effect on the transaction date.

Risk factors and uncertainties

A number of risk factors could have a negative impact on the business of XMReality Group. It is therefore imperative to consider relevant risks alongside the Group Company's growth potential. Refer to the XMReality Annual Report 2021, pages 20-21, "risk factors" for a more detailed description of the risks associated with the Company and its stock. The board of directors has assessed current and available liquidity as sufficient to assure continuing operation.

Stock

Shares in XMReality AB (publ) are listed on Nasdaq First North Growth Market. The stock ticker is XMR and the ISIN code is SE0009664188. At the end of the period, there were 40,920,000 shares outstanding in XMReality AB (publ). There is only one share class. Each share carries one vote.

There are three outstanding stock option plans, 2019/2022 carrying rights to subscribe for up to 107 748 shares, 2020/2023L carrying the rights to subscribe for up to 600 000 shares and 2020/2024S carrying rights to subscribe for up to 560 000 shares.

Auditor review

This interim report has not been reviewed by the company's auditor.

Submission of interim report

The board of directors and chief executive officer certify and assure that this interim report provides a true and fair view of the company's operations, financial position and earnings.

Linköping August 11th 2022

Board of Directors XMReality AB (publ)

Financial reporting calendar:

Interim report Q3 2022

Thursday October 20th, 2022

Year-end report 2022

Thursday February 16th, 2023

The information was released by the contact person listed below for publication on August 11th 2022 at 08:30 CEST.

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Disclaimer

As the company is noted in Sweden; should there be any discrepancies between this report and its Swedish version, the Swedish version prevails. This report is only an internal translation of the Swedish report.