

Annual Report and Financial Statements

for the Year Ended
31 December 2019

Registered Number: 613330



VREDUCATION
HOLDINGS

Table of contents

| | |
|---|-----------|
| COMPANY INFORMATION | 1 |
| CHAIRMAN'S STATEMENT | 2 |
| CHIEF EXECUTIVE'S REVIEW | 3 |
| CHIEF FINANCIAL OFFICER'S REVIEW | 6 |
| STRATEGIC REPORT | 7 |
| DIRECTORS' REPORT | 9 |
| DIRECTORS' RESPONSIBILITIES STATEMENT | 11 |
| CORPORATE GOVERNANCE REPORT | 12 |
| INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VR EDUCATION HOLDINGS PLC | 20 |
| CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME | 28 |
| CONSOLIDATED STATEMENT OF FINANCIAL POSITION | 29 |
| COMPANY STATEMENT OF FINANCIAL POSITION | 30 |
| CONSOLIDATED STATEMENT OF CHANGES IN EQUITY | 31 |
| COMPANY STATEMENT OF CHANGES IN EQUITY | 32 |
| CONSOLIDATED STATEMENT OF CASH FLOWS | 33 |
| COMPANY STATEMENT OF CASH FLOWS | 34 |
| NOTES TO THE FINANCIAL STATEMENTS | 35 |

Company information

Directors

Non-Executive Chairman – Richard Cooper

Chief Executive Officer – David Whelan

Chief Operating Officer – Sandra Whelan

Chief Financial Officer – Séamus Larrissey

Non-Executive Director – Michael Boyce

Non-Executive Director – Tony Hanway

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Chairman's statement

for the year ended 31 December 2019

I am pleased to present the Annual Report and Financial Statements of VR Education Holdings PLC, a company incorporated in the Republic of Ireland, for the year ended 31 December 2019 ('FY-2019').

Overview of the year

This is the second set of Financial Statements I am proud to present to shareholders following the successful fundraising and IPO in March 2018.

Revenues in FY-2019 grew by 43% to €1.0 million (FY-2018: €0.7 million) generating a gross profit margin of 61% and gross profit of €622k (FY-2018: €476k).

Review of the business

VR Education is dedicated to transforming education globally by providing new tools to educators and corporate trainers allowing them to provide high quality, low cost content in a virtual networked social learning environment.

Following the commercial launch of the ENGAGE platform (the Group's proprietary VR education platform), in December 2018, the Group has actively developed and promoted this against technological and commercial headwinds, the latter mainly associated with Brexit in the UK. Nevertheless, the perseverance of the management team has led the Group to recently sign, among others, two partnerships with HTC Corporation and Victory XR, based in Taiwan and the US respectively.

The Group also continues to produce award winning standalone content to showcase the potential of Virtual Reality / Augmented Reality ('VR/AR') as a tool for educational purposes. The first release (Apollo 11 VR) has won multiple awards including a Time Warner award and was one of virtual reality's first big hits when it was released on the Oculus Rift and the HTC Vive back in 2016. A High Definition version of this experience was subsequently launched in November 2018. This title has generated in excess of €1.6 million in revenues since its launch to the year end, one of the few VR titles that has broken the €1.0 million revenue mark. Titanic VR and Shuttle Commander, launched in Q4 2018 and Q4 2019 respectively, continue to perform well and have together generated €0.6 million in revenues since their launch.

COVID-19

COVID-19 has had a significant impact on many companies across the globe and the Group is still feeling the effects of this. Prior to the mandated lockdown put in place in the Republic of Ireland, the Group made the prudent decision for all of its employees to work remotely to ensure their safety. This action has not had any negative effect on productivity within the Group as all our employees have remained dedicated and professional throughout this difficult period.

The global COVID-19 pandemic has generated significant demand for VR solutions and there have been high levels of interest for conferencing and collaboration tools. The ENGAGE platform is the ideal tool to meet the needs of the remote working world and the Group has been working hard since the year end to ensure the platform is available to those who want to use it.

Future developments in the business

Since the year end, the Group has largely focused on expanding its distribution of the ENGAGE platform into the US and Asian markets. A number of deals have been closed in the US with many more at varying stages in the sales cycle. Most progress has been made in the Asian market, where the HTC Vive Ecosystem Conference was held virtually inside the ENGAGE platform in conjunction with HTC Corporation ('HTC') on 19 March 2020 and the success of this event has created a significant number of further opportunities for the Group.

Following the HTC Vive Ecosystem Conference, a commercial agreement was entered into with HTC to grant them exclusive rights to resell the ENGAGE platform in Greater China on a revenue share basis, with a guaranteed minimum revenue each year for the Group from HTC. Separately, in June 2020, HTC invested €3.0 million at a €12.0 million pre-money valuation to further the development of ENGAGE and to facilitate increased sales and marketing of the platform.

Demand for the Group's VR showcase experiences, comprising Apollo 11 VR, Titanic VR and Shuttle Commander, remain in line with management's expectations with a new experience expected to launch in H2-2020.

The recent impetus in global demand for the Group's core product coupled with a strengthening of our balance sheet following our strategic partnership with HTC, provides the Board with confidence about the Group's prospects for FY-2020 and beyond.

Your executive directors have done an outstanding job in maturing the company, upselling its products and securing vital commercial partnerships. They have of course been greatly aided by the tireless efforts of a talented pool of staff, and I would like to extend my thanks to all of them.

Richard Cooper
Chairman

15 June 2020

Chief Executive's review

for the year ended 31 December 2019

Review of the Year

2019 has allowed VR Education to identify and overcome many hurdles which had subdued growth to date. I believe the Group is now well placed to become a leader in immersive communications. The COVID-19 pandemic has transformed the Group's fortunes as businesses, corporations and educational institutes globally are now seeking better alternatives to video-based communications due to limitations with collaborative tasks and the drawbacks of larger group communications via video as a medium. Our recently announced strategic partnership with HTC will ensure that the Group has continued support for marketing, sales and business development as HTC will sell the ENGAGE platform exclusively in Greater China and non-exclusively in the rest of the world. This partnership will serve to further both companies' objectives and goals.

ENGAGE Hardware Milestone

2019 was also a transformative year for the Group as some key hardware hurdles were overcome. ENGAGE became available on standalone devices such as the Oculus Quest, Pico VR and Vive Focus. This was of critical importance as the previous two years proved that pitching a virtual training solution or communications tool to corporations using PC based equipment would not succeed as a major limiting issue for most companies is the ease of use of the VR device. Up to recently, demos would involve setting up a PC or laptop with multiple cables before ENGAGE could be used. This often proved cumbersome for potential customers with the perception that users would need some technical knowledge to achieve a good end-user experience. During early 2019, the ENGAGE development team gained access to multiple standalone devices which allowed them to port ENGAGE to work cross- platform across all standalone devices and PC-based devices. For the first time our business developers could simply pull a headset out of their bag and place the customer into the experience with minimum fuss.

XR Finally Becoming Mainstream

In my opinion, it cannot be understated how important standalone devices are to the success of the Extended Reality "XR" industry as a whole and manufacturers like Facebook/Oculus have not been able to keep up with demand. Sales of the Oculus Quest headset have suffered from retail shortages since its release in March 2019 and continued shortages due to manufacturing issues caused by COVID-19 as many components are manufactured in China. The Facebook/Oculus headset has sold extremely well and could possibly have sold more but sales were limited to one per person at retail stores and devices were not made available to business or education users

as almost all stock was diverted to retail stores for the 2019 holiday period. The impact of Covid-19 on global questioning of outsourcing manufacturing to China remains uncertain, but a wider manufacturing base is regarded by us as highly positive.

Facebook/Oculus ISV Programme

In October 2019, the Group's ENGAGE platform was selected by Facebook to become part of its ISV programme which works with enterprise developers and software companies to engage with Oculus in order to accelerate customer adoption of VR solutions built for Oculus enterprise products. As a result, following the roll-out of Oculus for Business which was scheduled for early 2020, VR Education's ENGAGE platform will, for the first time, be available via a special portal for Oculus enterprise clients to access and connect with. In addition, the Group will be one of only a few select developers who will be able to provide services using Facebook equipment as well as receiving additional support from them. This programme was originally set for release in early 2020 however due to the effect of COVID-19 on manufacturing and the limited number of devices available for enterprise users we have not seen a full deployment of this programme to date and dependent on progress by Facebook we hope it will now happen in H2-2020.

Platform Agnostic

Facebook/Oculus was not the only hardware manufacturer to release standalone devices during 2019 with HTC and Pico seeing releases of comparable headsets in mid-2019 and early 2020 respectively. The ENGAGE team worked hard to support both the HTC Vive Focus Plus and Pico Neo 2 and the platform now has parity across all devices. Being platform agnostic, ENGAGE has mitigated some of the key challenges with resourcing devices however, stock is still limited across the world as manufacturing is only starting to recommence as China's factories return to work post COVID-19 lockdown.

Showcase Experiences

During 2019 the Group continued to see strong sales of its showcase experiences Apollo 11 VR and Titanic VR on various VR platforms. In the second half of 2019 the Group released its third showcase experience on PlayStation VR named "Shuttle Commander" which puts you in control for some of the Shuttle's most famous missions.

Sales continued strongly across all platforms and the Group plans to release Shuttle Commander on PC- based VR devices and the Oculus Quest later in FY20.

In May 2019 the Group announced the signature of a deal with the US Rocket and Space Centre in Alabama for the installation of Apollo 11 VR as a ticketed exhibit. This exhibit proved immensely popular with visitors and on conclusion of a successful trial period, the Group secured a twelve month extension of this deal which was signed in December 2019.

Post year end highlights

COVID-19 Effect

Throughout 2019 the ENGAGE platform became more popular with educators and corporations using it for small meetings and events. The ENGAGE user base grew significantly in the latter part of 2019 as users got access to standalone devices and attended events held inside ENGAGE. In the early part of 2020, as the COVID-19 pandemic took hold in China and Italy, the president of HTC China, Alvin Wang Graylin, attended one such event being held inside the ENGAGE platform and decided to contact VR Education.

At the time, HTC had just recently cancelled its annual Vive Developer Conference, which was due to be held on the Chinese mainland in March 2020 and HTC was seeking a way to provide the event virtually without the limitations of standard video-based platforms. The ENGAGE team worked very closely with the HTC team in China for several weeks and on 19 March 2020 the complete HTC Vive Ecosystem Conference was held inside the ENGAGE platform with over one thousand attendees logged into the platform and over 1.1 million viewers watching the live stream throughout China. The HTC Vive Ecosystem Conference was a great success as ENGAGE allowed users from within China to connect with the outside world in a fully networked virtual environment with keynote speakers from Qualcomm, China Mobile, Nvidia, X Prize and HTC to name a few. Since this event, the Group has been inundated with requests for virtual events from various corporations and event groups and it is anticipated that the Group will see a growing market for this type of service in the future.

A huge number of large physical events have been cancelled due to the worldwide COVID-19 pandemic and, as a result of this continued disruption, the Group expects that the event space will evolve to a scenario where smaller groups will attend the physical event and there will be increased demand for virtual services. Further opportunity for these types of services will arise with global business travel anticipated to reduce significantly, remote worker employment to become more normalised and the ever-increasing home school market to see accelerated growth in life under COVID-19. The world has been forced online to complete simple tasks such as meetings, classes and events and people are now seeing the limitations of using current communication systems which broadcast video and audio.

Running a video conference call with more than six people is difficult as participants talk over each other quite often and users can become disengaged with the format as they sit and watch video. Running virtual meetings and events inside the ENGAGE platform is as close as you can get to real life by sitting in a virtual room with virtual people interacting in a natural way.

ENGAGE also has major benefits with very low bandwidth requirements and its spatial recording systems allowing for the replay of events as if they were happening live and allowing users to move within the recording if needed. As a comparison, an hour-long piece of content with up to

50 users all inside the ENGAGE platform being spatially recorded is only 80MB in size, whereas, an hour-long video recording from competitors like Zoom or Skype will be over 1GB for any type of quality recording.

Overall, it is the Group's strong belief that following COVID-19, the world will be a very different place with business travel becoming less common, increasing numbers of remote workers and a sharp increase in the home school market. The Group also believes the ENGAGE platform provides users with a better alternative to services like Microsoft Teams, Skype, Zoom and Adobe Connect and VR Education is now in a strong place to implement its plans, with strategic partnerships being made which place the Group in a prime position for this new era of global communications.

HTC Investment / Partnership

Due to the success of the virtual Vive Ecosystem Conference in March, HTC wanted to create a stronger relationship with VR Education and offered the Group a partnership which included not only investment but a strategic commercial agreement. HTC has been one of the global leaders in the VR hardware space over the past five years, releasing many products in the VR industry. VR Education believes that working alongside a leading VR technology Company such as HTC, achieving closer integration between teams on hardware and software development, means that the Group and the ENGAGE platform will stay ahead of the curve and its competitors when it comes to the latest in innovation and incorporating the next generation technologies.

The commercial partnership ensures that VR Education, which has primarily been a software technology company, now has sales, marketing and business development support from HTC with HTC having exclusivity in China and a non-exclusive agreement in place for the rest of the world. This agreement includes a revenue share model for revenue generated globally with a fixed minimum quarterly payment amount of €75,000 per quarter, commencing from Q1 2021.

Victory XR Content Partnership

In April 2020, VR Education and VictoryXR agreed terms of a revenue share agreement, in which VictoryXR will import its extensive content library onto the ENGAGE platform and provide its services remotely to school children across the US. VictoryXR specialises in US-based science curriculum content and virtual animal dissections, both in the VR and AR space. To date VictoryXR has created more than 240 unique VR and AR learning experiences spanning more than 50 different learning units.

Students using the ENGAGE platform will be both in physical schools and home schooled, including those whose access to traditional schooling has been impacted by COVID-19 due to lockdown. Qualified educators will run live virtual classes via ENGAGE and additional educational content produced by VictoryXR will be available for replay via the ENGAGE platform.

Future Trading and Outlook

Many different aspects have come together over the past six months to accelerate the adoption of the ENGAGE platform. Some aspects were expected and planned for. However, COVID-19 has accelerated all areas of the business in a way no one could have predicted just a few months ago.

When the Group looks at what has happened over the past six months, we see that VR mass adoption is finally starting to take place due to standalone devices becoming increasingly popular.

Telecommunications companies are also taking a vested interest in pushing XR to the masses as they seek to upsell their 4G customers to 5G subscriptions and see XR as a way to push this forward. To this end VR Education has been working with Deutsche Telekom and Qualcomm Technologies with a partnership announced in December 2019 as new devices are set to be introduced to the market soon.

The Group now has a content partner with VictoryXR in the education space and a strong strategic partnership with HTC.

The COVID-19 pandemic has caused global disruption in all walks of life and forced the world to work online. We expect companies and educational institutes will seek to drastically reduce costs post COVID-19 with physical events, workplaces and even schools becoming fully digital in the months and years to come. The Group believes the ENGAGE platform is perfectly positioned to meet the needs of this new world as the seeds which were planted over the previous three years are now starting to grow and bear fruit. We are confident for the future prospects of the Group and look forward to further updating shareholders as we progress through 2020.

David Whelan
Chief Executive Officer

15 June 2020

Chief Financial Officer's review

for the year ended 31 December 2019

I am pleased to report that revenue for the year was up 43% on the prior year from €716k to €1,024k, driven by the continued success of the showcase experiences on the PlayStation, Oculus and Steam platforms coupled with revenue generated from our newly released ENGAGE platform and our exhibition in the US Space and Rocket Center in Alabama.

EBITDA loss was €1.4 million compared to a loss of €1.5 million in the prior year, in line with management expectations.

Loss before tax was €1.9 million, in line with management expectations, compared to a loss in the prior year of €4.9 million.

Operating cashflows were a net outflow of €1.2 million for the period. The current run-rate of staff costs and other ongoing costs is approximately €250k per month.

At the balance sheet date, trade and other receivables were €205k, marginally ahead of trade and other payables at €193k. Trade receivables represented an average of 52 debtor days (2018: 92 days)

The Group's cash position at 31 December 2019 was €1.3 million with no debt. Following the receipt of subscription funds from HTC, the Group's cash position was approximately €3.4m.

Séamus Larrissey
Chief Financial Officer

15 June 2020

Strategic report

for the year ended 31 December 2019

The Directors present herewith their strategic report for the year ended 31 December 2019.

Results and Dividends

The loss for the year after taxation amounted to €1,939,786 (2018: €4,943,906). No dividends were paid during the year (2018: €Nil) and as such an amount of €1,939,786 was debited to reserves.

Review of the business and future developments

The review of the business and future developments are set out in the Chairman’s Statement.

Key Performance Indicators

Revenue

Revenue and revenue growth tracks the Group’s performance against the strategic aim to grow the business.

Revenue for the year was €1,024k compared to €716k in 2018, an increase of 43%. The Group expects to see further growth in revenue in 2020 with commercial contracts expected with numerous customers on ENGAGE and the expected launch of a new showcase experience occurring in H2 2020.

Unit Downloads

Unit downloads tracks the number of downloads across the various sales platforms of the Group’s VR experiences which allows monitoring of the performance of both the experiences and the platforms they are sold on.

Unit downloads for the year totalled approximately 95,000 compared to 80,000 in 2018, an increase of 19%. With additional VR experiences to be launched in 2020 we would expect to see further growth in unit downloads.

Cash & Cash Equivalents

Tracking the cash balance monitors the conversion of revenue into cash ensuring that cash is available for reinvestment.

Cash & cash equivalents at 31 December 2019 was €1.3m compared to €3.5m in 2018, a decrease of 63%.

Principal Activity

The principal activity of the Group is the development of the educational Virtual Reality platform ‘ENGAGE’. The Group also develops and sells Virtual Reality experiences for the education market.

Principal Risks and Uncertainties

The Group’s strategy is to follow an appropriate risk policy, which effectively manages exposures related to the achievement of business objectives. The key risks which the Group face are detailed as follows:

| Activity | Risk | Impact | Control(s) |
|-----------------|---|---|---|
| Technology Risk | Fast moving market that is subject to changing trends and technological advances. | Being behind market leaders or the provision of non-standard material for which there is a limited target audience, consequently reducing potential for profit/revenue. | The Company regularly conducts market research to be aware of upcoming trends, and it aims to achieve ‘first mover’ advantage in the VR Educational sector to manage this risk. |

| Activity | Risk | Impact | Control(s) |
|-----------------------------|--|---|--|
| Business performance | Company may not perform as expected. | Adverse consequences such as management distraction, disposal and reduced profit. | This risk is managed through a number of measures: authorisation of purchases and capital requirement; ensuring the appropriate management team is in place; budget and business planning; monthly reporting and variance analysis; financial controls; key performance indicators; and regular forecasting. |
| Financial Risk | Adequate financial and business controls. | Error or fraud, leading to a loss in reputation, business partners and customers. | The Company exercises financial and business control through a combination of: qualified and experienced financial personnel; dual signatories; performance analysis; budgeting and cash flow forecasting; local audit to international standards; and clearly defined approval limits. |
| Critical Person Risk | Loss of key management or development staff. | Operational impact of loss of key staff could see a delay in product / service delivery | The nature and operation of the board ensures that issues are disseminated to all board members in a timely manner which would help address the loss of any key staff. Keyman insurance policy is also in place for the CEO. |
| Data Protection Risk | Loss of customer personal information | Loss of reputation, fines and potential litigation | Payment processing handled by reputable third party (Stripe); GDPR policies in place and made available to new and existing users; best practise policy and procedure in place for storing user personal data |

Going Concern

The financial information is presented on the going concern basis.

The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. As such the Directors continue to adopt the going concern basis of accounting in preparing the Financial Information.

Sandra Whelan
Director

15 June 2020

Séamus Larrissey
Director

15 June 2020

Directors' report

for the Year Ended 31 December 2019

The Directors present herewith their annual report and audited financial statements for the year ended 31 December 2019.

Results and Dividends

The results for the period are set out in the Strategic Report on page 7-8. The Directors do not propose to declare a dividend.

Directors

The present Directors are as listed on page 1 and, unless otherwise indicated, have served throughout the period.

Directors' and Secretary's interests in shares

The direct and indirect interests of the Directors and secretary in the share capital of the Company at the beginning and the end of the period were as follows:

| | 31/12/2019 | | 31/12/2018 | |
|------------------|-----------------|---------------|-----------------|---------------|
| | Ordinary Shares | Share Options | Ordinary Shares | Share Options |
| Richard Cooper | 1,070,400 | 1,000,000 | 1,000,000 | 1,000,000 |
| David Whelan | 38,665,000 | - | 38,665,000 | - |
| Sandra Whelan | 38,665,000 | - | 38,665,000 | - |
| Séamus Larrissey | 88,000 | 910,940 | 88,000 | 910,940 |
| Michael Boyce | 499,942 | - | 499,942 | - |
| Tony Hanway | 100,000 | - | 100,000 | - |

Substantial shareholdings

As at 12 June 2020, the following interests in 3% or more of the issued share capital appear in the register:

| | |
|------------------------|-------|
| HTC Corporation | 20.0% |
| David Whelan | 16.0% |
| Sandra Whelan | 16.0% |
| Enterprise Ireland | 7.9% |
| Octopus Investments | 7.2% |
| Unicorn AIM VCT plc | 6.6% |
| Suir Valley Funds ICAV | 5.7% |
| Kernel Seed Fund 2009 | 5.5% |
| Barry Downes | 5.4% |

Transactions Involving Directors

Transactions involving Directors are disclosed within note 24.

Directors' Report (continued)

Events after the reporting period

The Company has evaluated all events and transactions that occurred after 31 December 2019 up to the date of signing of the financial statements.

On 12 June 2020, the Company issued 48,284,102 ordinary shares at a €0.0621 (£0.0547) per share to HTC Corporation raising €3,000,000 before costs are deducted. The proceeds will be primarily used to further develop and enhance the Company's proprietary ENGAGE platform and build out its sales and marketing capability. The proceeds will also be used to a lesser extent to produce additional showcase experiences which support the uptake of the ENGAGE platform and clearly demonstrate its potential.

Research and development

Being at the forefront of a competitive industry and in order to strengthen its market position the Group needs to continue to break new ground by investing in the development and trial of new technologies. The Group aims to provide educators the tools they need to create their own content in virtual classrooms or virtual training environments and thus improving Customer experience.

Accounting Records

The measures that the Directors have taken to secure compliance with the requirements of sections 281 to 285 of the Companies Act 2014 with regard to the keeping of accounting records, include the provision of appropriate resources to maintain adequate accounting records throughout the company, including the employment of appropriately qualified personnel and the maintenance of computerised accounting systems. The accounting records of the Company are held at their registered office at Unit 9, Cleaboy Business Park, Waterford, Ireland.

Branches outside the state

The Company has a branch established in the United Kingdom.

Political Donations

There were no political donations made during the current or prior year.

Disclosure of information to the Auditor

Each Director has taken steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information. The Directors confirm that there is no relevant information that they know of and of which they know the auditor is unaware.

On behalf of the board

Sandra Whelan
Director

15 June 2020

Séamus Larrisey
Director

15 June 2020

Directors' responsibilities statement

for the Year Ended 31 December 2019

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable Irish law and regulations.

Irish Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the Group and Parent Company financial statements in accordance with accounting standards issued by the Financial Reporting Council including International Financial Reporting Standards as adopted by the European Union (IFRSs).

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the assets, liabilities and financial position of the Group and Parent Company as at the financial year end date and of the profit or loss of the Group and Parent Company for the financial year and otherwise comply with the Companies Act 2014.

In preparing these financial statements the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with applicable accounting standards, identify those standards, and note the effect and the reasons for any material departure; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business.

The Directors are responsible for ensuring that the Company keeps or causes to be kept adequate accounting records which correctly explain and record the transactions of the Group and Parent Company, enable at any time the assets, liabilities, financial position and profit or loss of the Group and Parent Company to be determined with reasonable accuracy and enable them to ensure that the financial statements and Directors' Report comply with the Companies Act 2014 and enable the financial statements to be audited. They are also responsible for taking such steps as are reasonably open to them to safeguard the assets of the Group and Parent Company and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website, www.vreducationholdings.com. Legislation in the Republic of Ireland governing the preparation and dissemination of the Financial Statements may differ from legislation in other jurisdictions.

The Company is compliant with AIM Rule 26 regarding the Company's website.

The Directors are responsible for ensuring that the Company is compliant with AIM Rule 26 which is discussed further in the Corporate Governance Report on page 12-19.

On behalf of the board

Sandra Whelan
Director

15 June 2020

Séamus Larrisey
Director

15 June 2020

Corporate governance report

for the Year Ended 31 December 2019

As Chairman of VR Education Holdings plc, I have overall responsibility for corporate governance and in promoting high standards throughout the Company. As well as leading and chairing the Board my responsibilities are to ensure:

- committees are properly structured and operate with appropriate terms of reference;
- the performance of individual Directors, the Board and its committees are reviewed on a regular basis;
- the Company has a coherent strategy and sets objectives against this; and
- there is effective communication between the Company and its shareholders.

All the Directors of VR Education Holdings plc believe strongly in the importance of good corporate governance for the creation of shareholder value over the medium to long-term and to engender trust and support amongst the Company's wider stakeholders.

This report follows the Quoted Companies Alliance Corporate Governance (QCA Code) guidelines, which is constructed around ten broad principles and a set of disclosures. The QCA has stated what it considers to be appropriate arrangements for growing companies and asks companies to provide an explanation about how they are meeting the principles through the prescribed disclosures. The Directors have considered how they apply each principle and below we provide an explanation of the approach taken in relation to each. The Board considers that the Company complies with the requirements of the QCA Code to the extent they consider it appropriate having regard to the Company's size, board structure, stage of development and resources. The Board recognises that the Company does not fully comply with the 10 principles and general provisions of the QCA Code but does use it as a benchmark in assessing its corporate governance standards. Any areas of non-compliance are explained in the text below.

There were no key governance related matters that occurred during the year.

Richard Cooper
Chairman

15 June 2020

Corporate governance report (continued)

for the Year Ended 31 December 2019

| Principle | Application |
|--|---|
| <p>Establish a strategy and business model which promotes long-term value for shareholders</p> | <p>The Board has concluded that the highest medium and long-term value can be delivered to its shareholders by the adoption of a single strategy for the Company – to establish ENGAGE as the world’s leading digital education and corporate training platform. Our company’s vision for the future is to see virtual reality become a staple tool for education and corporate training globally. The core objective is to provide students, educators and corporate trainers with an alternative to attending brick and mortar institutes or expensive onsite simulated training. Further details can be found on the Focus & Strategy page on the Company’s website.</p> <p>The Company intends to deliver shareholder returns through capital appreciation. The principal challenge to delivering capital appreciation is uncertainty in relation to the performance of Immersive VR Education Limited, although the Board takes steps to mitigate these risks. Further challenges to VR Education’s strategy and long-term goals are highlighted in the Principal Risks and Uncertainties section, pages 7-8.</p> |
| <p>Seek to understand and meet shareholder needs and expectations</p> | <p>The Company places great importance on the need for effective communication and constructive dialogue with investors and the media. To ensure that existing and potential investors and contacts can track its progress and obtain news and updates as soon as available, it encourages registration to the Company’s news alert service, as well as providing communications through Interim and Annual Reports.</p> <p>The Company’s website, www.vreducationholdings.com, is used for both financial and general news relevant to shareholders.</p> <p>The Chair, Richard Cooper, acts as a liaison for shareholders, although queries through the Company’s website are directed to the COO, Sandra Whelan, who monitors and liaises with shareholders on minor queries.</p> <p>The Executive Directors also meet shareholders and other investors/potential investors regularly within the results cycle, and the whole Board aims to participate at the AGM where possible. The AGM typically provides an opportunity to meet, listen and present to shareholders, and shareholders are encouraged to attend where possible. In addition, the Company is open to receiving feedback from key stakeholders and will take action where appropriate.</p> |
| <p>Take into account wider stakeholder and social responsibilities and their implications for long-term success</p> | <p>The Board recognises that the long-term success of the Company is reliant upon the efforts of employees, contractors, suppliers, regulators and many other stakeholders. The Board has put in place a range of processes and systems to ensure that there is close oversight and contact with its key resources and relationships. The Company aims to be very responsive to all stakeholder queries, monitoring message boards on various platforms (emails, social media) for all products on a daily basis, responding with technical assistance or product information as requested within 24 hours.</p> |

| Principle | Application |
|--|---|
| <p>Take into account wider stakeholder and social responsibilities and their implications for long-term success (continued)</p> | <p>All employees within the Group are valued members of the team, and the Company seeks to implement provisions to retain and incentivise all its employees. The Group offers equal opportunities regardless of race, gender, gender identity or reassignment, age, disability, religion or sexual orientation. The Company has a policy to conduct annual employee reviews, seeking to understand any issues within the workforce. Employees are incentivised through team building days out and various employee wellness schemes and plans such as flexible hours which was introduced successfully in H2 2019.</p> <p>The Company has close ongoing relationships with a broad range of its stakeholders and provides them with the opportunity to raise issues and provide feedback to the Company. The Company conducts customer reviews, which broaden communication and the opportunity for feedback, as well as holding weekly internal management meetings whereby all aspects of the business are discussed and any issues that arise are actioned by the following week. Furthermore, the Company holds weekly product meetings to ensure that all employee feedback regarding product creation, implementation and processes are taken on board, changed and/or improved, where necessary. The Company has adopted an agile method whereby products follow a two-week sprint process to ensure a smooth process.</p> <p>VR Education is looking at helping and contributing to the local community and has sponsored a staff member to participate in a significant fundraiser for a local cancer support centre in Waterford (SOLAS Centre).</p> <p>The Group also has no significant environmental impact but will continue to monitor and will take action if this changes in the future.</p> |
| <p>Embed effective risk management, considering both opportunities and threats, throughout the organisation</p> | <p>The Board recognises the need for an effective and well-defined risk management process and it oversees and regularly reviews the current risk management and internal control mechanisms. The Strategic Report also outlines the key risks to the business, see pages 7-8.</p> <p>The Company has a risk register which identifies risks, evaluates the risk level (level of impact and the probability of the risk materialising), and the principal person responsible for each risk.</p> <p>The Board has established appropriate reporting and control mechanisms to ensure the effectiveness of its control systems. The Audit Committee has delegated responsibility for ensuring that the financial performance of the Company is properly monitored and reported.</p> <p>The Board currently considers that there are no risk factors that are considered High Risk Areas.</p> |

Corporate governance report (continued)

for the Year Ended 31 December 2019

| Principle | Application | | | | | | | | | | | | |
|--|--|----------------|-----|--------------|-----|---------------|-----|-----------------|-----|-------------|-----|---------------|-----|
| <p>Embed effective risk management, considering both opportunities and threats, throughout the organisation (continued)</p> | <p>An internal audit function is not yet considered necessary or practical due to the size of the Company and the day to day control exercised by the Executive Directors. However, the Board will continue to monitor the need for an internal audit function. The Board has established appropriate reporting and control mechanisms to ensure the effectiveness of its control systems.</p> <p>The Board regularly reviews the mechanisms of internal control it has implemented, assessing for effectiveness.</p> | | | | | | | | | | | | |
| <p>Maintain the Board as a well-functioning, balanced team led by the Chair</p> | <p>The Board comprises:</p> <ul style="list-style-type: none"> • CEO - David Whelan • COO - Sandra Whelan • CFO - Séamus Larrisey • Independent Non-Executive Director and Chairman - Richard Cooper • Independent Non-Executive Director - Tony Hanway • Independent Non-Executive Director - Michael Boyce. <p>The letters of appointment of all Directors are available for inspection at the Company's registered office during normal business hours. All the Non-Executive Directors are expected to dedicate at least 2 days per month to the Company.</p> <p>One third of Board are subject to re-election at each AGM.</p> <p>Meetings are open and constructive, with every Director participating fully. Senior management can also be invited to meetings, providing the Board with a thorough overview of the Company.</p> <p>The Board is satisfied it has a suitable balance between independence on the one hand, and knowledge of the Company on the other. All Directors are encouraged to use their independent judgement and to challenge all matters, whether strategic or operational, enabling the Board to discharge its duties and responsibilities effectively.</p> <p>The Board aims to meet six times in the year and a calendar of meetings and principal matters to be discussed is agreed at the beginning of each year. During the year the Board met five times, and a schedule of attendance is set out below:</p> <p>Director Attendance</p> <table border="1"> <tbody> <tr> <td>Richard Cooper</td> <td>5/5</td> </tr> <tr> <td>David Whelan</td> <td>5/5</td> </tr> <tr> <td>Sandra Whelan</td> <td>5/5</td> </tr> <tr> <td>Séamus Larrisey</td> <td>5/5</td> </tr> <tr> <td>Tony Hanway</td> <td>3/5</td> </tr> <tr> <td>Michael Boyce</td> <td>4/5</td> </tr> </tbody> </table> <p>In order to be efficient, the Directors meet formally and informally both in person and by telephone.</p> | Richard Cooper | 5/5 | David Whelan | 5/5 | Sandra Whelan | 5/5 | Séamus Larrisey | 5/5 | Tony Hanway | 3/5 | Michael Boyce | 4/5 |
| Richard Cooper | 5/5 | | | | | | | | | | | | |
| David Whelan | 5/5 | | | | | | | | | | | | |
| Sandra Whelan | 5/5 | | | | | | | | | | | | |
| Séamus Larrisey | 5/5 | | | | | | | | | | | | |
| Tony Hanway | 3/5 | | | | | | | | | | | | |
| Michael Boyce | 4/5 | | | | | | | | | | | | |

| Principle | Application |
|---|---|
| Maintain the Board as a well-functioning, balanced team led by the Chair (continued) | <p>Board papers are collated, compiled into a Board Pack, and circulated to the Board in advance of each Board meeting, allowing time for full consideration and necessary clarifications.</p> <p>The Company has an Audit and a Remuneration Committee. The Committees have the necessary skills and knowledge to discharge their duties effectively.</p> <p>Directors' conflict of interest</p> <p>The Company has effective procedures in place to monitor and deal with conflicts of interest. The Board is aware of the other commitments and interests of its Directors, and changes to these commitments and interests are reported to and, where appropriate, agreed with the rest of the Board.</p> |
| Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities | <p>The Non-Executive Directors have both a breadth and depth of skills and experience to fulfil their roles. The Company believes that the current balance of skills across the Board as a whole reflects a very broad range of personal, commercial and professional skills, providing the ability to deliver the Company's strategy for the benefit of shareholders over the medium and long-term. The Non-Executive Directors meet without the presence of the Executive Directors during the year, and also maintain ongoing communications with Executives between formal Board meetings.</p> <p>Biographical details of the Directors can be found on the Company's website. https://immersivereeducation.com/about-us/board-of-directors/</p> <p>In addition to their general Board responsibilities, the Directors, including the Non-Executives, are encouraged to be involved in specific workshops or meetings, in line with their individual areas of expertise. This allows skill-sets to be kept up to date.</p> <p>The Board shall review annually the appropriateness and opportunity for continuing professional development whether formal or informal.</p> <p>ONE Advisory Limited has been contracted by the Company to act as its Company Secretary and has been given the responsibility for ensuring that Board procedures are followed and that the Company complies with all applicable rules, regulations and obligations governing its operation, as well as helping the Chairman maintain excellent standards of corporate governance. If required, the Directors are entitled to take independent legal advice and if the Board is informed in advance, the cost of the advice will be reimbursed by the Company.</p> <p>The Company's Nomad is consulted on all matters and all Directors have access to independent professional advice, if required.</p> <p>Neither the Board nor its Committees have sought external advice on a significant matter.</p> |

Corporate governance report (continued)

for the Year Ended 31 December 2019

| Principle | Application |
|---|--|
| <p>Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement</p> | <p>At present, this aspect of the Code is not complied with as the Directors consider that the Company and Board are not yet of a sufficient size or suitably developed for a full Board evaluation to make commercial and practical sense, given the stage of the Company. In the frequent Board meetings/calls, Directors can discuss any areas where they feel a change would benefit the Company, and the Company Secretary and other Company advisers remain on hand to provide impartial advice. The Board will keep this under review as the Company develops.</p> <p>The Board has elected not to establish a Nominations Committee, preferring instead that the Board should, itself, deal with such matters, including succession planning and the balance of the Board. The Company operates on a retirement by rotation policy, and one third of Board are subject to re-election at each AGM.</p> |
| <p>Promote a corporate culture that is based on ethical values and behaviours</p> | <p>The Board recognises that its decisions regarding strategy and risk will impact the corporate culture of the Company as a whole and that this will impact the performance of the Company. The Board is aware that the tone and culture set by it will greatly impact all aspects of the Company as a whole and the way that employees behave. The corporate governance arrangements that the Board has adopted are designed to ensure that the Company delivers long term value to its shareholders, and that shareholders have the opportunity to express their views and expectations for the Company in a manner that encourages open dialogue with the Board.</p> <p>A large part of the Company's activities are centred upon an open and respectful dialogue with employees, clients and other stakeholders. Therefore, the importance of sound ethical values and behaviours is crucial to the ability of the Company to successfully achieve its corporate objectives. The Board places great importance on this aspect of corporate life and seeks to ensure that this flows through all that the Company does. The Directors consider that at present the Company has an open culture facilitating comprehensive dialogue and feedback and enabling positive and constructive challenge.</p> <p>All of the Company's policies are made available to all employees and are included in an employee handbook. These are 'Must Read Policies' which employees are required to read and acknowledge the policies and which Sandra Whelan, COO, monitors and updates where necessary. The Company also has an Anti-Bribery and Corruption Policy in place to ensure the highest standards of personal and professional ethical behaviour are adhered to. Additionally, as the Company conducts regular employee reviews and internal meetings and has a general close-knit working environment, the Directors are able to determine the extent to which ethical values and behaviours are recognised and respected.</p> <p>The Company has adopted, a code for Directors' and employees' dealings in securities which is appropriate for a company whose securities are traded on AIM and Euronext Growth and is in accordance with the requirements of the Market Abuse Regulation which came into effect in 2016. The Directors seek to align their interests with shareholders.</p> |

| Principle | Application |
|--|---|
| Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board (continued) | <p>The Board is committed to, and ultimately responsible for, high standards of corporate governance, and has chosen to adopt the QCA Code. We review our corporate governance arrangements regularly and expect these to evolve over time, in line with the Company's growth. The Board delegates responsibilities to Committees and individuals as it sees fit, with the Chair being responsible for the effectiveness of the Board, and the Executive Directors being accountable for the management of the Company's business and primary contact with shareholders, clients and partners.</p> <p>The Chair is responsible for shareholder communications, the leadership of the Board and ensuring its effectiveness in all aspects of its role, including creating the right Board dynamic and ensuring that all important matters, in particular strategic decisions and corporate governance arrangements, receive adequate time and attention at Board meetings.</p> <p>The Executive Directors are responsible for the day-to-day running of the business, the leadership of the management team and the development and execution of corporate strategy. The Non-Executive Directors are tasked with constructively challenging the decisions of executive management and satisfying themselves that the systems of business risk management and internal financial controls are robust.</p> <p>The Board has adopted appropriate delegations of authority which sets out matters which are reserved to the Board as set out below:</p> <ul style="list-style-type: none"> • Strategy and Management • Structure and Capital • Financial Reporting and Controls • Internal Controls • Finance • Contracts • Communications • Board Membership and other Appointments • Delegation of Authority • Corporate Governance Matters • Approval of Policies <p>The Board delegates authority to three Committees to assist in meeting its business objectives whilst ensuring a sound system of internal control and risk management. The Committees meet independently of Board meetings.</p> <p>Audit Committee</p> <p>The Audit Committee has 2 members, Richard Cooper (Chair) and Tony Hanway. The CFO and external auditors attend meetings by invitation. The Audit Committee is responsible for making recommendations on the appointment of auditors and the audit fee, and for ensuring that the financial performance of the Company is properly monitored and reported.</p> |

Corporate governance report (continued)

for the Year Ended 31 December 2019

| Principle | Application |
|---|--|
| <p>Maintain governance structures and processes that are fit for purpose and support good decision-making by the Board (continued)</p> | <p>Audit Committee (continued)</p> <p>In addition, the Audit Committee will receive and review reports from management and the auditors relating to the interim report, the annual report and accounts and the internal control systems of the Company. The Audit Committee shall meet not less than twice each financial year.</p> <p>No separate Audit Committee report is presented to shareholders as the Board does not consider at present that this would improve the quality of communication with Shareholders given the simple structure of the Company. The Board will continue to review this approach.</p> <p>Remuneration Committee</p> <p>The Remuneration Committee has 2 members, Tony Hanway (Chair) and Richard Cooper. The members are all Independent Non-Executive Directors. Other members of the Board may attend the Committee's meetings at the request of the Committee Chairman. The Remuneration Committee is responsible for the review and recommendation of the scale and structure of remuneration of the Executive Directors and such other members of the executive management as it is designated to consider, including any bonus arrangements or the award of share options with due regard to the interests of the Shareholders and the performance of the Company.</p> <p>No separate Remuneration Committee report is presented to shareholders as the Board does not consider at present that this would improve the quality of communication with Shareholders given the simple structure of the Company. The Board will continue to review this approach. Further details of Directors' Remuneration are included in Note 7 to the Financial Statements.</p> <p>Other Committees</p> <p>Where previously the Board has appointed a Compliance Committee, the Board feels that matters of such importance should be dealt with by the Board as a whole. Compliance matters are included in a report put together by the Company Secretary and discussed at every Board meeting.</p> <p>The Board has elected not to establish a Nominations Committee, preferring instead that the Board should, itself, deal with such matters, including succession planning and the balance of the Board. Therefore, the Board as a whole will review Board composition.</p> <p>The Chair and the Board continue to monitor and evolve the Company's corporate governance structures and processes, and maintain that these will evolve over time, in line with the Company's growth and development.</p> |
| <p>Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders</p> | <p>The Board is committed to maintaining effective communication and having constructive dialogue with its shareholders. The Company intends to have ongoing relationships with both its private and institutional shareholders as well as shareholder analysts, and for them to have the opportunity to discuss issues and provide feedback at meetings with the Company. The Board maintains that, if there is a resolution passed at a GM with 20% votes against, the Company will seek to understand the reason for the result and, where appropriate, take suitable action.</p> |

Independent auditor's report to the members of VR Education Holdings plc

Opinion

We have audited the financial statements of VR Education Holdings Plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2019 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Statements of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is Irish law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2014.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's and parent company's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2014; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (Ireland) (ISAs (Ireland)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We have fulfilled our ethical responsibilities under, and we remained independent of the group and parent company in accordance with, ethical requirements applicable in Ireland, including the Ethical Standard issued by the Irish Auditing and Accounting Supervisory Authority (IAASA) as applied to listed entities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

We draw your attention to note 2 of the financial statements, which describes the group's and parent company's assessment of the COVID-19 impact on its ability to continue as a going concern. The group and parent company have explained that the events arising from the COVID-19 outbreak do not impact its use of the going concern basis of preparation nor do they cast significant doubt about the group's and parent company's ability to continue as a going concern for a period of at least twelve months from the date when the financial statements are authorised for issue.

Our opinion is not modified in this respect.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (Ireland) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent auditor’s report to the members of VR Education Holdings plc (continued)

Our application of materiality

The materiality applied to the group financial statements was €100,000. This has been calculated using a benchmark of 5% of adjusted loss before tax which we have determined, in our professional judgement, to be the principal benchmark within the financial statements relevant to the members of the Group in assessing financial performance. The materiality applied to the parent company financial statements was €25,000 based upon 5% of the loss before tax. Performance materiality was 70% of overall materiality.

We report to the Audit Committee all corrected and uncorrected misstatements we identified through our audit in excess of €5,000. We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

An overview of the scope of our audit

In designing our audit, we determined materiality and assessed the risk of material misstatement in the financial statements. In particular, we looked at areas involving significant accounting estimates and judgement by the directors and considered future events that are inherently uncertain. We also addressed the risk of management override of controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

The Group and its one subsidiary are accounted for from a central location in Waterford, Ireland.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matter | How the scope of our audit addressed the key audit matter |
|--|---|
| <p>Valuation and recoverability of intangible assets (refer note 14)</p> <p>The Group carries a material amount of intangible assets in relation to capitalised costs associated with the development of virtual reality experiences. As a result, the following risks arise:</p> <ul style="list-style-type: none"> • Costs may have been incorrectly capitalised and not conform with all the 6 step criteria detailed in IAS 38. • The carrying value of the development cost may be overstated and not fully recoverable. • The amortisation period may not represent the useful economic lives of each developed product. | <p>The work undertaken to mitigate the risk was as follows:</p> <ul style="list-style-type: none"> • Verified the capitalised development costs meet the eligibility criteria detailed in IAS 38 for that given project. • Substantively tested additions in the year back to supporting documentation to include timesheet analysis and payroll records. • Discussed the progress of each significant development project with management to understand the stage of development reached and progress against budget in terms of timing and costs incurred. • Recalculated amortisation charged in the year on a sample basis and confirmed in accordance with the disclosed accounting policy. • Reviewed and challenged management’s assessment of impairment for projects under development and, for those products which are commercially available, considered whether there are any indicators of impairment. |

Independent auditor's report to the members of VR Education holdings plc (continued)

| Key Audit Matter | How the scope of our audit addressed the key audit matter |
|--|--|
| <p>Going concern (refer note 2)</p> <p>The group and parent company are currently loss making. Additional funds will need to be raised during the going concern period in excess of those forecast from trading and to enable product development to continue as planned.</p> | <p>The work undertaken to mitigate this risk was as follows:</p> <ul style="list-style-type: none"> • Obtained and reviewed cash flow forecasts prepared for the period ending December 2022. We have tested and challenged management on the key assumptions underlying those forecasts, including sensitivity analysis and stress testing for the potential ongoing effects of COVID-19. • Considered the accuracy of previous forecasts to actual results, particularly regarding development costs and revenue. • Checked and agreed the going concern disclosures in the financial statements. • As disclosed in Note 25 to the financial statements, the Group has subsequent to the year-end received an investment of €3 million from HTC on 12 June 2020. |
| <p>Recoverability of investment in subsidiary and intercompany receivable in the Parent Company (refer notes 15 and 16)</p> <p>The parent company has a material carrying value of its investment in subsidiary undertaking, including the intercompany receivable. There is a risk that these balances are not fully recoverable and should be impaired.</p> | <p>The work undertaken to mitigate this risk was as follows:</p> <ul style="list-style-type: none"> • Assessed the carrying values by reference to the subsidiary's underlying net assets and trading performance. • Assessed credit losses in accordance with IFRS 9 criteria and agreed payment terms. • Assessed recoverability with reference to the budgets and cash flow forecasts prepared for going concern purposes. |

Independent auditor's report to the members of VR Education Holdings plc (continued)

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the group and parent company financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2014

Based solely on the work undertaken in the course of the audit, we report that:

- In our opinion, the information given in the directors' report is consistent with the financial statements; and
- In our opinion, the directors' report has been prepared in accordance with the Companies Act 2014.

We have obtained all the information and explanations which we consider necessary for the purpose of our audit. In our opinion, the accounting records of the Company were sufficient to permit the financial statements to be readily and properly audited and the Company's statement of financial position and the statement of other comprehensive income is in agreement with the accounting records.

Matters on which we are required to report by exception

Based on the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the directors' report. The Companies Act 2014 requires us to report to you if, in our opinion, the disclosures of directors' remuneration and transactions required by Sections 305 to 312 of the Act are not made.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the group and parent company financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (Ireland) 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 financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the IAASA's website at: <https://www.iaasa.ie/Publications/Auditing-standards/>

This description forms part of our auditor's report.

Independent auditor's report to the members of VR Education Holdings plc (continued)

Use of our report

This report is made solely to the company's members, as a body, in accordance with Section 391 of the Companies Act 2014. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone, other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

David Thompson (Senior Statutory Auditor)
For and on behalf of PKF Littlejohn LLP
Statutory Auditor
15 June 2020

15 Westferry Circus
Canary Wharf
London E14 4HD

Communicate



Learn



Financial Statements

Consolidated statement of total comprehensive income

for the Year Ended 31 December 2019

| | Note | 2019 | 2018 |
|---|------|--------------------|--------------------|
| Continuing Operations | | € | € |
| Revenue | 3 | 1,024,148 | 716,345 |
| Cost of Sales | 5 | (401,487) | (239,701) |
| Gross Profit | | 622,661 | 476,644 |
| Administrative Expenses | 5 | (2,555,449) | (2,247,337) |
| Operating Loss | | (1,932,788) | (1,770,693) |
| Fair value loss arising on derivative financial liabilities | 10 | - | (2,638,063) |
| Extinguishment Costs | 8 | - | (267,971) |
| IPO Transaction Costs | 9 | - | (237,202) |
| Finance Costs | 10 | (6,998) | (29,977) |
| Loss before Income Tax | | (1,939,786) | (4,943,906) |
| Income Tax credit | | - | - |
| Total comprehensive loss for the year attributable to owners of the parent | 11 | (1,939,786) | (4,943,906) |
| Earnings per Share (EPS) attributable to owners of the parent | | | |
| Basic from continuing operations | 12 | (0.010) | (0.026) |

The accompanying notes on pages 35-54 form an integral part of these financial statements.

Consolidated statement of financial position

for the Year Ended 31 December 2019

| | Note | 2019 | 2018 |
|--|------|------------------|------------------|
| | | € | € |
| Non-Current Assets | | | |
| Property, Plant & Equipment | 13 | 115,930 | 59,541 |
| Intangible Assets | 14 | 1,433,733 | 956,550 |
| | | 1,549,663 | 1,016,091 |
| Current Assets | | | |
| Trade and other receivables | 16 | 204,904 | 394,113 |
| Cash and short-term deposits | 17 | 1,292,852 | 3,485,186 |
| | | 1,497,756 | 3,879,299 |
| Total Assets | | 3,047,419 | 4,895,391 |
| Equity and Liabilities | | | |
| Equity Attributable to Shareholders | | | |
| Issued share capital | 18 | 193,136 | 193,136 |
| Share premium | 18 | 21,587,539 | 21,587,539 |
| Other reserves | 19 | (11,287,395) | (11,314,729) |
| Retained earnings | 20 | (7,705,536) | (5,765,750) |
| Total Equity | | 2,787,744 | 4,700,196 |
| Non-Current Liabilities | | | |
| Lease liabilities | | 34,057 | - |
| Current Liabilities | | | |
| Trade and other payables | 22 | 192,893 | 195,195 |
| Lease liabilities | | 32,725 | - |
| | | 225,618 | 195,195 |
| Total Liabilities | | 259,675 | 195,195 |
| Total Equity and Liabilities | | 3,047,419 | 4,895,391 |

The accompanying notes on pages 35-54 form an integral part of these financial statements.

Sandra Whelan
Director

Séamus Larrisey
Director

On behalf of the board

15 June 2020

15 June 2020

Company statement of financial position

for the Year Ended 31 December 2019

| | Note | 2019 | 2018 |
|--|------|-------------------|-------------------|
| | | € | € |
| Non-Current Assets | | | |
| Investment in subsidiaries | 15 | 15,028,809 | 15,028,809 |
| | | 15,028,809 | 15,028,809 |
| Current Assets | | | |
| Trade and other receivables | 16 | 5,353,433 | 5,136,849 |
| Cash and short-term deposits | 17 | 166,411 | 753,090 |
| | | 5,519,844 | 5,889,939 |
| Total Assets | | 20,548,653 | 20,918,748 |
| Equity and Liabilities | | | |
| Equity Attributable to Shareholders | | | |
| Issued share capital | 18 | 193,136 | 193,136 |
| Share premium | 18 | 21,587,539 | 21,587,539 |
| Other reserves | 19 | (194,087) | (212,363) |
| Retained earnings | 20 | (1,173,957) | (687,587) |
| Total Equity | | 20,412,631 | 20,880,725 |
| Current Liabilities | | | |
| Trade and other payables | 22 | 136,022 | 38,023 |
| Total Liabilities | | 136,022 | 38,023 |
| Total Equity and Liabilities | | 20,548,653 | 20,918,748 |

The accompanying notes on pages 35–54 form an integral part of these financial statements.

On behalf of the board

Sandra Whelan
Director

Séamus Larrisey
Director

15 June 2020

15 June 2020

Consolidated statement of changes in equity

for the Year Ended 31 December 2019

| | Share Capital | Share Premium | Other Reserves | Retained Earnings | Total |
|---|------------------|-------------------|---------------------|----------------------|------------------|
| | € | € | € | € | € |
| Balance at 1 January 2018 | - | - | 157,280 | (821,844) | (664,564) |
| Total comprehensive income | | | | | |
| Loss for the year | - | - | - | (4,943,906) | (4,943,906) |
| Total comprehensive income | | | | (4,943,906) | (4,943,906) |
| Transactions with owners recognised directly in equity | | | | | |
| Issue of ordinary shares | 193,136 | 21,587,539 | - | - | 21,780,675 |
| Share Issue Costs | - | - | (596,212) | - | (596,212) |
| Acquisition of a subsidiary | - | - | (11,263,644) | - | (11,263,644) |
| Share option expense | - | - | 387,847 | - | 387,847 |
| Balance at 31 December 2018 | 193,136 | 21,587,539 | (11,314,729) | (5,765,750) | 4,700,196 |
| | | | | | |
| | Share Capital | Share Premium | Other Reserves | Retained Earnings | Total |
| | € | € | € | € | € |
| Balance at 1 January 2019 | 193,136 | 21,587,539 | (11,314,729) | (5,765,750) | 4,700,196 |
| Total comprehensive income | | | | | |
| Loss for the year | - | - | - | (1,939,786) | (1,939,786) |
| Total comprehensive income | - | - | - | (1,939,786) | (1,939,786) |
| Transactions with owners recognised directly in equity | | | | | |
| Share option expense | - | - | 27,334 | - | 27,334 |
| Balance at 31 December 2019 | 193,136 | 21,587,539 | (11,287,395) | (7,705,536) | 2,787,744 |

The accompanying notes on pages 35–54 form an integral part of these financial statements.

Company statement of changes in equity

for the Year Ended 31 December 2019

| | Share Capital | Share Premium | Other Reserves | Retained Earnings | Total |
|---|----------------|-------------------|------------------|-------------------|-------------------|
| | € | € | € | € | € |
| Balance at 1 January 2018 | - | - | - | - | - |
| Total comprehensive income | | | | | |
| Loss for the year | - | - | - | (687,587) | (687,587) |
| Total comprehensive income | - | - | - | (687,587) | (687,587) |
| Transactions with owners recognised directly in equity | | | | | |
| Issue of ordinary shares | 193,136 | 21,587,539 | - | - | 21,780,675 |
| Share Issue Costs | - | - | (596,212) | - | (596,212) |
| Share option expense | - | - | 383,849 | - | 383,849 |
| Balance at 31 December 2018 | 193,136 | 21,587,539 | (212,363) | (687,587) | 20,880,725 |

| | Share Capital | Share Premium | Other Reserves | Retained Earnings | Total |
|---|----------------|-------------------|------------------|--------------------|-------------------|
| | € | € | € | € | € |
| Balance at 1 January 2019 | 193,136 | 21,587,539 | (212,363) | (687,587) | 20,880,725 |
| Total comprehensive income | | | | | |
| Loss for the year | - | - | - | (486,370) | (486,370) |
| Total comprehensive income | | | | (486,370) | (486,370) |
| Transactions with owners recognised directly in equity | | | | | |
| Share option expense | - | - | 18,276 | - | 18,276 |
| Balance at 31 December 2019 | 193,136 | 21,587,539 | (194,087) | (1,173,957) | 20,412,631 |

The accompanying notes on pages 35–54 form an integral part of these financial statements.

Consolidated statement of cash flows

for the Year Ended 31 December 2019

| | Note | 2019 | 2018 |
|---|-----------|--------------------|--------------------|
| Continuing Operations | | € | € |
| Loss before income tax | | (1,939,786) | (4,943,906) |
| Adjustments to reconcile loss before tax to net cash flows: | | | |
| Depreciation of fixed assets | 5 | 81,108 | 49,984 |
| Amortisation of intangible assets | 5 | 412,976 | 175,300 |
| Fair value loss arising on derivative financial liabilities | 10 | - | 2,638,063 |
| Non-cash element of extinguishment costs | | - | 174,651 |
| Non-cash element of advisor warrants | | - | 112,381 |
| Other non-cash items | | - | 1,944 |
| Finance Costs | 10 | 6,998 | 29,977 |
| Share Option Expense | | 27,334 | 30,145 |
| Movement in trade & other receivables | | 189,210 | (155,798) |
| Movement in trade & other payables | | (2,302) | (187,824) |
| | | (1,224,462) | (2,075,083) |
| Bank interest & other charges paid | | (6,998) | (29,977) |
| Net Cash used in Operating Activities | | (1,231,460) | (2,105,060) |
| Cash Flows from Investing Activities | | | |
| Purchases of property, plant & equipment | 13 | (35,793) | (52,225) |
| Payments to develop Intangible Assets | 14 | (890,159) | (696,059) |
| Net cash used in investing activities | | (925,952) | (748,284) |
| Cash Flows from Financing Activities | | | |
| Proceeds from issuance of ordinary shares | | - | 6,234,953 |
| Payment of lease liabilities | | (34,922) | - |
| Net cash generated from financing activities | | (34,922) | 6,234,953 |
| Net (decrease) / increase in cash and cash equivalents | | (2,192,334) | 3,381,609 |
| Cash and cash equivalents at beginning of year | 17 | 3,485,186 | 103,577 |
| Cash and cash equivalents at end of year | 17 | 1,292,852 | 3,485,186 |

Company statement of cash flows

for the Year Ended 31 December 2019

| | Note | 2019 | 2018 |
|---|-----------|------------------|--------------------|
| Continuing Operations | | € | € |
| Loss before income tax | | (486,370) | (687,587) |
| Adjustments to reconcile loss before tax to net cash flows: | | | |
| Non-cash element of extinguishment costs | | - | 174,651 |
| Non-cash element of advisor warrants | | - | 112,381 |
| Non-cash element of redemption of redeemable shares | | - | (18,750) |
| Finance Costs | | 348 | 276 |
| Share Option Expense | | 18,276 | 17,518 |
| Movement in trade & other receivables | | (216,584) | (5,118,099) |
| Movement in trade & other payables | | 97,999 | 38,023 |
| | | (586,331) | (5,481,587) |
| Bank interest & other charges paid | | (348) | (276) |
| Net Cash used in Operating Activities | | (586,679) | (5,481,863) |
| Cash Flows from Investing Activities | | - | - |
| Cash Flows from Financing Activities | | | |
| Redemption of redeemable shares | | - | (6,250) |
| Proceeds from issuance of ordinary shares | | - | 6,234,953 |
| Net cash generated from financing activities | | - | 6,228,703 |
| Net (decrease) / increase in cash and cash equivalents | | (586,679) | 746,840 |
| Cash and cash equivalents at beginning of year | 17 | 753,090 | 6,250 |
| Cash and cash equivalents at end of year | 17 | 166,411 | 753,090 |

The non-cash element of extinguishment costs and non-cash element of advisor warrants in the year ended 31 December 2018 reflect the fact that the company issued warrants to loan note holders, cumulative redeemable preference shareholders and advisors as part of the acquisition of Immersive VR Education Limited and the subsequent IPO transaction.

The non-cash element of redemption of redeemable shares relates to the accounting treatment for the cancellation of unpaid redeemable shares during the year.

The accompanying notes on pages 35-54 form an integral part of these financial statements.

Notes to the financial statements

Notes to the financial statements

1. General Information

VR Education Holdings plc (“the Company”) is publicly traded on the Alternative Investment Market (“AIM”) of the London Stock Exchange and on the Euronext Growth Market (“Euronext Growth”), a market regulated by Euronext Dublin. The Company is incorporated and domiciled in the Republic of Ireland. The registered office is Unit 9, Cleaboy Business Park, Old Kilmeaden Road, Waterford and the registered number is 613330.

The Company is the parent company of Immersive VR Education Limited (“IVRE”). IVRE is incorporated and domiciled in the Republic of Ireland with the same registered office as the Company. On 12 March 2018 the Company acquired Immersive VR Education Limited and contemporaneously listed on London’s AIM market and Dublin’s Euronext Growth market. As part of the Admission process, the Group raised £6 million before expenses, through an oversubscribed placing of 60,000,000 new ordinary shares at a placing price of 10p each.

The Group is principally engaged in the development of the educational Virtual Reality platform ‘ENGAGE’. The Company also develops and sells Virtual Reality experiences for the education market.

2. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of the Financial Statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of Consolidation

The consolidated financial statements incorporate those of VR Education Holdings plc and its subsidiary Immersive VR Education Limited.

All financial statements are made up to 31 December 2019. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the group.

All intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are

deconsolidated from the date on which control ceases. Control is achieved when the group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The Group re-assess whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the elements of control.

Business Combination

Acquisition of Immersive VR Education Limited

The Company entered into an agreement to acquire the entire issued share capital of Immersive VR Education Limited on 12 March 2018. The acquisition was effected by way of issue of shares. Due to the relative size of the companies, Immersive VR Education’s shareholders became the majority shareholders in the enlarged capital of the Company. The transaction fell outside of IFRS 3 (“Business Combinations”) and as such has been treated as a group reconstruction.

Therefore, although the Group reconstruction did not become unconditional until 12 March 2018, these consolidated financial statements are presented as if the Group structure has always been in place, including the activity from incorporation of the Group’s subsidiaries.

Furthermore, as VR Education Holdings plc was incorporated on 13 October 2017, while the enlarged group began trading on 12 March 2018, the Statement of Comprehensive Income and consolidated Statement of Changes in Equity and consolidated Cash Flow Statements are presented as though the Group was in existence for the whole year. On this basis, the Directors have decided that it is appropriate to reflect the combination using merger accounting principles as the transaction falls outside the scope of IFRS 3 and as such has been treated as a Group reconstruction. No fair value adjustments have been made as a result of the combination.

Significant accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Judgments

In the process of applying the Group’s accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

Capitalised development costs

In applying the requirements of IAS 38 Intangible Assets, the Group assessed various development projects against the criteria required for capitalisation. Certain projects that did not meet the criteria regarding the ability to determine

whether those projects would generate sufficient future economic benefits were expensed. The judgements reflect the early stage of the VR/AR market and will change over time.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Capitalised development costs impairment review

The Group's impairment review undertaken to assess the carrying value of capitalised development costs includes certain assumptions on future revenues and costs associated with the underlying technology. Those cashflows are discounted at an appropriate discount rate. These estimates and assumptions are reviewed on an on-going basis. Changes in accounting estimates may be necessary if there are changes in the circumstances on which the estimate was based or as a result of new information or more experience. Such changes are recognised in the period in which the estimate is revised.

Derivative financial instruments

The Group has assessed in 2018 the fair value of the derivative financial liabilities arising on the conversion feature of convertible secured loan notes and the cumulative redeemable preference shares. This calculation includes assumptions on the expected period of exercise, risk free interest rate and share price volatility. The Group engaged third party valuations experts to assist them in the selection of such assumptions.

Going Concern

The financial statements are presented on a going concern basis. In forming this opinion, the Directors have considered all the information available to them. This includes management prepared forecasts, due consideration of the ability to raise funds on the open market in respect of the dual listing on the Alternative Investments Market on the London Stock Exchange and on the Enterprise Securities Market, a market regulated by Euronext Dublin and the timing as to when such funds will be received. Based on their consideration of these matters and the receipt of €3m subscription for ordinary shares from HTC on 12 June 2020 the Directors believe the Group and Company to be a going concern.

In response to the significant impact that the coronavirus pandemic is having on the global economy, that Group has reviewed the potential impact upon on its business and revenue generation. The Directors anticipate experience sales will be relatively unaffected both during and immediately after the lockdown period, however there is scope to adjust levels of expenditure in the longer term, if required.

These financial statements do not include adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the group not continue as a going concern. Thus, the Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

Foreign Currency Translation

(a) Functional and Presentation Currency

Items included in the Financial Statements of the Group are measured using the currency of the primary economic environment in which the entity operates ("functional currency").

The Financial Statements are presented in euro (€), which is the Group's functional and presentation currency.

(b) Transactions and Balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or costs'. All other foreign exchange gains and losses are presented in the income statement within Administrative Expenses.

Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period Or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

Fair value measurement

The Group measures financial instruments such as derivatives at fair value at each balance sheet date. The Company has applied IFRS 9 for all periods presented.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability Or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods and services supplied, stated net of discounts, returns and Value-Added Taxes (VAT).

Under IFRS 15, Revenue from Contracts with Customers, five key points to recognise revenue have been assessed:

Step 1: Identify the contract(s) with a customer;

Step 2: Identify the performance obligations in the contract;

Step 3: Determine the transaction price;

Step 4: Allocate the transaction price to the performance obligations in the contract; and

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity, and specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Where the Group makes sales relating to a future financial period, these are deferred and recognised under 'deferred revenue' on the Statement of Financial Position. The Group currently has two revenue streams:

Firstly, the Group is primarily focused on developing proprietary educational VR content which is sold through licences. This is considered "Showcase Experience Revenue" for reporting purposes. Revenue is recognised when the license key is delivered to the customer, or when all performance obligations have been achieved.

Revenue is received net of commission from the platforms where the Group licenses their content. The gross amount of revenue is recognised in revenue with the corresponding commission portion recognised in cost of sales.

Secondly, the Group develops educational VR content on behalf of customers based on specific customer requirements. This is considered "Other Revenue" for reporting purposes. Such revenue is recognised on a percentage completion basis unless there are significant performance obligations that would require deferral until such obligations are delivered. Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract. When the contract outcome cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered. This is generally during the early stages of development where the specifications need to pass through the customer's approval as part of the development.

The disaggregation of revenue, required under IFRS 15, has been prepared on the basis of the two revenue streams outlined above and is included in Note 3.

Government Grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

Property, Plant and Equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost less residual value over their estimated useful lives, as follows:

Office equipment – 3 – 5 years
Furniture, fittings and equipment – 5 years
Leasehold improvements – over the life of the leased asset

Right-of-use assets are depreciated over the shorter of the asset's useful life and the lease term on a straight line basis.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount, and are recognised in the income statement.

Intangible Assets

Research costs are expensed as they are incurred. Development costs that are directly attributable to the design and testing of identifiable and unique commercial software controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use and sale;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate future economic benefits;
- adequate technical, financial and other resources to complete the development and use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and subcontracted development costs.

Other development expenditure that does not meet these criteria is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which do not exceed 3 years and commences after the development is complete and the asset is available for use. Intangible assets are amortised over their estimated useful lives based on the pattern of consumption of the underlying economic benefits. Amortisation is included in Administrative Expenses.

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is

determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets.

When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

For assets, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Trade Receivables

Trade receivables are amounts due from customers for licenses sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not they are presented as non-current assets.

Trade receivables are recognised initially at fair value, and subsequently measured at amortised cost using the effective interest method, less provision for impairment. The Group holds the trade receivables with the objective of collecting the contractual cash flows.

The Group provides for known bad debts and other accounts over a certain age in line with Group policy. The realisation of the asset may differ from the provision estimated by management.

Cash and Cash Equivalents

In the Statement of Cash Flows, cash and cash equivalents comprise cash in hand and short-term deposits. Bank overdrafts are shown within borrowings in current liabilities on the Statement of Financial Position.

Share Capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Where the issuance of the new shares or options occurs in a subsequent period from when the incremental costs are incurred these costs are prepaid until the issuance takes place.

Share Based Payments

The Group has an equity settled employee incentive plan. The cost of equity settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Group. No expense is recognised for awards that do not ultimately vest.

At each reporting date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market conditions number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous reporting date is recognised in the profit and loss within administration expenses, with a corresponding entry in the balance sheet in share options reserve.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the Statement of Comprehensive Income for the award is expensed immediately.

Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value, and subsequently measured at amortised cost using the effective interest method.

Leases

The Group leases office premises and motor vehicles under rental contracts for fixed periods but may contain extension options. Lease terms are negotiated on an individual basis and contain different terms and

conditions. The lease agreements entered into by the Group do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

From 1 January 2019 leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate;
- The exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined the lessee's incremental borrowing rate is used. Lease payments are allocated between principal and finance cost. The finance charge is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Payments associated with short-term leases (12 months or less) and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings, using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. To the extent that there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services, and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities, unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. All other borrowing costs are recognised in the income statement within finance costs in the period in which they are incurred.

Convertible Financial Instruments

Convertible financial instruments issued by the Group comprise convertible loan notes and convertible redeemable Preference Shares that can be converted to ordinary share capital at the option of the holder. The number of shares to be issued may vary with changes in their fair value.

The derivative component arising from the conversion option is recognised at fair value. The debt component is recognised initially as the difference between the fair value of the convertible financial instrument as a whole and the fair value of the derivative. Any directly attributable transaction costs are allocated against the liability.

Subsequent to initial recognition, the debt component of the convertible instrument is measured at amortised cost using the effective interest rate method. The derivative component is re-measured at fair value at each subsequent balance sheet date.

Current and Deferred Income Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case the tax is also recognised directly in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. However, the deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantially enacted, by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax assets and liabilities are

offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Research and development tax credit

The Group undertakes certain research and development activities that qualify for the receipt of a research and development (R&D) tax credit from the Irish tax authorities. Such grants are recognised as a credit against related costs on a cash receipts basis.

New standards, interpretations and amendments adopted by the Company

The Group and Company have applied the following standards and amendments for the first time from 1 January 2019:

IFRS 16 Leases
IFRIC 23 Uncertainty over Income Tax Treatments
Annual Improvements to IFRS Standards 2015–2017 Cycle

The Group adopted all of the requirements of IFRS 16 – Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period as permitted under the transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been categorised as operating leases. These liabilities were measured at the present value of the remaining lease payments. The change in policy increased right-of-use assets and lease liabilities by €77,370.

Other than as described above, there has been no material impact on the financial statements as a result of the adoption of the new and amended standards.

The Group and Company have not applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to references to the conceptual framework in IFRS standards – effective 1 January 2020
Amendments to IFRS 3 Business Combinations – effective 1 January 2020
Amendments to IAS 1 and IAS 8: Definition – effective 1 January 2020

The Directors believe that these new and amended standards are not expected to have a material impact on the Group and Company.

3. Segment Reporting

| | 2019 | 2018 |
|-----------------------------|------------------|----------------|
| Revenue by Type | € | € |
| Showcase experience revenue | 806,408 | 592,362 |
| ENGAGE revenue | 92,141 | - |
| Other revenue | 125,599 | 123,983 |
| Total Revenue | 1,024,148 | 716,345 |

4. Capital Management

For the purpose of the Company's capital management, capital includes issued capital, convertible preference shares, share premium and all other equity reserves. The primary objective of the Group's capital management is to maximise the shareholder value.

| Group | 2019 | 2018 |
|------------------------------------|------------------|------------------|
| | € | € |
| Lease liabilities | (66,782) | - |
| Trade and other payables | (192,893) | (195,194) |
| Less: cash and short-term deposits | 1,292,852 | 3,485,186 |
| Net Funds | 1,033,177 | 3,289,992 |
| Equity | 2,787,744 | 4,700,196 |
| Total Equity | 2,787,744 | 4,700,196 |
| Capital and net funds | 3,820,921 | 7,990,188 |

5.a Expenses by nature

| | 2019 | 2018 |
|--|------------------|------------------|
| | € | € |
| Depreciation charges | 81,108 | 49,984 |
| Amortisation expense | 412,976 | 175,300 |
| Operating Lease Payments | 7,709 | 36,839 |
| Foreign Exchange Gain | (12,184) | (35,027) |
| Other Expenses | 3,357,486 | 2,956,001 |
| | 3,847,095 | 3,183,097 |
| Wages and salaries capitalised | (811,205) | (586,937) |
| Other expenses capitalised | (78,954) | (109,122) |
| Total cost of sales and administrative expenses | 2,956,936 | 2,487,038 |

5.a Expenses by nature (continued)

| | 2019 | 2018 |
|--|------------------|------------------|
| | € | € |
| Disclosed as: | | |
| Cost of sales | 401,487 | 239,701 |
| Administrative expenses | 2,555,449 | 2,247,337 |
| Total cost of sales and administrative expenses | 2,956,936 | 2,487,038 |

5.b Auditor Remuneration

Services provided by the Company's auditor

During the year, the Company obtained the following services from the Company's auditor:

| | 2019 | 2018 |
|---|--------|--------|
| | € | € |
| Fees payable to the Company's auditor for the audit of the financial statements | 47,509 | 42,173 |
| Tax | 4,213 | 11,688 |
| Other – corporate finance services | - | 40,776 |

6. Employees

| Employee Benefit Expense | 2019 | 2018 |
|---------------------------------------|------------------|----------------|
| | € | € |
| Wages and salaries | 1,846,750 | 1,380,687 |
| Social security costs | 188,440 | 136,910 |
| Defined contribution pension costs | 16,811 | 8,961 |
| Share option expense | 27,334 | 30,145 |
| Capitalised employee costs | (811,205) | (586,937) |
| Total Employee Benefit Expense | 1,268,130 | 969,766 |

| Average Number of People Employed | 2019 | 2018 |
|--|-------------|-------------|
| Average number of people (including executive Directors) employed: | | |
| Operations | 30 | 22 |
| Administration | 3 | 3 |
| Marketing | 4 | 2 |
| Total Average Headcount | 37 | 27 |

7. Directors remuneration

Below is the Directors' remuneration for the year ended 31 December 2019 and for the year ended 31 December 2018

| 31 December 2019 | | | | |
|--------------------------------|----------------------|-----------------------|----------------|----------------|
| Group | Directors' fees paid | Pension benefits paid | Options issued | Total |
| | € | € | € | € |
| Executive Directors | | | | |
| David Whelan | 161,500 | 3,025 | - | 164,525 |
| Sandra Whelan | 127,500 | 3,150 | - | 130,650 |
| Séamus Larrissey | 122,551 | 4,250 | 1,576 | 128,377 |
| Non-executive Directors | | | | |
| Richard Cooper | 51,724 | - | 16,700 | 68,424 |
| Michael Boyce | 76,760 | - | - | 76,760 |
| Tony Hanway | 27,429 | - | - | 27,429 |
| | 567,464 | 10,425 | 18,276 | 596,165 |

| 31 December 2018 | | | | |
|--------------------------------|-----------------|------------------|----------------|----------------|
| Group | Directors' fees | Pension benefits | Options issued | Total |
| | € | € | € | € |
| Executive Directors | | | | |
| David Whelan | 114,181 | 2,017 | - | 116,198 |
| Sandra Whelan | 85,807 | 2,100 | - | 87,907 |
| Séamus Larrissey | 86,500 | 2,833 | 4,779 | 94,112 |
| Non-executive Directors | | | | |
| Richard Cooper | 96,077 | - | 13,917 | 109,994 |
| Michael Boyce | 37,143 | - | - | 37,143 |
| Tony Hanway | 23,807 | - | - | 23,807 |
| At 31 December 2018 | 443,515 | 6,950 | 18,696 | 469,191 |

The options issued are a non-cash amount and are accounted for in line with the treatment of the other share options issued to employees under IFRS 2. Further notes on Share Based Payments are included in Note 21.

During the year ended 31 December 2018, Richard Cooper received a fee in relation to the IPO transaction of £50,000.

During the year ended 31 December 2019, Michael Boyce received a fee in relation to consultancy services provided to the Company, separate to his role as a Non-Executive Director, of £43,549 (2018: £12,031).

8. Extinguishment Costs

| | 2019 | 2018 |
|--|----------|----------------|
| | € | € |
| Legal and professional fees paid on behalf of redeemable secured loan note holders and cumulative redeemable preference shares holders | | 51,500 |
| Monitoring fee and interest paid post conversion | - | 41,820 |
| Warrant costs | - | 174,651 |
| Total Extinguishment Costs | - | 267,971 |

As part of the reorganisation process which occurred prior to the IPO in 2018 all loan note holders and cumulative redeemable preference share note holders converted their holdings into ordinary shares. During this process the Group agreed to pay:

- all interest that would have accrued on these loan notes for the 12-month period from the date of Admission had such loan notes remained in issue.
- all monitoring fees that would have accrued for the 12-month period from the date of Admission had such agreements not been terminated.

The group also issued warrants to the loan note holders and cumulative redeemable preference shareholders over such number of new Ordinary Shares in the Company as is equal to 3 per cent. of the issued Ordinary Shares at Admission, exercisable at a 50 per cent. premium to the Issue Price expiring 36 months from Admission.

9. IPO Transaction Costs

| | 2019 | 2018 |
|------------------------------------|----------|----------------|
| | € | € |
| Legal and professional fees | - | 237,202 |
| Total IPO Transaction Costs | - | 237,202 |
| Included in Other Reserves | - | 596,212 |

The transaction costs relate to the admission of the Group to the AIM market of the London Stock Exchange and the Euronext Growth market of Euronext Dublin on 12 March 2018.

10. Finance Costs

| | 2019 | 2018 |
|--|--------------|--------------------|
| | € | € |
| Interest expense: | | |
| - Interest payable on convertible loan notes | - | 27,105 |
| - Dividend on redeemable convertible preference shares | - | 1,356 |
| - Lease interest | 4,988 | - |
| - Bank charges | 2,010 | 1,516 |
| Total finance costs | 6,998 | 29,977 |
| Fair value loss on derivative financial liability | - | (2,638,063) |

The fair value loss on derivative financial liabilities arose in 2018 from the conversion of convertible debt and preference shares to ordinary equity in Immersive VR Education Limited prior to its acquisition by the Group.

11. Income Tax

| | 2019 | 2018 |
|----------------------------------|------|------|
| | € | € |
| Current tax: | | |
| Current tax on loss for the year | - | - |
| Total current tax | - | - |
| Deferred tax (Note 23) | - | - |
| Income Tax | - | - |

The tax assessed for the year differs from that calculated using the standard rate of corporation tax in Ireland (12.5%). The differences are explained below:

| | 2019 | 2018 |
|---|-------------|-------------|
| | € | € |
| Loss Before Tax | (1,939,786) | (4,943,906) |
| Tax calculated at domestic tax rates applicable to loss in Ireland of 12.5% | (242,473) | (617,988) |
| Tax effects of: | | |
| - Depreciation in excess of capital allowances | 7,364 | 4,033 |
| - Expenses not deductible for tax purposes | 45,449 | 406,488 |
| - Tax losses for which no deferred tax asset was recognised | 189,660 | 207,467 |
| Total tax | - | - |

12. Earnings per share (EPS)

| | 2019 | 2018 |
|--|-------------|-------------|
| | € | € |
| Loss attributable to equity holders of the Group: | | |
| Continuing Operations | (1,939,786) | (4,943,906) |
| Weighted average number of shares for Basic EPS | 193,136,406 | 193,136,406 |
| Basic loss per share from continuing operations | (0.010) | (0.026) |

13. Property, Plant & Equipment

| Group | Leasehold improvements | Fixtures, fittings and equipment | Office Equipment | Right of use assets | Total |
|----------------------------|------------------------|----------------------------------|------------------|---------------------|----------------|
| | € | € | € | € | |
| Cost of Valuation | | | | | |
| At 1 January 2018 | 15,601 | 5,610 | 84,168 | - | 105,379 |
| Additions | 4,740 | 1,415 | 46,070 | - | 52,225 |
| At 31 December 2018 | 20,341 | 7,025 | 130,238 | - | 157,604 |
| IFRS 16 Adjustment | - | - | - | 118,820 | 118,820 |
| Additions | - | - | 35,793 | 26,882 | 62,675 |
| At 31 December 2019 | 20,341 | 7,025 | 166,031 | 145,702 | 339,099 |
| Depreciation | | | | | |
| At 1 January 2018 | 3,284 | 2,127 | 42,668 | - | 48,079 |
| Charge (note 5) | 4,607 | 1,405 | 43,972 | - | 49,984 |
| At 31 December 2018 | 7,891 | 3,532 | 86,640 | - | 98,063 |
| IFRS 16 Adjustment | - | - | - | 43,998 | 43,998 |
| Charge (note 5) | 4,607 | 1,405 | 40,175 | 34,921 | 81,108 |
| At 31 December 2019 | 12,498 | 4,937 | 126,815 | 78,919 | 223,169 |
| Net Book Amount | | | | | |
| At 31 December 2018 | 12,450 | 3,493 | 43,598 | - | 59,541 |
| At 31 December 2019 | 7,843 | 2,088 | 39,216 | 66,783 | 115,930 |

Depreciation expense of €81,108 (2018: €49,984) has been charged in 'Administrative Expenses'.

14. Intangible Assets

| Group | Software in development costs | Total |
|----------------------------|-------------------------------------|------------------|
| | € | € |
| Cost of Valuation | | |
| At 1 January 2018 | 435,791 | 435,791 |
| Additions | 696,059 | 696,059 |
| At 31 December 2018 | 1,131,850 | 1,131,850 |
| Additions | 890,159 | 890,159 |
| At 31 December 2019 | 2,022,009 | 2,022,009 |
| Amortisation | | |
| At 1 January 2018 | - | - |
| Charge | 175,300 | 175,300 |
| At 31 December 2018 | 175,300 | 175,300 |
| Charge | 412,976 | 412,976 |
| At 31 December 2019 | 588,276 | 588,276 |
| Net Book Value | | |
| At 31 December 2018 | 956,550 | 956,550 |
| At 31 December 2019 | 1,433,733 | 1,433,733 |

The software being developed relates to the creation of virtual reality experiences and an online virtual learning and corporate training platform.

ENGAGE is an online virtual learning and corporate training platform currently in development by the Company. A desktop version was released in December 2018 and the mobile version was released in December 2019. Amortisation commenced when the mobile version launched.

Titanic VR which is available for sale across all major VR capable platforms since November 2018 has commenced being amortised in the period. Raid on the Ruhr launched during 2019 and amortisation commenced during the period. Space Shuttle was developed during 2019 remains in development for the Oculus Quest and PC platforms at 31 December 2019. Amortisation will commence when Space Shuttle is launched on Oculus Quest and PC in H1 2020.

Amortisation expense of €412,976 (2018: €175,300) has been charged in 'Administrative Expenses'.

An impairment review was carried out at the balance sheet date. No impairment arose.

15. Investments in Subsidiaries

| Company | € |
|----------------------------|-------------------|
| At 1 January 2018 | - |
| Additions | 15,028,809 |
| At 31 December 2018 | 15,028,809 |
| Additions | - |
| At 31 December 2019 | 15,028,809 |

Investments in subsidiaries are recorded at cost, which is the fair value of the consideration paid.

On 12 March 2018, the Company has acquired all of the issued capital of Immersive VR Education Limited for a consideration of €15,000,000 which was settled by issuing 133,089,739 Ordinary Shares in the Company. The Company incurred expenses totalling €28,809 as part of the transaction.

| Name | Country of incorporation and residence | Nature of business | Proportion of equity shares held by the company |
|--------------------------------|--|----------------------------|---|
| Immersive VR Education Limited | Ireland | Virtual Reality Technology | 100% |

This subsidiary undertaking is included in the consolidation. The proportion of the voting rights in the subsidiary undertaking held directly by the Parent Company does not differ from the proportion of ordinary shares held.

16. Trade and Other Receivables

| | Group | | Company | |
|---|----------------|----------------|------------------|------------------|
| | 2019 | 2018 | 2019 | 2018 |
| | € | € | € | € |
| Trade receivables | 146,649 | 180,129 | - | - |
| Less: provision for impairment of receivables | - | - | - | - |
| Trade receivables - net | 146,649 | 180,129 | - | - |
| Amounts due from related parties | - | - | 5,337,389 | 5,058,589 |
| Prepayments | 53,047 | 178,650 | 16,044 | 53,062 |
| Other debtors | 3,775 | 4,991 | - | - |
| VAT | 1,433 | 30,343 | - | 25,198 |
| | 204,904 | 394,113 | 5,353,433 | 5,136,849 |

As at 31 December 2019, trade receivables of €146,649 (2018: €180,129) were fully performing and deemed fully recoverable. No bad debt provision charge was incurred during 2019 (2018: €Nil).

16. Trade and Other Receivables (continued)

| | Group | | Company | |
|--|----------------|----------------|---------|------|
| | 2019 | 2018 | 2019 | 2018 |
| | € | € | € | € |
| Euro – Neither past due nor impaired | 35,828 | 53,028 | - | - |
| Dollar – Neither past due nor impaired | 110,821 | 127,101 | - | - |
| | 146,649 | 180,129 | - | - |

17. Cash and short-term deposits

The carrying amounts of the Company's trade and other receivables are denominated in the following currencies:

| | Group | | Company | |
|--------------------------|------------------|------------------|----------------|----------------|
| | 2019 | 2018 | 2019 | 2018 |
| | € | € | € | € |
| Cash at bank and on hand | 1,292,852 | 3,485,186 | 166,411 | 753,090 |
| | 1,292,852 | 3,485,186 | 166,411 | 753,090 |

18. Issued Share Capital and Premium

| | Number of shares | Ordinary shares | Share premium | Total |
|--|--------------------|-----------------|-------------------|-------------------|
| | | € | € | € |
| At 1 January 2018 | 1 | - | - | - |
| Shares issued as consideration for reverse merger | 133,089,739 | 133,090 | 14,866,910 | 15,000,000 |
| Ordinary Shares Issued | 60,046,666 | 60,046 | 6,720,629 | 6,780,675 |
| At 31 December 2018 and at 31 December 2019 | 193,136,406 | 193,136 | 21,587,539 | 21,780,675 |

On 12 March 2018 the Company acquired Immersive VR Education Ltd for a purchase price of €15 million through the issue 133,089,739 new ordinary shares of €0.001 and became the legal parent of the Group. On 12 March 2018 the Company listed on London's AIM market and Dublin's Euronext Growth market. As part of the Admission process, the Group raised £6 million (€6,772,773) before expenses, through an oversubscribed placing of 60,000,000 new ordinary shares at a placing price of £0.10 (€0.1127) per share.

19. Other Reserves

| | Group | Company |
|-----------------------------|---------------------|------------------|
| | € | € |
| At 1 January 2018 | 157,280 | - |
| Share issue costs | (596,212) | (596,212) |
| Acquisition of a subsidiary | (11,263,644) | - |
| Share option expense | 387,847 | 383,849 |
| At 31 December 2018 | (11,314,729) | (212,363) |
| At 1 January 2019 | (11,314,729) | (212,363) |
| Share option expense | 27,334 | 18,276 |
| At 31 December 2019 | 11,287,395 | 194,087 |

20. Retained Earnings

| | Group | Company |
|----------------------------|--------------------|--------------------|
| | € | € |
| At 1 January 2018 | (821,844) | - |
| Loss for the year | (4,943,906) | (687,587) |
| At 31 December 2018 | (5,765,750) | (687,587) |
| At 1 January 2019 | (5,765,750) | (687,587) |
| Loss for the year | (1,939,786) | (486,370) |
| At 31 December 2019 | (7,705,536) | (1,173,957) |

21. Share Based Payments

During the year ended 31 December 2018, VR Education Holdings plc introduced a share-based payment scheme for employee remuneration ("the 2018 Scheme") to replace the scheme previously in operation within Immersive VR Education Limited ("the 2016 Scheme"). The 2018 Scheme and the 2016 schemes are classified equity settled share based payment plans. Recipients under the scheme are awarded options over ordinary shares of the Company.

On 12 March 2018, the options under the 2016 Scheme were cancelled as part of the Capital Restructure and Listing process and replaced with options under the 2018 Scheme under the equivalent terms and conditions as the 2016 scheme, and a stock split which gave rise to the issue of 740 shares for every 1 share held. The options granted under the 2016 Scheme had vesting periods of up to 36 months. The replacement of the options did not give rise to any additional income statement expense in 2018.

21. Share Based Payments (continued)

There were 133,089 (2018: 311,108) employee options granted during 2019 at an exercise price of €0.10 (2018: €0.135) per share and these vest subject to continued service by the employee over a period of 3 years. Options expire at the end of a period of 7 years from the Grant Date or on the date on which the option holder ceases to be an employee.

Share-based payment expense with Director

On 12 March 2018, VR Education Holdings plc granted options to purchase 1m ordinary shares to Richard Cooper, the Chairman of the Company. The options vest if the market capitalisation of the Company equals 2.5 times the market capitalisation on admission to listing for a consecutive period of 30 days. Except in the event of a change in control (see below) the options, which are exercisable at a price of £0.0001, cannot be exercised for a period of two years and expire on 12 March 2023. The market capitalisation requirement is a "market condition" under IFRS 2 and the valuation of the option, which amounted to €0.668, takes this market condition into account.

In the event of a change in control, in the two years after admission to listing, the options are exercisable at prices ranging from £0.0001 to £0.10. The change in control scenarios gave rise to option values of €0.018 - €0.112.

The movement in employee share options and weighted average exercise prices are as follows for the reporting periods presented:

| | 2018 Scheme | | 2016 Scheme | |
|--|------------------|------------------|-------------|---------|
| | 2019 | 2018 | 2019 | 2018 |
| | € | € | € | € |
| At 1 January | 4,425,028 | - | - | 4,208 |
| Capital restructure and Listing process | - | 3,113,920 | - | (4,208) |
| Granted during period | 133,089 | 1,311,108 | - | - |
| Forfeited during period | (92,591) | - | - | - |
| At 31 December | 4,465,526 | 4,425,028 | - | - |
| Options outstanding at 31 December | | | | |
| Number of shares | 4,465,526 | 4,425,028 | - | - |
| Weighted average remaining contractual life | 2.79 years | 3.75 years | | |
| Weighted average exercise price per share | €0.028 | €0.028 | | |
| Range of exercise price | €0.0001 - €0.135 | €0.0001-€0.135 | | |
| Exercisable at 31 December | | | | |
| Number of shares | 2,658,450 | 1,997,556 | | |
| Weighted average exercise price per share | €0.028 | €0.026 | | |

No options were exercised during the period. The weighted average exercise price of options granted during the period was €0.11 (2018: €0.032). The expense recognised in respect of employee share based payment expense and credited to the share based payment reserve in equity was €27,334 (2018: €30,144).

Advisor Warrants

During 2018, as part of the listing process and as set out in the admission document, the Company issued warrants over 5,018,328 shares at an exercise price of £0.15, subject to expiry on various dates up to 12 March 2023. The warrants were valued under the Black Scholes model. The expense recognised during the period was €Nil (2018: €162,871).

21. Share Based Payments (continued)

Investor Warrants

During 2018, as part of the arrangements for the listing process and as set out in the admission document, the Company issued warrants over 5,794,092 shares at an exercise price of £0.15, subject to expiry on 12 March 2023. The warrants were valued under the Black Scholes model. An expense of €Nil (2018: €174,651) was recognised in the income statement during the period.

The Company has measured the fair value of the services received as consideration for equity instruments of the Company, indirectly by reference to the fair value of the equity instruments. The table below sets out the options and warrants that were issued during the period and the principal assumptions used in the valuation.

| | Employee |
|--|-----------------|
| Number of options / warrants | 133,089 |
| Grant date | 1 Jan 2019 |
| Vesting period | 3 years |
| Share price at date of grant | £0.11 |
| Exercise price | €0.1127 |
| Volatility | 57% |
| Option life | 7 years |
| Dividend yield | 0% |
| Risk free investment rate | 0.14% |
| Fair value per option at grant date | €0.071 |
| Weighted average remaining contractual life in years | 6.0 |

22. Trade and Other Payables

| | Group | | Company | |
|-------------------|----------------|----------------|----------------|---------------|
| | 2019 | 2018 | 2019 | 2018 |
| | € | € | € | € |
| Trade Payables | 25,709 | 28,263 | 10,109 | 9,169 |
| PAYE/PRSI | 45,739 | 46,923 | 13,276 | 16,362 |
| Redeemable shares | - | - | 101,126 | - |
| Accrued Expenses | 121,445 | 120,009 | 11,511 | 12,492 |
| | 192,893 | 195,195 | 136,022 | 38,023 |

Terms and conditions of the above financial liabilities:

- Trade payables are non-interest bearing and are normally settled on 30-day terms
- PAYE/PRSI payables are non-interest bearing and are normally settled on 30-day terms
- VAT payables are non-interest bearing and are normally settled on 60-day terms
- Accrued expenses are non-interest bearing are settled over varying terms throughout the year

23. Deferred Tax

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Company did not recognise deferred income tax assets of €556,688 (2018: €410,683) in respect of losses and depreciation in excess of capital allowances amounting to €4,453,504 (2018: €3,285,467) that can be carried forward against future taxable income.

24. Related Parties

During the year the Directors received the following emoluments:

| | Group | | Company | |
|----------------------|----------------|----------------|----------------|----------------|
| | 2019 | 2018 | 2019 | 2018 |
| | € | € | € | € |
| Directors | | | | |
| Aggregate emoluments | 549,181 | 450,465 | 549,181 | 406,787 |
| Share option expense | 18,276 | 18,696 | 18,276 | 18,696 |
| | 567,457 | 469,161 | 567,457 | 425,483 |

Included in the above is an amount of €51,516 (2018: €96,077) paid to Luclem Estates and Advisory Limited, a company in which Richard Cooper, a director of the Company, is also a director. These fees relate to Richard Cooper's consultancy services to the Company. As at 31 December 2019 €Nil was outstanding.

25. Events after the reporting date

On 12 June 2020, the Company issued 48,284,102 ordinary shares at a €0.0621 (£0.0547) per share to HTC Corporation raising €3,000,000 before costs are deducted. The proceeds will be primarily used to further develop and enhance the Company's proprietary ENGAGE platform and build out its sales and marketing capability. The proceeds will also be used to a lesser extent to produce additional showcase experiences which support the uptake of the ENGAGE platform and clearly demonstrate its potential.

The assessment of the COVID-19 pandemic will need continued attention and will evolve over time. COVID-19 is considered to be a non-adjusting post statement of financial position event and no adjustment is made or required in these financial statements as a result. The development and duration of the COVID-19 pandemic make it difficult to predict the ultimate impact on the Group and Company at this stage. This will have some implications for the operations of the Group and Company in the future however the Directors consider the impact will be minimal. Management will continue to assess the impact of COVID-19 on the Group and Company, however, it is not possible to quantify the impact at this stage.

26. Ultimate controlling party

The Directors believe that there is no ultimate controlling party as no one shareholder has control of the Company.

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