



XP FACTORY
ANNUAL REPORT AND ACCOUNTS
JANUARY – DECEMBER 2021

Contents

FINANCIAL AND OPERATIONAL HIGHLIGHTS	2
STRATEGIC REPORT	4
Chairman's Statement	4
Chief Executive's Report	6
Financial Review	10
Corporate Responsibility	15
Principal Risks and Uncertainties	16
Statement by the Directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006	20
DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2021	22
CORPORATE GOVERNANCE REPORT	26
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF XP FACTORY PLC (FORMERLY ESCAPE HUNT PLC)	33
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	42
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	43
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	45
CONSOLIDATED STATEMENT OF CASH FLOWS	46
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	47
COMPANY STATEMENT OF FINANCIAL POSITION	98
COMPANY STATEMENT OF CHANGES IN EQUITY	99
NOTES TO COMPANY FINANCIAL STATEMENTS	100
COMPANY INFORMATION	114

Financial and Operational Highlights

FINANCIAL HIGHLIGHTS

- Group revenue up 163% at £7.0m (2020: £2.7m)
- Adjusted EBITDA of £2.7m (2020: loss £1.4m) inclusive of £2.6m R&D credits, net of associated costs
- Pre-IFRS 16 Adjusted EBITDA profit of £0.5m in the six months to 31 December 2021 (2020: loss £0.9m) demonstrating critical mass achieved
- Escape Hunt™ owner-operated revenue up 189% to £6.0m (2020: £2.1m)
- £3.4m positive Site Level EBITDA from owner-operated sites (2020: £0.4m) was driven by a strong bounce back in trade post lifting of Covid restrictions in mid-May 2021
- Franchise EBITDA of £0.3m (2020: £0.3m)
- Group operating loss of £0.5m (2020: loss of £6.4m) helped by strong H2 trading and £2.6m R&D credits (net)
- £16.1m net of expenses raised through an equity placing and open offer to fund acquisition of Boom Battle Bar in November 2021
- Cash at year end £8.2m (2020: £2.7m) and £6.9m on 30 April 2022

OPERATIONAL AND STRATEGIC HIGHLIGHTS

- Successful acquisition of Boom Battle Bar and renaming of the Group to XP Factory Plc in November 2021
- Post-acquisition, 1 new Boom owner operated site opened at the O2 Arena and 1 new franchise site in Coventry opened in December bringing estate to 2 owner operated and 7 franchise sites at year end
- Escape Hunt owner-operated estate expanded by 46% to 19 sites (2020: 13 sites), including Watford, Kingston, Lakeside, Milton Keynes and the acquisition of the French master franchise with owner operated sites in Paris and Brussels
- New games successfully developed and launched at new Escape Hunt sites
- All nine Escape Hunt sites open for more than 12 months were named by TripAdvisor™ as a Travellers' Choice Winner in August 2021 and continued five star TripAdvisor™ ratings across the UK estate
- Acquisition of Middle East master franchise in Q4 2020 fully paid back within 12 months

POST YEAR END

- In the year to date, 6 new Boom sites opened, including owner operated site in Exeter, co-located with Escape Hunt, and franchise sites in Watford, Ipswich, Glasgow, Aldgate East and Bath
- Further 6 Boom sites in build and 10 contracts exchanged or in final legals underpinning site roll-out targets for the year
- Site level economics for Boom being proven by performance at owner-operated sites
- Boom franchise sites performing in line with the Board's expectations
- Escape Hunt sites performing well with UK owner operated estate and traded ahead of the Board's expectations in Q1 2022

Chairman's Statement

Positioned for success

2021 was a transformative year with two very different halves for XP Factory Plc, and one which saw us exit the year better positioned than ever before to capitalise on the fast growing market for experiential leisure. We achieved a significant milestone as for the first time, the business delivered positive EBITDA in the 6 months to 31 December 2021, with Escape Hunt breaking multiple weekly sales records. Combined with the acquisition of Boom Battle Bar in November 2021, a very healthy pipeline of sites and a significantly strengthened balance sheet, this leaves us poised for significant growth and cause for optimism about the future.

Escape Hunt

Entering 2021 in national lockdown, with our venues closed and our operating teams largely on furlough, the first half of the year was very challenging for businesses in our sector. However, we never wavered from our core belief that as social beings, we crave togetherness and interaction, and the Board focused its efforts on best preparing the business to be able to deliver the safe and enjoyable experiences that our customers had been missing for so many months, once restrictions were lifted. As customers returned to the venues, I was delighted to see sales exceeding the Board's expectations, but was also extremely proud of our teams who worked tirelessly to deliver exceptional service despite the difficult conditions. The performance within Escape Hunt continued into 2022, with Q1 being ahead of expectations.

The mental wellbeing of our teams was at the forefront of our minds throughout the periods when they were on furlough, and we made sure to maintain very regular contact and keep them engaged with the business. Our extensive re-training once restrictions were lifted allowed our staff to feel comfortable on their return, and we have been happy with how natural the transition back to work has been.

In preparation for reopening our venues, we invested further in the software platform used in sites to deliver the Escape Hunt experiences, and began to see the benefits of increased operating leverage and efficiency as customers returned. When we first launched the business in 2017, we required one games master for every game that was running, whereas today, one games master can operate up to 3 games simultaneously. This software, combined with the modular design of our games rooms which we now install in sites, has dramatically simplified the build process at new sites, and our new units opened in Milton Keynes, Watford, Kingston and Lakeside bear testament to this.

The second half of the year exceeded even our own expectations, as the business was well placed to exploit pent up customer demand and trading in sites was hugely encouraging. The investment we made in growing our estate substantially throughout 2020 allowed us to deliver group profitability over the 6 months to 31 December 2021, and we were delighted to see substantial growth in the mature sites, as well as stellar performances in the new venues, where sales were ramping up faster than we had seen before.

It was also good to see our investment in innovation being rewarded with a £2.6m R&D grant from HMRC (net of fees), and this, when combined with the underlying trading from sites, contributed to a year which delivered £2.7m Adjusted EBITDA, despite being closed for the majority of the first 6 months.

Acquisitions

We remain grateful to those of our investors who stood by and supported us when COVID presented an existential threat to our industry, and particularly we thank them for supporting the raise of £1.4m (before expenses) in January 2021, which allowed us to buy back our Escape Hunt French and Belgian master franchise and provided us with further working capital. This acquisition is proving fruitful for the business, with the existing sites returning to their pre-COVID levels of demand, and with avenues for future growth being explored. As with the acquisition of the Dubai franchise last year, the return on capital is expected to be very strong, and in both cases, we have gained an engaged and talented team to further develop their respective territories.

In November 2021, we completed our acquisition of Boom Battle Bar – a competitive socialising business showcasing a selection of games alongside a menu of cocktails and street food. Supported again by our shareholders, we raised £16.1m (net of expenses) to complete the purchase and to provide capital for the planned growth of the estate, and have positioned ourselves to become the fastest growing leisure business in the UK. With our current pipeline of over

40 potential sites in development, we anticipate having 27 venues trading by the end of 2022, spread across franchise and owned units. We believe that this footprint will enable us to become a pre-eminent player in the industry.

The acquisition of Boom is a good strategic fit alongside Escape Hunt, as the core customer is in common across both brands, and the experience we have developed in hosting games in Escape Hunt transfers to the hosting of games at Boom. The addition of F&B at Boom is new to the business, but many of our existing management team have their backgrounds in this area. The opportunity to exploit a property market which has been at its lowest point in a generation has enabled us to secure an enviable pipeline of sites, at materially lower rents than would have been achievable previously, and this, combined with the capital contributions on offer, should allow us to make very strong returns on the capital we employ.

The Board

I would like to thank my Board for their unwavering confidence, and for their belief that despite the difficult conditions born of COVID, the business could nevertheless emerge larger, stronger and better positioned if targeted investment was deployed in the right areas.

Outlook

2021 represented an inflexion point for XP Factory. Demonstrating that the Escape Hunt estate had scale enough to deliver group profitability marked a significant milestone for the business, and combined with the acquisition of Boom, I am excited about the future. The management team has already made huge strides towards the integration of Boom into XP Factory, and have opened an additional 8 sites since its acquisition. There will no doubt be challenges to be faced with increasing uncertainty from the current macro-economic environment, inflation and cost pressures and, as a young business, opening so many sites in a short period of time. However, by the end of 2022, we will have built a substantial network across our two brands and with Escape Hunt continuing to grow whilst delivering outstanding customer experiences, the two brands together form a wonderful foundation for exciting times to come.

Richard Rose

Chairman

31 May 2022

Chief Executive's Report

Last year, in my statement I wrote that despite the unprecedented challenges of 2020, we chose as a Board to invest heavily in growing our estate in order that we might emerge from COVID with a critical mass capable of supporting our cost base, and with a company poised for exceptional growth. The performance in 2021 validated that strategic decision and, although H1 2021 was materially affected by lockdown restrictions, I am delighted to highlight below some key performance metrics for the full year:

- 163% increase in Group revenue to £7.0m (2020: £2.7m)
- Pre-IFRS 16 Adjusted Group EBITDA (before R&D credits) of £480k in the six months to 31 December 2021 (2020: loss of £890k)
- £63k Adjusted EBITDA (before R&D credits) for the year to 31 December 2021 (2020: loss of £1.4m)
- Including R&D credits received (£2.6m, net of costs), Adjusted Group EBITDA was £2.7m for the year to 31 December 2021 (2020: loss of £1.4m)
- Group operating loss for the year to 31 December 2021 of £0.5m (2020: loss of £6.4m)

We were delighted that trading in the second half of the year exceeded our expectations, and that we were able to offer our customers experiences that brought them together to make memories after so many months of social lent. Our teams worked tirelessly to create safe but fun environments and delivered outstanding customer service despite the challenges. The Escape Hunt owner-operated footprint increased by 46% in the year (from 13 sites in 2020 to 19 in 2021), and this, combined with improved operational efficiency across all sites, allowed us to capitalise on pent-up demand. The resulting performance that delivered a profitable H2 at Group level represents a key milestone in our journey and serves as the foundation from which we expect to grow rapidly over the coming months.

In November 2021, we completed the acquisition of Boom Battle Bar, for which we successfully raised £16.1m after expenses, via an equity placing and open offer. Combining a portfolio of games with cocktails and street food, Boom is the fastest growing competitive socialising brand, and its pipeline of 39 sites at 31 December 2021 came with the prospect £12.6m of landlord capital contributions to assist with build costs. Post-acquisition, we opened an owner-operated site at the prestigious O2 Arena, and a further franchised site in Coventry, bringing the total to 2 owned sites and 7 franchises by the year end. The return on capital for Boom is expected to be extremely strong, and the aggressive roll out plan will see the Group fast become one of the pre-eminent leisure operators in the UK.

With an additional brand in our mix, following completion of the acquisition of Boom, we made the decision to rename the Company XP Factory Plc, although the trading businesses will continue to operate under Escape Hunt and Boom Battle Bar respectively.

Escape Hunt

Over the year, we bolstered our Escape Hunt owner-operated footprint with openings in Watford, Kingston, Milton Keynes and Lakeside, and also bought back our sites in Paris and Brussels, which were previously operated by our French master franchisee. Across the board, we were delighted by the pace at which customers returned to our venues after COVID restrictions began to lift, and our sites delivered performances that exceeded both our expectations, and also the comparable run-rates from 2019. In the 6 months to 31 December 2021, owner-operated revenues exceeded £5m and were more than 130% ahead of the same period in 2019, driven in part by the new sites growing much faster than their expected maturity curves, but also by strong like-for-like sales growth in the mature venues. Operational leverage has continued to improve, and site level EBITDA for the same period exceeded £3m.

Our team members continued to delight customers and the 5 star ratings in all sites were maintained across TripAdvisor™. Moreover, each eligible site received a TripAdvisor™ Traveller's Choice award, which showcase the top 10% of leisure venues globally. Post COVID, with recruitment of staff being harder than previously, we have maintained our focus on retention, and were pleased to make our 100th internal promotion in the year. The energy and passion with which our teams have returned to the business since furlough has been humbling, and it is this attitude which underpins our culture.

The modular games rooms have continued to evolve, and Milton Keynes was the first site to be built in an entirely modular fashion – a blueprint now being followed in successive builds. This production methodology has significantly simplified the process and time to open and allows for whole rooms to be moved. A good example of this would be in Riyadh, where we were paid to exhibit at the global leisure expo held there, and our modular rooms were enjoyed for 3 months before being taken down and shipped for installation elsewhere in the estate.

The shape of the franchise estate changed through the year, partly because we bought back the French business, but also because some of the smaller, more marginal sites were unable to survive the pandemic, notably if located within territories that offered little to no financial support. Whilst the net effect was to see the estate reduced from 35 sites at the end of 2020, to 27 in 2021, our economics have not been materially affected, as the key regions have continued to perform well. With progress significantly slowed in the US due to the restrictions, it is pleasing to see the site in Houston now showcasing the best of Escape Hunt with its new games room installed, and record weeks are being set on a regular basis. This has established a good foundation from which our partner Proprietor's Capital Holdings can expect to grow.

Overall, Escape Hunt's performance across a challenging year, and in H2 particularly, gave cause for optimism about its future. We continued to demonstrate consistency in the delivery of our unit economics, which yield circa 30% EBITDA margins and strong returns on capital, and most importantly, we delivered a critical mass significant enough to yield group profitability across H2. Our opening strategy continues as set out in our November 2021 circular to shareholders and we are excited to be bringing our experiences to more customers around the country.

Boom Battle Bar

In November 2021, we completed the acquisition of Boom Battle Bar, a young business in the competitive socialising sector. With a variety of games, including axe throwing, augmented reality darts and crazier golf, Boom is anchored by street food and cocktails, and is a good complement to our Escape Hunt business. The elements of hospitality and games hosting transfer across both brands, and our ethos which brings customers together to make special memories remains. Strategically, a further benefit in Boom is that it has allowed us to exploit a timely opportunity in the property market, where large sites (greater than 10k square foot), have become available for the first time in many years, and with deals that have not previously been seen. At the point of acquisition, the business had only 7 sites trading – 1 owner-operated unit and 6 franchises – but had a property pipeline in excess of 40 sites that were well progressed. Moreover, this pipeline carried capital contributions of circa £13m to go towards fit out costs, and we recognised the opportunity to seize a sizeable position in an exciting marketplace very quickly. Indeed, we will be the fastest growing leisure business in the UK in 2022.

An advantage of Boom being small at the point of acquisition, is that we have been able to shape it in our own vision almost from the beginning. Our specific approaches to customer service and hospitality are being adopted and, whilst the operation will continue to improve over the coming months, we are very pleased with the direction of travel. Our team has been bolstered with some highly experienced hires who are helping lead the opening programme and associated training, and the overall integration has felt very natural. Where possible, we are beginning to co-locate Boom Battle Bar with Escape Hunt, such as in Exeter, Edinburgh and Oxford Street, and encouragingly we are seeing our customers enjoying both brands.

The roll out plan for Boom is aggressive, and we have stated our target of 27 sites trading by 31 December 2022. In December 2021, we opened an additional owner-operated site at the O2 Arena in London, and also a further franchise site in Coventry, bringing the total to 9 units at the year end. We imagine ending up with a ratio of approximately a third owner-operated sites to two-thirds franchised, and, within our existing network of franchisees, there is already significant appetite to do more. Whilst still early days, the sites have traded as expected, with strong operating leverage making for a high expected return on capital. Perhaps more importantly, the customer feedback so far has been very encouraging, and as we continue to hone our mode we expect to be able to deliver experiences as well rated as those which we consistently deliver at Escape Hunt.

Chief Executive's Report continued

Strategic objectives

At the time of acquiring Boom Battle Bar, we outlined a four-point strategy to build shareholder value. These four strategic objectives remain our focus and, as set out above, we are making steady progress towards their realisation.

1. *Maximise the UK footprint by rolling out each brand, either through direct investment into owner-operated sites or through franchises*

We expect to co-locate a number of Escape Hunt sites with Boom Battle Bar as the estate of owner-operated sites grows. Our short and medium term targets for the UK are as follows:

	ESCAPE HUNT	BOOM BATTLE BAR
Existing sites	15 UK sites	3 owner operated 10 franchise
Target: 31 December 2022	21 UK owner operated	7 owner operated 20 franchise
Potential sites (long term – 5yrs+)	50+	100+

As set out above, our targets have not changed since those made at the time of the acquisition of Boom Battle Bar.

2. *Accelerate growth in International territories, predominantly through franchises*

Whilst we believe that there is a significant opportunity for each brand internationally, the immediacy of international growth will differ for each operating brand. For Boom, the focus will initially be the UK. There are opportunities for expansion into territories where we own and operate Escape Hunt sites, which we are likely to explore. More broadly, international expansion is likely to be franchise led. For Escape Hunt, our international focus is on growing our US business in partnership with our Area Representative, PCH.

3. *Continue to develop new products and markets which facilitate the growth of B2B sales*

We will continue to innovate and develop products that provide access to a broader range of customer markets. Our direct sales team has been expanded and is beginning to address the corporate / business market for both Escape Hunt and Boom Battle Bar effectively.

4. *Integrate the businesses, exploit the synergies where possible, and develop an infrastructure that supports scale and future growth*

Whilst more inward looking, the fourth objective is a critical component for the success of our business. I have been delighted with the progress we have made so far in embracing the cultures of the two businesses and building on the DNA and values within the XP Factory Group. The benefits of working together to take advantage of the unprecedented property opportunity are evident. Where we are co-located, we are now developing cross marketing initiatives to ensure that we are able to exploit the natural synergies that the businesses offer. Further work will be done over the next 12 – 24 months to upgrade and improve our systems and processes to ensure that we have a resilient infrastructure capable of supporting the growth we believe is possible.

Outlook

2021 was an important year in our journey. It marked the inflexion point at which we delivered sufficient critical mass to become profitable and was the year where we best set ourselves up to become a key player in the leisure space with the acquisition of Boom. The customer demand we have seen since Covid restrictions were lifted has been overwhelmingly positive and has reinforced our belief that businesses like ours serve an important role in bringing people together. With the Escape Room category becoming much more a part of the mainstream consumer psyche, and with competitive socialising being such a fast growing sub-sector within the leisure market, we feel that XP Factory is perfectly positioned through its operating brands Escape Hunt and Boom respectively.

With such a well-developed pipeline of sites, such encouraging demonstrable unit economics in both brands, and such a well-positioned business in terms of customer demand, we have reason to be highly optimistic about the future for XP Factory.

Richard Harpham

Chief Executive Officer

31 May 2022

Financial Review

Group Results

Revenue

Group revenue increased by 163% compared to 2020, reflecting the strong bounce back of activity in Escape Hunt in the second half of 2021 following the COVID-19 lockdown periods in H1 2021 and for much of 2020, and the inclusion of Boom Battle Bar only for December 2021 following its acquisition in November 2021.

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000	Increase / (decrease)
New site upfront location exclusivity fees, support and administrative fees	247	268	(8%)
Escape Hunt Franchise revenues	385	309	25%
Boom Franchise revenues*	71	-	nm
Escape Hunt owned branch revenues	6,004	2,070	190%
Boom owned branch revenues*	263	-	nm
Other	15	11	273%
Total	6,984	2,658	163%

*Boom revenue is only since its acquisition in November 2021

Owner-operated revenues include £263k from Boom in December 2021 and strong underlying growth within the Escape Hunt network, up 190% year on year. The UK sites were closed between January and mid-May 2021, and the French and Belgian sites between January and June 2021. Whilst Dubai remained open throughout the year, it too was affected by Covid induced reductions in footfall.

The Escape Hunt owner operated network comprised 19 sites at the end of 2021. Our site in Edinburgh has since closed and is being relocated in a shared location with our proposed Boom site in Edinburgh, scheduled to open during the Summer of 2022. This compares to 13 sites open at the end of 2020, with the estate expanded through the acquisition of sites in Paris and Brussels, and new sites opening for the first time in 2021 at Kingston, Watford, Lakeside (co-located with Boom), and Milton Keynes. The Group had two Boom owner operated sites (at Lakeside and the O2 Arena) as at 31 December 2021 (2020: nil).

Franchise revenue includes a total of £111k from Boom in December 2021, comprising revenue share of £71k and upfront fees recognised of £41k. Underlying Escape Hunt franchise revenue share fees were up 25% compared to 2020, reflecting the bounce back of business in the second half of the year. Note that the conversion of Dubai (in Q4 2020), Paris and Brussels (in Q1 2021) to owner managed sites means underlying revenue growth was stronger still. Reductions in both new site exclusivity fees and support and admin fees reflect these conversions as well as changes in a number of the Escape Hunt franchise agreements and the elimination of the amortisation of historic upfront fees on sites which have since closed.

Following the acquisitions of sites in Paris and Brussels in the year and some further rationalisation of our franchise estate, largely Covid-induced closures, the number of active Escape Hunt franchisees at 31 December 2021 was 25 which compares to 35 at 31 December 2020. In addition, following the acquisition of Boom Battle Bars, the Group had 7 Boom franchises operating on 31 December 2021 (2020: nil).

Gross profit

Cost of sales includes the variable labour cost at sites and other direct cost of sales, but not fixed salaries of site staff, whose costs are included as administration costs. The Board believes this categorisation best reflects the underlying performance at sites and provides a more useful measure of the business.

Gross margin rose from 70.7% in 2020 to 72.7% in 2021.

Adjusted EBITDA

The Group recorded its first Adjusted EBITDA profit of £2,653k (2020: loss £1,445k). Adjusted EBITDA includes £3,236k (gross) R&D claims received in the year. Net of associated fees, the R&D claims totalled £2,589k, such that the Group achieved an Adjusted EBITDA profit of £64k excluding the R&D claims for the full year.

	Escape Hunt Owned	Escape Hunt Franchise	Boom Owned	Boom Franchise	Unallocated	2021 £'000
Site Level EBITDA before other income	3,057	407	84	111	-	3,659
Centrally incurred overheads	(1,479)	(130)	(2)	(30)	(2,972)	(4,613)
Other income	371	-	-	-	3,236	3,607
Adjusted EBITDA	1,949	277	82	81	264	2,653

	Escape Hunt Owned	Escape Hunt Franchise	Boom Owned	Boom Franchise	Unallocated	2020 £'000
Site level EBITDA before other income	312	539	-	-	-	851
Centrally incurred overheads	(69)	(242)	-	-	(2,379)	(2,690)
Other income	321	-	-	-	73	394
Adjusted EBITDA	564	297	-	-	(2,306)	(1,445)

The performance for the year reflected two very different halves, given that COVID restrictions were in force for much of the first half. Excluding the R&D claims, net of fees, Adjusted EBITDA in the six months to 31 December 2021 was £862k on turnover in the same period of £5.8m delivering an Adjusted EBITDA margin of 15%. On a pre-IFRS16 basis, Adjusted EBITDA in the second half of the year was £480k confirming, as previously asserted, that the Group has achieved adequate scale to operate profitably.

A reconciliation between statutory operating loss and Adjusted EBITDA is shown below.

	Year ended 31 Dec 2021 £'000	Year ended 31 Dec 2020 £'000
Adjusted EBITDA	2,653	(1,445)
Amortisation of intangibles	(471)	(2,299)
Rent concessions recognised in the year	148	22
Depreciation of property plant and equipment	(1,721)	(1,819)
Depreciation of right-of-use assets	(613)	(380)
Loss on disposal of tangible assets	(39)	(23)
Loss on disposal of intangible assets	(11)	(7)
Profit on termination / change of leases	41	-
Branch closure costs	(4)	(52)
Branch pre-opening costs	(103)	-
Provision against loan to franchisee	(78)	(300)
Provision for guarantee leases	(8)	-
Exceptional professional costs	(235)	(35)
Foreign currency gains / (losses)	(18)	-
Share-based payment expense	(62)	(29)
Operating loss	(521)	(6,367)

Operating loss

The Group made an operating profit of £1,702k in the six months to 31 December 2021, offsetting a loss of £2,223k in the first half of the year. For the full year, group operating loss fell significantly to £521k (2020: loss £6,367k).

Financial Review *continued*

COVID-related property grants of £371k (2020: £135k) and the Coronavirus Job Retention Scheme benefit of £460k (2020: £756k) were received and offset a proportion of property and employment costs incurred whilst Escape Hunt sites were closed. A total of £3,236k of R&D claims in respect of 2019 and 2020 have been recognised in the year (2020: £259k). The Group used a consultant to advise on these grants and net of fees, the grants contributed £2,589k (2020: £207k). Without the net benefit of the R&D grants, the operating loss in the six months to 31 December 2021 would have been £886k.

Exceptional professional costs related to work in connection with the acquisitions of the French and Belgian franchises and of Boom Battle Bar in 2021. Rent concessions reflect the rent reductions granted by landlords during COVID. Branch pre-opening costs reflect the pre-opening costs for the sites at Milton Keynes and the O2. Pre-opening costs for Watford, Kingston and Lakeside have not been separated out as much of the pre-opening activity took place during lockdown.

Central overheads

Centrally incurred overhead costs, including costs allocated to the owner-operated and franchise segments, rose to £4.6m (2020: £2.7m) including £0.6m of costs associated with R&D claims. The increase reflects a resumption of activity which was stopped during COVID or Government subsidy received through the CJRS scheme, and increased headcount and other central costs as part of and following the acquisition of Boom. Unallocated central costs, excluding the R&D associated fees, was £2.4m, broadly flat on 2020.

Cashflow and capital expenditure

Cash and cash equivalents at the year-end was £8.2m (2020: £2.7m).

Operating cashflow before working capital changes of £2.3m reflects the positive group Adjusted EBITDA. The net proceeds from R&D grants were received in January 2022 and therefore show as a significant increase in trade receivables and also impact trade payables at year end. The resultant cash generated by operating activities was £0.7m.

Deferred rentals and HMRC payments totalling £299k at the end of 2020 were all caught up in the course of 2021. All rents and other payments are now up to date other than a few minor HMRC time to pay arrangements relating to Boom entities, for which the Group has back-to-back collection arrangements with the vendors of Boom.

During the year, £2.7m (2020: £2.0m) was utilised for capital investment, of which £2.6m was on property plant and equipment, including new games and site fit out, and £0.1m on intangibles, much of it capitalised staff costs. The majority of this expenditure was for the new sites at Kingston, Watford, Lakeside and Milton Keynes, but also includes capital expenditure of £0.4m on the Boom site at O2, post-acquisition of Boom in November 2021.

In January 2021, the Company raised £1.3m (net of expenses) through a placing to fund the acquisition of the France and Belgium master franchise and to provide further working capital. The acquisition completed on 7 March 2021, with total consideration paid of £507k, comprised £278k cash, £86k vendor loan and £247k estimated earnout.

In November 2021, the Company raised a further £16.1m (net of expenses) through a placing, subscription and open offer to fund the acquisition of Boom and to finance the proposed organic expansion of the business. The total consideration payable for Boom was £19,554k, of which £9,606k was paid in cash, £8,950k is contingent share consideration which is payable by the issue of up to 25m shares (valued for the purposes of the accounts at 35.8p per share) dependent on the achievement of certain financial metrics in the first year of ownership, £637k payable as a working capital and net debt adjustment post acquisition, and the balance of £360k by means of a vendor loan note, repayable on the first anniversary of completion. The acquisition gave rise to acquired intangibles of £4,385k, being the Directors' assessment of the value of franchise contracts acquired, and goodwill of £15,856k which includes £1,096k relating to a deferred tax liability required to be recognised on the acquired intangibles under IFRS.

Return on capital

Return on capital is a key performance measure for the Company, with each site being commissioned based on an anticipated cash return on investment, payback and net present value generated. For the 14 Escape Hunt UK sites that operated throughout the second half of the year, the annualised cash return on investment (calculated as site EBITDA divided by total investment in the site) was 34%. However, as previously stated, the investment in the very early sites was substantially higher than has been required in more recent sites, as the benefits of our new modular games have been realised. Using an estimate of what the revised build cost would be, the annualised cash return on investment in the Escape Hunt UK owner operated estate would have been 43% in the second half of 2021.

The cash return on investment for our acquisitions of the Middle Eastern and French and Belgian master franchises is likewise looking very attractive. The acquisition of the Middle East master franchise paid back within six months of its acquisition, whilst the cash on cash return to date from our France and Belgian acquisition is running at an annualised return of 43% notwithstanding the COVID impact in the early months of ownership.

Balance sheet

On 31 December 2021, the Group had a total of £1,653k in loan notes and other loans (2020: £289k). In 2020, the Group issued £340k convertible loan notes of which £272k was regarded as debt and the balance classed as equity. Interest is rolled up at 10 percent per annum on the principal of the convertible loan notes, and the total outstanding as at 31 December 2021, including rolled up interest, was £328k (2020: £289k). In early January 2022, the Company received a Noteholder Notice of Conversion in relation to all of its outstanding convertible loan notes. As a result, 4,378,082 new ordinary shares were issued on 2 February 2022 at 9.0p per share in respect of the principal amount and rolled up interest on the convertible loan notes.

During the year, £86k (€100k) vendor loan notes were issued in respect of the acquisition of the French and Belgian master franchise which carried interest at 4 per cent. per annum. The Belgian and French Escape Hunt business also had a bank loan of which £15k remained outstanding at year end. A £360k loan was issued in November 2021 to the vendors of Boom Battle Bar which is held as a retention against which any warranty claims would be offset. The loan is repayable on the first anniversary of the acquisition of Boom and carries interest at 5 per cent. per annum.

Other loans totalling £876k relate to fit-out finance within the Boom estate. Of these, £494k came with the acquisition of Boom and have back-to-back arrangements with franchisees or the vendors such that the Company's liability is offset by a receivable with cashflows matched accordingly. £367k relates to fit out finance on the Boom O2 Arena site and is repayable over five years.

The Company expects to use fit-out finance and other facilities when available to facilitate the funding of new Boom and Escape Hunt owner-operated sites in future.

Key Performance Indicators

The Directors and management have identified the following key performance indicators ('KPIs') that the Company tracks for each of its operating brands. These will be refined and augmented as the Group's business matures:

- Numbers of owner-operated sites (31 Dec 2021: 19 Escape Hunt sites and 2 Boom Battle Bar sites)
- Numbers of franchised sites (31 Dec 2021: 27 Escape Hunt and 7 Boom Battle Bar)
- Site level revenue (Year to 31 Dec 2021: £6.2m)
- Site level EBITDA (Year to 31 Dec 2021: £4.0m)
- Franchise revenue (Year to 31 Dec: £0.7m)
- Central costs (Year to 31 Dec 2021: £4.7m)
- Adjusted EBITDA for the Group (Year to 31 Dec 2021: £2.7m)

The Company monitors performance of the owner-operated sites on a weekly basis. The Board also receives monthly updates on the progress on site selection, site openings and weekly as well as monthly information on individual site revenue and site operating costs. Monthly management accounts are also reviewed by the Board which focuses on revenue, site profitability and adjusted EBITDA as the key figures within the management accounts.

Both the number of franchised branches as well as their financial performance are monitored by the management team and assistance is provided to all branches that request it in terms of marketing advice as well as the provision of additional games.

The key weekly KPIs by which the UK and owner-operated business is operated are the site revenue (including UK franchise sites), gross margins (in the case of Boom sites) marketing spend and staff costs and consequent ratio of staff

Financial Review *continued*

costs to revenue. Total revenue is tracked against budget, adjusted for seasonality, number of rooms open and the stage in the site's maturity cycle. Staff costs are measured against target percentages of revenue. The effectiveness of marketing is assessed by observing revenue conversion rates and the impact on web traffic, bookings and revenue from specific marketing campaigns. With effect from January 2021, management of digital marketing has been brought in-house with the requisite skills being developed within the team.

The Company's systems track performance on both a weekly and a monthly basis. These statistics provide an early and reliable indicator of current performance. The profitability of the business is managed primarily via a review of revenue, adjusted EBITDA and margins. Working capital is reviewed by measures of absolute amounts.

Graham Bird

Chief Financial Officer

31 May 2022

Corporate Responsibility

The Company takes its responsibilities as a corporate citizen seriously. The Board's primary goal is to create shareholder value but in a responsible way which serves all stakeholders.

Governance

The Board considers sound governance as a critical component of the Group's success and the highest priority. The Company has an effective and engaged Board, with a strong Non-Executive presence from diverse backgrounds and well-functioning governance committees. Through the Group's compensation policies and variable components of employee remuneration, the Remuneration Committee of the Board seeks to ensure that the Company's values are reinforced in employee behaviour and that effective risk management is promoted.

More information on our corporate governance can be found below.

Employees and their development

The Company is dependent upon the qualities and skills of its employees and the commitment of its people plays a major role in the Group's business success. The Company invests in training and developing its staff through internally arranged knowledge sharing events and through external courses.

Employees' performance is aligned to the Group's goals through a performance review process and via incentive programmes. The Group provides employees with information about its activities through regular briefings and other media. The Group operates a number of incentive schemes and a share option scheme operated at the discretion of the Remuneration Committee. An employee share incentive scheme has been put in place and is available to all UK-based employees who have been employed within the Group for at least three months.

Diversity and inclusion

The Group does not discriminate on the grounds of age, gender, nationality, ethnic or racial origin, non-job-related disability, sexual orientation or marital status. The Group gives due consideration to all applications and provides training and the opportunity for career development wherever possible. The Board does not support discrimination of any form, positive or negative, and all appointments are based solely on merit.

Health and Safety

The Group endeavours to ensure that the working environment is safe and healthy and conducive to the well-being of employees who are able to balance work and family commitments. The Group has a Health and Safety at Work policy which is reviewed regularly by the Board. The Group is committed to the health and safety of its customers, employees and sub-contractors and others who may be affected by the Group's activities. The Group provides the information, instruction, training and supervision necessary to ensure that employees are able to discharge their duties effectively. The health and safety procedures used by the Group ensure compliance with all applicable legal and regulatory requirements as well as its own internal standards.

Principal Risks and Uncertainties

The Directors consider that the principal risks and uncertainties facing the Group and a summary of the key measures taken to mitigate those risks are as follows:

Further outbreak of COVID-19 or other pandemics

COVID-19 had a dramatic impact on the leisure sector as a whole. Measures introduced by governments around the world to combat the spread of COVID-19 included temporary closures, the introduction of social distancing rules, rules over the number of people permitted in gatherings, use of face coverings, cleaning protocols, and other measures which have a direct impact on the operation of sites for both owned and operated sites and franchisee sites. Whilst in most jurisdictions the most strenuous measures have now been lifted, there can be no certainty that previous restrictions will not be re-imposed or new restrictions introduced in the UK or in any of the territories where franchisees operate, including full closure. The re-imposition of such measures, or new measures could have a materially adverse impact on the Group's ability to operate and could result in the business model becoming unviable or forcing closure.

During much of 2020 and 2021, whilst the UK Government's imposition of COVID-19 restrictions were in force, the Company was able to benefit from UK Government support through the Job Retention Scheme, the reduction of business rates, and through grants introduced directly as a result of COVID-19. Without this support, the Group would have had to make much more severe decisions regarding staffing and costs and may not have been in a position to re-open without incurring significant additional costs. There can be no certainty that any of these schemes, or any other support measures provided by the UK or other governments in other jurisdictions, would be re-introduced in the event of a further outbreak of COVID-19 or any other pandemic. The company has taken action to implement more flexible employment contracts and, where possible, more flexible leases to reduce the breakeven point at sites, as well as launching new revenue streams which are not dependent on sites being open. These actions will serve to mitigate some of the impact of a future outbreak.

Economic and political risks

The impact of the COVID-19 pandemic has been widely felt and all major global economies in which the group operates experienced a significant contraction in 2020 and depressed output in early 2021. Whilst most economies have experienced a bounce back of activity, inflation has risen sharply and supply chains around the world remain disrupted. Energy prices in particular have increased significantly. Russia's recent invasion of Ukraine has led to significant political tension globally, further impacting energy prices and creating significant uncertainty. Sanctions imposed by Western economies are expected to have a severe impact on Russia, whilst the war in Ukraine will impact the region's ability as a major agricultural producer, both factors in turn impacting food prices. It is possible that the combination of all these factors leads to a broader consumer recession which might adversely impact consumer discretionary spending. The Group's activities are exposed directly to discretionary spend, and as a result, a consumer recession would be expected to have an adverse impact on performance. The Board regularly reviews the Group's ability to cope with a downturn and the associated need for maintaining sufficient financial headroom to be able to absorb the impact of reduced sales activity.

Financial risks

The effective management of its financial exposures is central to preserving the Company and Group's profitability. The Group is exposed to financial market risks and may be impacted negatively by fluctuations in foreign exchange rates, which may create volatility in the Group's results from its international franchise operations to the extent that they are not effectively hedged. The Group does not hedge its foreign exchange rate exposures.

The Group's finance team provides support to management to ensure accurate financial reporting and tracking of business performance. Reporting on financial performance is provided on a monthly basis to senior management and the Board. Weekly reports provide high level summaries of site-by-site performance for Escape Hunt and are now being introduced to Boom sites.

The Group has invested in the improvement of its systems and processes in order to ensure sound financial management and reporting during the year.

Roll-out of owner-operated sites

The XP Factory Group has opened a number of Escape Hunt owner-operated sites. Following the recent acquisition of Boom Battle Bar, the pipeline of sites has increased and includes a number of larger sites which will open as owner-operated sites under the Boom Battle Bar brand. This expansion of owner-operated sites under the Group's two brands offer the Group growth opportunities.

The Group plans to open more sites and was in negotiations with a number of landlords at the end of the year. However, there is no guarantee that the XP Factory Group will be able to locate or secure a sufficient number of appropriate sites to meet its growth and financial targets. As announced previously, obtaining sites, together with appropriate planning permissions and completing legal documentation impacted the roll-out pace in 2018 and 2019 and with the consequent impact on revenues and profits. It is also possible each site may take some time from its opening date to reach profitable operating levels due to inefficiencies typically associated with new sites, including lack of awareness, competition, the need to hire and train sufficient staff and other factors. Furthermore, Boom Battle Bar is a new and relatively untested concept which may not achieve the site level performances expected. The Group has worked to reduce this risk through strong staff recruitment and training processes and investment in both operational and marketing activities.

Opening new sites is capital intensive. However, in the case of most of the proposed Boom Battle Bar sites, the Group has been able to secure favourable lease terms which in most cases include substantial capital contributions from the landlords. These capital contributions significantly reduce the total capital required to open a new site. The Board believes that the real estate market for signing new leases has generally moved in tenants' favour, particularly since COVID-19. As such, the Directors believe that the future return profile for new sites will be stronger than what has been delivered on the original Escape Hunt sites to date. However, there is no guarantee that this will be the case and anecdotal evidence would suggest that property conditions in certain parts of the country are again normalising such that it is becoming harder to achieve the level of capital contributions achieved during COVID.

The ability of the Company to fund the capital expenditure is dependent on access to funding in the form of internally generated cashflow, landlord contributions, equity or debt. The Company was able to raise £17.2m (before expenses) in November 2021 through a placing, share subscription and an open offer to fund the acquisition of Boom Battle Bar and to provide working capital to support the roll out of new Escape Hunt and Boom Battle Bar sites. The directors believe that by investing the cash so earmarked from the fundraise into the network of owner-managed sites in the Group portfolio, they will create a network able to support a profitable and cash generative business in future. However, any expansion beyond the immediate plans or any significant change in the costs associated with building new sites would require additional funding which may be more than that generated by the business and may therefore require additional external funding. There can be no certainty that such additional funding will be available.

Franchise estate

Revenue from the franchise estate currently accounts for a material proportion of both revenue and operating cashflow for the XP Factory Group. Within the Escape Hunt network, a number of the franchisees have been materially adversely affected by COVID-19 in their respective jurisdictions, placing them under significant financial pressure. In a number of cases, franchisees have fallen behind on their financial obligations to Escape Hunt. Whilst Escape Hunt has been working with the franchise network to support them during this unprecedented period, the Group is not in a position to be able to provide financial support to the network and there can be no certainty that all the franchisees will fully recover. This could have an adverse impact on future performance and results.

Within the Boom network, franchisees are new and the Boom concept is relatively unproven. It is therefore possible that the performance of franchise sites may not achieve expectations and franchisees could come under financial pressure and be unable to make the payments for which they are contracted to companies in the XP Factory group or in respect of property lease payments. XP Factory is co-tenant or guarantor on the lease for most of the Boom franchise network and, as such, could be called on by the landlord to make any such defaulted lease payments. The Franchise contracts have consequently been set up within Boom to allow XP Factory to step into any franchise site which is in default and to take over the assets and operations of the site. The directors believe that this right substantially mitigates the risks as the site would effectively become an owner-operated site without any significant capital outlay. XP Factory has the know-how and resources to manage the sites and believes that it would do so in a manner to ensure that any financial exposure can be minimised.

While the XP Factory Group currently plans to continue to open new franchise sites in the UK and around the world, it is more likely that franchise agreements going forwards would be focused towards fewer agreements requiring a larger number of sites to be opened in a particular territory. These potential partners include those who already operate other leisure facilities but there is no guarantee that these will come to fruition. The Company cannot guarantee that the Escape Hunt Group will be able to achieve its franchise expansion goals or that the new sites will generate the expected levels of revenue and therefore revenue share. This may adversely impact on the Group's ability to increase turnover.

Principal Risks and Uncertainties *continued*

The threat of new entrants into both the escape room market and the market in which Boom operates is high

A single site or a small number of sites offering an escape game experience would be relatively simple for a new entrant to establish. The barriers to entry for such competition at that level is relatively low and there is a risk that such entrants could dilute the market place or adversely impact the consumer's perception of escape game experiences in the event that the quality of experience offered by these new entrants was poor or at worst, attracted negative publicity related to the health and safety of participants in escape room games or poor customer reviews which adversely affect the perception of the industry. The escape game experience market is in its infancy and consumer perceptions may be more easily influenced by a poor quality offering or negative publicity due to their limited experience which in turn could negatively impact on the perception of the Group's business and could adversely affect profitability and results of operations.

However, the Group's strategy is to develop an international quality escape room experience and the Directors believe the barriers to entry for new global entrants adopting the same strategy are higher than a single-site opening due to the complexities of designing games and managing them across international operations. However, there is a risk that established corporations in the leisure market, who may have the capital and resources to compete with the Group's business, may wish to enter the escape room market.

Boom Battle Bar is a competitive socialising bar concept which is an area attracting a lot of interest and many new concepts are being developed and opened generating growing competition for the concept. The games operated by Boom Battle Bar are generally not unique and the directors do not believe that they offer any competitive advantage on an individual basis. However, the directors believe that the combination of multiple games in a single site, with the ability to swap out underperforming games with different games provides flexibility to react to competitive threats quickly and effectively. The directors also believe that the sites that have been chosen and developed are in strong locations capable of delivering against the competition. Operationally, the Group is focused on customer satisfaction. These factors lead the directors to believe that the Group is well placed to respond to any potential competitive threats.

The market is immature and therefore forecast growth and application of regulation is unpredictable

The market for both escape game experiences and the competitive socialising concepts offered by Boom Battle Bar is immature and growth will be characterised by changes in consumer needs and expectations, continued evolution in technology and increased competition. If the Group fails to develop new offerings or modify or improve existing offerings in a timely and cost-effective manner in response to these changes in technology, consumer demands and expectations, competition or product introductions, the Group's business, results of operations and financial condition may be adversely affected.

Changing trends could impact on the Group's revenues and profits as well as the Group's goodwill. Whilst the Directors believe that the Group's own escape game designs and Boom Battle Bar concepts have longevity and, therefore the potential to deliver substantial growth in sales, there can be no guarantee that they will evolve to fulfil this potential. The Group will also need to innovate and create new experiences which are market leading. This applies to not just the number of new experiences which are created but the quality and reflection of consumer tastes in the experiences. If the Group fails to anticipate, identify or react swiftly enough to trends in consumer preferences then this could result in lower sales, margins and profits for the Group.

The Group's owner-operated sites are leased. Increases in rental payments or the early termination of any of the Group's leases, or the failure to renew or extend the terms of any of the Group's leases could adversely affect the Group's profitability

The Group's operating performance depends in part on its ability to secure and retain leases in desired locations at rents it believes to be reasonable. The leases for the Group's new owner-operated sites may generally require that their annual rent be reviewed on a periodic basis and which may be on an "upwards-only" basis. The annual rent for the premises then becomes the greater of such open market rental value and the previous contractually agreed rent. As a result, the Group may be unable to predict or control the amount of any future increases in its rental costs arising from the review of rents it pays for its sites and would be unable to benefit from any decline in the open market rental value of its sites. Any substantial increase in the business rates or rent paid by the Group on its owner-operated sites or the early termination of any of its leases could adversely affect the Group's business, financial and other conditions, profitability and results of operations. However, the Group believes that the sustained pressure on the high street, exacerbated by COVID-19 could decrease overall future lease costs as prices may be reducing as a result of changes

in the retail environment, notably as a result of the failure of a number of large format stores such as Debenhams and BHS.

The Group analyses the suitability of all new sites prior to opening, however this is not a guarantee that any new site will be a success. If a site is not successful, the Group may need to cease its operations on that site and seek to assign or sub-let the premises. However, suitable tenants may not be found and any lease may have restrictions on assignment or subletting which may mean that this is either prevented or delayed. A failure to find tenants and/or a prohibition or delay in assigning or sub-letting unsuccessful sites would result in the Group paying rent and satisfying the tenant's obligations under the lease of a site which is not operational and with total rental costs being higher than necessary.

The Group works closely with a number of key suppliers. Termination of any of these key relationships could adversely affect performance in the short term

The Group has invested significant time and resource into relationships with a number of key suppliers, notably those involved in the production, delivery and installation of escape games as well as the technology used to run the games and in the production and fit-out of Boom Battle Bar sites. Whilst the Group owns the intellectual property related to the escape games and these relationships can be replaced, the games played in Boom sites are mostly generic games available to competitors. The replacement of a key supplier could take time and could adversely affect the pace and cost at which the Group is able to execute its growth plans in the short term. It could also adversely impact the short term ongoing maintenance cost of existing games where the key supplier has been involved. Within Boom in particular, the directors believe that this risk is mitigated by the fact that the games and fit-out is less specialised than for an Escape Hunt site.

Performance of franchisees

The Group depends, in large part, on the Escape Hunt and Boom Battle Bars brands. The vast majority of sites in both networks are today owned and operated by franchisees who are responsible for delivering the high standards of the relevant XP Factory owned brand to consumers. Whilst franchisees are required to operate within the Group's standards for site operation, they are given a degree of autonomy to ensure they operate in a way that suits their local area. The XP Factory Group provides that franchisees must adhere to quality, safety and image regulations that the XP Factory Group promotes through the implementation of training and careful monitoring, funded by both the franchisees and the XP Factory Group, and through appraisals. Despite these controls and absent a decision to remove such franchisees from its business, the Group may be unable to prevent its franchisees from operating outside of the Group's operational regulations, franchise manual and business model.

The Board has responded to these risks by appointing directors and staff with the appropriate skills and experience and by identifying KPIs that will show how well these risks are being managed. In particular, the franchise agreements have been considerably strengthened for all new franchisees which will enable the Group to exercise greater control over new franchisees. In the case of the Boom Battle Bar franchise agreements, a breach of standards could result in forfeit of the franchise by the franchisee.

A small franchisee team has now been formed for each of the Escape Hunt and Boom Battle Bar brands to assist the respective franchise network with better marketing advice which is expected to raise revenue for both the franchisee and therefore the Group. The closer collaboration also strengthens the communication and relationship between the Group and the franchise network.

Ability to recruit and retain staff and the impact of wage inflation

As the XP Factory Group grows, the need for experienced personnel with specific skill is expected to grow too. Salary expectations in certain professions have recently increased significantly, driven by growing demand for specific skills and a shortage of supply. XP Factory's growth plans are supported by growth in the employee base and rely on the Group being able to fill the positions earmarked. For certain positions, the time taken to recruit people has become more extended and the costs have increased. The Group has also been impacted by increases in the minimum wage and national living wage. Tax changes have also increased the rate of national insurance payable by employees, adding to the total cost of employment. These increased employment costs, coupled with the longer time taken to recruit certain roles could have an adverse impact on the Group's financial results and ability to execute on its strategy.

Information Technology

The Group relies on technology for the operation of its escape games. A number of the activities offered in Boom Battle Bars also rely on technology. Other functions within the Group, such as marketing, finance, the Group's internal legal department, operations at sites, bookings, e-commerce, staff rotering and other functions all rely on technology for their efficient operation. Failure in any one or more critical technology solution, could have a material adverse impact on the short term performance of the Group and / or could incur fines if as a result, GDPR regulations were seen to have been breached. The Group regularly reviews the risks associated with technology, has appropriate policies and controls in place and carries cyber insurance. The directors also believe that the overall risk associated with technology failure, including the susceptibility to cyber-attack, is mitigated by using cloud based solutions from different suppliers who are not connected.

Statement by the Directors in performance of their statutory duties in accordance with s172(1) Companies Act 2006

The Directors of the Group must act in accordance with a set of general duties. These duties are detailed in section 172(1) of the U.K. Companies Act 2006, which is summarised as follows:

'A Director of a Company must act in the way he/she considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

1. The likely consequences of any decision in the long term;
2. The interests of the Company's employees;
3. The need to foster the Company's business relationships with suppliers, customers and others;
4. The impact of the Company's operations on the community and the environment;
5. The desirability of the Company maintaining a reputation for high standards of business conduct; and
6. The need to act fairly as between members of the Company.

The Board considers that it has fulfilled its duties in accordance with section 172(1) of the UK Companies Act 2006 and have acted in a way which is most likely to promote the success of the Group for the benefit of its stakeholders as a whole in the following ways:

Long term benefit

Our strategy was designed to have a long-term beneficial impact on the Company and to contribute to its success in delivering an engaging and enjoyable service for customers across the world. The Board's strategy to increase the range of experiential brands within the group through the acquisition of Boom Battle Bars and to expand both the owner-operated and franchise estates within both experiential brands as well as developing new digital and remote play options is aimed at building long term value for shareholders and other stakeholders alike.

Shareholders

The Board engages regularly with its shareholders and seeks to build a mutual understanding of the objectives of shareholders and those of the Board by discussing long-term strategy, shorter term challenges and issues and to receive feedback. For further information see page 27.

Within the practical constraints of being able to access all shareholders directly, the Board actively seeks to treat all shareholders equally. In November 2021 the Board opted to offer all shareholders the opportunity to participate in the fund raising by making an open offer available to all shareholders.

Employees

The XP Factory Group is reliant on the quality and performance of its employees and the commitment of its staff plays a crucial role in the success of the business. Staff in sites are given regular training to ensure they are able to fulfil their roles successfully and the Group maintains a regular two-way communication with all staff both centrally and through individual sites to ensure employee matters are identified and addressed.

The safety of our staff is of utmost importance to the Board. As such, the Board implemented a 'work from home' policy for all office based staff on 13th March 2020 in light of the COVID-19 outbreak. In each owner-operated site the board has implemented protocols and standards to safeguard employees who are not able to work from home. The board receives a report on all health and safety issues on a monthly basis. Since the lifting of restrictions related to COVID-19, many of the policies allowing more flexible working have been retained to allow employees flexibility and choice.

Customers

As an experiential leisure business, a primary goal is to delight our customers and provide the best immersive experience we can. TripAdvisor ratings is one of our key internal measures and we continually seek to improve the user journey before, during, and after their experience.

Suppliers

The group works closely with a number of suppliers in different disciplines. We aim to promote collaborative engagement and to build long term partnerships with our suppliers with an objective to minimise risk and optimise costs through the full lifecycle of our relationship. We seek to balance this with the need to ensure the company is not overly reliant on any single supplier.

Community and environment

The Board has overall responsibility for Corporate Social Responsibility ("CSR").

The Group is committed to maintaining and promoting high standards of business integrity. The XP Factory Group's values, which incorporate the principles of corporate social responsibilities (CSR) and sustainability, guide the Group's relationships with clients, employees and the communities and environment in which it operates. The XP Factory Group's approach to sustainability addresses both environmental and social impacts, supporting the XP Factory Group's vision to remain an employer of choice, while meeting client demands for socially responsible partners.

The XP Factory Group respects laws and customs while supporting international laws and regulations. These policies have been integral in the way group companies have done business in the past and continue to play a central role in influencing the Group's practice in the future.

Specific CSR initiatives are promoted by the senior executive management and are communicated to others in the organisation as needed. Initiatives include matters such as recycling and minimising waste, recognition of companies and individuals in the community for whom we have offered discounted or free participation in our games, as well as local community issues and interests such as encouraging furloughed employees to volunteer locally. Many of our employees are actively engaged with charities and other causes for which we will allow the use of company property and facilities.

Culture and values

The Board actively seeks to establish and maintain a corporate culture which will attract both future employees, customers and suppliers. The Company promotes honesty, integrity and respect and all employees are expected to operate in an ethical manner in all their dealings, whether internal or external. We do not tolerate behaviour which goes against these values which could cause reputational damage to the business or create ongoing conflict or unnecessary tension internally.

This Strategic Report was approved by the Board on 31 May 2022 and signed by order of the Board by the Chief Executive Officer.

Richard Harpham

Chief Executive Officer

31 May 2022

Directors' Report

for the Year ended 31 December 2021

The Directors present their report together with the audited financial statements of the Group for the year ended 31 December 2021.

Principal activities

The principal activities of the Group are that of operating consumer facing leisure brands offering immersive experiences.

The Group currently operates two brands, each of which is developing a network of locations, either owned and operated directly or franchised. Escape Hunt is a global leader in providing escape-the-room experiences delivered through a network of owner-operated sites in the UK, an international network of franchised outlets, and through digitally delivered games which can be played remotely.

Boom Battle Bar is a fast-growing network of owner-operated and franchise sites in the UK that combine competitive socialising activities with themed cocktails, drinks and street food in a setting aimed to be high energy and fun.

Cautionary statement

The review of the business and its future development in the Strategic Report has been prepared solely to provide additional information to shareholders to assess the Company's strategies and the potential for these strategies to succeed. It should not be relied on by any other party for any other purpose. The review contains forward looking statements which are made by the Directors in good faith based on information available to them up to the time of the approval of the reports and should be treated with caution due to the inherent uncertainties associated with such statements.

Results and dividends

The results of the Company are set out in detail in the Financial Statements.

Given the nature of the business and its growth strategy, it is unlikely that the Board will recommend a dividend in the next few years. The Directors believe the Company should improve performance to generate profits to fund the Company's growth strategy over the medium term.

Business review and future developments

Details of the business activities and developments made during the period can be found in the Strategic Report and in Note 1 to the Financial Statements respectively.

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he/ she ought to have taken as a director to make himself/ herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Financial instruments and risk management

Disclosures regarding financial instruments are provided within Note 29 to the Financial Statements.

Capital structure and issue of shares

Details of the Company's share capital, together with details of the movements during the period are set out in Note 22 to the Financial Statements. The Company has one class of ordinary share which carries no right to fixed income.

Post balance sheet events

Since the year end, energy prices have risen very materially, notably since the invasion of Ukraine by Russian armed forces. The impact is yet to be fully felt, although inflationary pressures are already evident. Whilst the cost of energy represents only a small component of the Group's costs, the potential impact on consumers from higher inflation may impact consumer spending and the viability of certain sites, including franchised sites. These are considered to be non-

adjusting post balance sheet events and so the measurement of assets and liabilities in the accounts have not been adjusted for their potential impact.

On 11 January 2022, the Company announced that it had received a Noteholder Notice of Conversion in relation to all of its outstanding Convertible Loan Notes together with accrued interest. As a result, the Company issued 4,378,082 new XP Factory Shares on 2 February 2022 in full settlement of the Convertible Loan Notes and outstanding interest.

During January 2022, the Group received payments from HMRC in relation to research and development claims made by the Company and certain of its subsidiaries under the SME R&D Scheme in relation to research and development expenditure incurred in 2019. Since the grant related to a claim which was made prior to the year end, the receipt of cash is considered an adjusting post balance sheet event. Consequently, the receipt of the grants has been recognised in the consolidated financial performance and position of the Group as at the reporting date.

Board of Directors

The Directors of the Company who have served during the year and at the date of this report are:

Director	Role	Date of appointment	Date of resignation	Board Committee
Richard Rose	Independent Non-Executive Chairman	25/5/2016		N A R
Richard Harpham	Chief Executive Officer	3/5/2017		
Graham Bird	Chief Financial Officer	6/1/2020		
Karen Bach	Independent Non-Executive Director	3/5/2017		N A R
John Story	Non-Executive Director	28/9/2020	2/8/2021	

Richard Harpham was first appointed on 25 May 2015 and resigned on 15 June 2016. He was subsequently re-appointed on 3 May 2017.

Board Committee abbreviations are as follows: N = Nomination Committee; A = Audit Committee; R = Remuneration Committee

The Board comprises two Executive and two Non-Executive directors.

Richard Rose, Independent Non-Executive Chairman

Richard has a wealth of experience chairing high profile boards. Previously he has been CEO of two multi-site quoted businesses where he significantly increased shareholder value. Since then he has held a number of Chairman roles including Booker Group plc (retiring in 2015 after three terms) and AO World plc where he retired in 2016. He has been Non-Executive Chairman of Watchstone Group plc since May 2015 is also Chairman of IB Group Ltd since October 2018.

Richard is a member of the Remuneration Committee, the Audit Committee and the Nomination Committee of the Company.

Richard Harpham, Chief Executive Officer

Richard joined the Company on its admission to AIM in May 2017 having worked since November 2016 with the Escape Hunt (now XP Factory) management team. Richard's prior role was with Harris + Hoole, having been Chief Financial Officer and then Managing Director, responsible for its turnaround. Before this, Richard spent over four years at Pret A Manger as Global Head of Strategy. Richard has also held a number of strategic and financial positions at companies including Constellation Brands, Shire Pharmaceuticals and Fujitsu Siemens Computers.

Graham Bird, Chief Financial Officer

Graham, who joined the Company in January 2020, has significant experience in financial and City matters and in growing small businesses. He is a chartered accountant, having qualified with Deloitte in London, and has worked in advisory, investment, commercial and financial roles. Prior to joining XP Factory, Graham was one of the founding employees at Gresham House plc ("Gresham House") where, in addition to supporting the growth of Gresham House, he was responsible for establishing and managing the successful strategic equity business unit which focuses on both quoted and unquoted equity investments. Prior to joining Gresham House, Graham spent six years in senior executive roles at PayPoint Plc ("PayPoint"), including director of strategic planning and corporate development and executive chairman and president of PayByPhone. Before joining PayPoint, he was head of strategic investment at SVG Investment Managers, having previously been at JPMorgan Cazenove, where he served as a director in the corporate finance department.

Directors' Report continued

Karen Bach, Independent Non-Executive Director

Karen who joined the Company on its admission to AIM in May 2017 is a Chair and Non-Executive Director with strong technology, scale-up and transactional expertise. In addition to being the Senior Independent Non-Executive Director of XP Factory, Karen is Chairman and non-executive director of four growing tech businesses and is also CEO of IX Acquisition Corp., a Nasdaq-listed blank check company.

Previously, she was Chairman of IXCellerate Limited, a Non-Executive Director of Belvoir Lettings Plc and KRM22 plc and trustee of the Learning Foundation. Karen gained much experience internationally as Chief Financial Officer at growing technology businesses IXEurope Plc, ACS Plc and Kewill Plc and with blue chip multi-nationals. Karen is also a member of the 30% Club which supports boards to appoint more female directors and increase the pipeline of upcoming female talent. Karen is Chair of the Remuneration Committee, the Audit Committee and the Nomination Committee of the Company.

Directors' interests in shares

Directors' interests in the shares of the Company at the date of this report are disclosed below. Directors' interests in contracts of significance to which the Company was a party during the financial period are disclosed in note 27 to the Financial Statements.

Director	Ordinary shares held	% held
Richard Rose	53,666	0.04
Richard Harpham	874,345	0.58
Graham Bird	1,790,275	1.19
Karen Bach	259,067	0.17

XP Factory Plc owns all the ordinary shares in its subsidiary, Escape Hunt Group Ltd ("EHGL"). EHGL issued a total of 1,000 Growth shares in 2017 to three directors and employees. In 2019, following the departure of one of the individuals, 280 shares were repurchased by the Company. In 2021, the Company purchased the remaining Growth shares for a total £1 consideration. As at 31 December 2021, XP Factory owns 100% of the Growth shares. The Growth shares carry no voting rights and are not entitled to any dividends that may be paid by EHGL.

Directors' interests in options

The following options have been granted to certain Directors under the Escape Hunt Plc 2020 EMI Share Option Scheme. The options vest over three years and are subject to achieving certain performance conditions related to share price appreciation over a four year period.

Director	Options held	Exercise price	Options vested	Date of Grant	Expiry date
Richard Harpham	5,333,333	7.5 pence	1,777,778	16 July 2020	16 July 2025
Graham Bird	3,733,333	7.5 pence	1,244,444	16 July 2020	16 July 2025

Substantial interests

As at 31 March 2022 the Company has been advised of the following significant interests (greater than 3%) in its ordinary share capital:

Shareholder	Ordinary shares held	% held
Canaccord Genuity Wealth Management	32,946,854	21.9
Crux Asset Management	14,458,731	9.6
Hargreaves Lansdown stockbrokers	13,212,266	8.8
JO Hambro Capital Management	9,500,000	6.3
Stephen Lucas	7,233,024	4.8
John Story	5,999,999	4.0
UBS Collateral account	5,124,680	3.4
Allianz Global Investors	5,000,000	3.3

Except as referred to above, the Directors are not aware of any person who was interested in 3% or more of the issued share capital of the Company or could directly or indirectly, jointly or severally, exercise control.

Donations

No political or charitable donations have been made in the year ended 31 December 2021.

Directors' insurance

The Company has maintained throughout the year directors' and officers' liability insurance for the benefit of the Company, the Directors and its Officers.

Independent auditors

A resolution formalising the appointment and proposing the re-appointment of HW Fisher LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

Going Concern

The time horizon required for the Going Concern Statement is a minimum of 12 months from the date of signing the financial statements. Consistent with prior periods, the Directors have adopted an assessment period of 18 months from the year end date of 31 December 2021.

In determining whether there are material uncertainties, the Directors consider the Group's business activities and principal risks. The Directors' reviewed the Group's cash flows, liquidity positions and borrowing facilities for the going concern period.

There has been no material uncertainty identified which would cast significant doubt upon the Group's ability to continue using as a going concern. As such, the Directors considered it appropriate to adopt the going concern basis of accounting in the preparation of the Group's financial statements.

Annual General Meeting

The Annual General Meeting (AGM) will be held on 29 June 2022.

Signed by order of the board

Graham Bird

Chief Financial Officer and Company Secretary

31 May 2022

Corporate Governance Report

Chairman's governance overview

I am pleased to present the Corporate Governance Report for the year ended 31 December 2021.

The Board believes that strong governance is a central element of the successful growth and development of the Group. The Board and its Committees play a key role in the Group's governance by providing an independent perspective to the senior management team, and by seeking to ensure that an effective system of internal controls and risk management procedures is in place. This section of the Annual Report describes our corporate governance structures and processes and how they have been applied throughout the year ended 31 December 2021.

The AIM Rules for Companies require companies to formally adopt a corporate governance code.

On 13 September 2018, the Board of XP Factory decided to apply the QCA Corporate Governance Code (2018 edition - the QCA Code). We believe that the QCA Code provides us with the right governance framework: a flexible but rigorous outcome-oriented environment in which we can continue to develop our governance model to support our business.

Our governance framework

The Board currently comprises two executive and two non-executive directors.

The Board has an audit committee, remuneration committee and nomination committee with formally delegated duties and responsibilities, as described below.

The Chairman, who is Non-Executive and Independent, is responsible for leading an effective board, overseeing corporate governance culture and ensuring appropriate strategic direction.

The Chairman is primarily responsible for the working of the Board of the Company and for assessing the individual contributions of each Board member to ensure that:

- Their contribution is measurable, timely, relevant and effective
- They commit sufficient time to the business to fulfil their statutory and fiduciary duties
- Where relevant, they maintain their independence
- They function collectively in a coherent and productive manner
- They receive appropriate training to stay up to date and improve performance

In accordance with current best practice and the QCA Code, the Board undertakes an annual formal evaluation of its performance and effectiveness and that of each Director and its Committees. This evaluation is overseen by the Chairman, co-ordinated by the Company Secretary and concluded by Chairman interviews where necessary. In addition, the Directors meet, informally, without the Chairman present and evaluate his performance. The Board currently considers that the use of external consultants to facilitate the Board evaluation process is unlikely to be of significant benefit to the process, although the option of doing so is kept under review.

The Chairman considers that key to his role in creating an effective Board, is an effective assimilation of feedback received, and the development and effective application of recommendations.

The QCA Code was adopted by the Company in September 2018 and is set out on the Company's website. The Group addresses the ten principles underpinning the QCA Code as follows:

Deliver growth

1. Establish a strategy and business model which promote long-term value for shareholders
2. Seek to understand and meet shareholder needs and expectations:

See the section "Communication with shareholders" in on page 30 and the "Corporate governance" section of our website, www.xpfactory.com.

3. Take into account wider stakeholder and social responsibilities and their implications for long-term success:
See the "Corporate governance" section of our website, www.xpfactory.com
4. Embed effective risk management, considering both opportunities and threats, throughout the organisation:
See "Principal risks and uncertainties" on page 16.

Maintain a dynamic management framework

5. Maintain the Board as a well-functioning, balanced team led by the Chairman:
See this section
6. Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities:
See this section and "Board of Directors" on page 23.
7. Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement:
See this section and the "Corporate governance" section of our website, www.xpfactory.com
8. Promote a corporate culture that is based on ethical values and behaviours:
See this section and the "Corporate governance" section of our website www.xpfactory.com
9. Maintain governance structures and processes that are fit for purpose and support good decision making by the Board:
See the section "Our Governance framework" below and the "Corporate governance" section of our website www.xpfactory.com

Build trust

10. Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders:

See this section "Our governance framework" and the "Corporate governance" section of our website, www.xpfactory.com

The Board considers that it is fully compliant with all the principles of the OCA Code.

Our governance framework

See below for the role of the Board and its Committees.

Board of Directors

The Board is responsible for formulating, reviewing and approving the Company's strategy, budgets and corporate actions.

Biographical details of the Directors are included above.

The Board comprises two executive and two non-executive directors, including the Chairman. All Directors bring a wide range of skills and experience to the Board. The Non-Executive Directors hold meetings without the executive Directors present. The Chairman is primarily responsible for the working of the Board of the Company. The Chief Executive's office is primarily responsible for the running of the business and implementation of the Board's strategy and policy. The Chief Executive Officer is assisted in the managing of the business on a day-to-day basis by the Chief Financial Officer.

High-level strategic decisions are discussed and taken by the full Board. Investment decisions (above a de minimis level) are taken by the full Board. Operational decisions are taken by the executive directors and their senior leadership team within the framework approved in the annual financial plan and within a framework of Board-approved authorisation levels.

The Board regulations define a frame work of high-level authorities that maps the structure of delegation below Board level, as well as specifying issues which remain within the Board's preserve. The Board typically expects to meet monthly (other than in December and August) and in any event at least four times a year to consider a formal schedule of matters including the operating performance of the business and to review the Company's financial plan and business model. Whilst specific risks are considered as they arise, a more detailed review of the potential risks facing the company and what action is being taken to mitigate the risks is considered on an annual basis. The board obtains feedback from the Company's auditors on the effectiveness of the control environment, together with recommendations for continued improvement.

Corporate Governance Report *continued*

In accordance with the Company's Articles of Association, at the Annual General Meeting of the Company each Director for whom it is the third annual general meeting following the annual general meeting at which they were elected or last re-elected shall retire from office and offer themselves up for re-election.

It is the responsibility of the Chairman and the Company Secretary to ensure that Board members receive sufficient and timely information regarding corporate and business issues to enable them to discharge their duties.

Communication with shareholders

The Board attaches great importance to communication with both institutional and private shareholders.

Regular communication is maintained with all shareholders through Company announcements, the half-year Statement and the Annual Report and financial statements.

The Directors seek to build on a mutual understanding of objectives between the Company and its shareholders. Institutional shareholders are in contact with the Directors through presentations and meetings to discuss issues and to give feedback regularly throughout the year. With private shareholders, this is not always practical, although the Directors are increasingly seeking to create an opportunity for retail shareholders to communicate directly through online and other retail-focused forums.

The Board also intends to use the Company's Annual General Meeting as the opportunity to meet private shareholders who are encouraged to attend (although in 2020 were prevented from doing so due to COVID-19 restrictions on gatherings), and at which the Chief Executive Officer will give a presentation on the activities of the Company.

Following the presentation there would ordinarily be an opportunity to meet and ask questions of Directors and to discuss development of the business.

The Company operates a website at <http://investors.xpfactory.com/>

The website contains details of the Company and its activities; regulatory announcements, Company announcements, Interim statements, preliminary statements and Annual Reports. The website is maintained in compliance with AIM Rule 26.

Board Committees

The Board maintains three standing committees, being the Audit, Remuneration and Nomination Committees. The minutes of all sub-committees are circulated for review and consideration by all relevant Directors, supplemented by oral reports from the Committee Chairmen at Board meetings.

Audit Committee

The Audit Committee was formed in May 2017 on completion of the acquisition of Experiential Ventures Limited and comprises Karen Bach who chairs the committee and Richard Rose. The Committee held 3 meetings in 2021 and has so far held 2 meetings in 2022 being an interim audit meeting and the meeting held to approve the preliminary results announcement on 30 May 2022. Further details on the Audit Committee are provided below in the Report of the Audit Committee.

Remuneration Committee

The Remuneration Committee was formed in May 2017 on completion of the acquisition of Experiential Ventures Limited and comprises Karen Bach, who chairs the committee, and Richard Rose. The Committee holds three meetings each year. The committee adopted the arrangements for Directors' remuneration put in place upon admission and the share incentive plans currently in place. Further details on the Remuneration Committee are provided below in the Report of the Remuneration Committee.

Nomination Committee

The Nomination Committee was formed in May 2017 on completion of the acquisition of Experiential Ventures Limited and comprises Karen Bach who chairs the committee and Richard Rose. The Committee holds two meetings each year. No significant resolutions were made. Further details on the Nomination Committee are provided below in the Report of the Nomination Committee.

Report of the Audit Committee

Audit Committee

The Audit Committee has written terms of reference and provides a mechanism through which the Board can maintain the integrity of the Financial Statements of the Company and any formal announcements relating to its financial performance; to review the Company's internal financial controls and its internal control and risk management systems and to make recommendations to the Board in relation to the appointment of the external auditor, their remuneration both for audit and non-audit work, the nature, scope and results of the audit and the cost effectiveness, independence and objectivity of the auditors. Provision is made by the Audit Committee to meet the auditors at least twice a year.

Internal controls

In applying the principle that the Board should maintain a sound system of internal control to safeguard shareholders' investment and the Company's assets, the Directors recognise that they have overall responsibility for ensuring that the Company maintains systems to provide them with reasonable assurance regarding effective and efficient operations, internal control and compliance with laws and regulations and for reviewing the effectiveness of those systems. However, there are inherent limitations in any system of control and accordingly even the most effective system can provide only reasonable and not absolute assurance against material misstatement or loss. The systems are designed to manage rather than eliminate the risk of failure to achieve the business objectives.

The Company has established procedures necessary to implement the guidance on internal control issued by the FRC Guidance on Risk Management, Internal Control and Related Financial and Business Reporting (September 2014). This includes identification, categorisation and prioritisation of critical risks within the business and allocation of responsibility to its Executives and senior managers. The key features of the internal control system are described below:

Control environment – the Company is committed to high standards of business conduct and seeks to maintain these standards across all of its operations. There are also policies in place for the reporting and resolution of suspected fraudulent activities. The Company has an appropriate organisational structure for planning, executing, controlling and monitoring business operations in order to achieve its objectives.

Risk identification – Management is responsible for the identification and evaluation of key risks applicable to their areas of business. These risks are entered onto a risk register and assessed on a continual basis and may be associated with a variety of internal and external sources, including infringement of IP, sales channels, investment risk, staff retention, disruption in information systems, natural catastrophe and regulatory requirements. This is reviewed at least annually by the Board.

Information systems – The Board actively monitors performance against plan. Forecasts and operational results are consolidated and presented to the Board on a regular basis. Through these mechanisms, performance is continually monitored, risks identified in a timely manner, their financial implications assessed, control procedures re-evaluated and corrective actions agreed and implemented.

Main control procedures – the Company has implemented control procedures designed to ensure complete and accurate accounting for financial transactions and to limit the exposure to loss of assets and fraud. Measures taken include segregation of duties and reviews by management.

Monitoring and corrective action – There are clear and consistent procedures in place for monitoring the system of internal financial controls.

Following the Audit Committee's recommendation, the Board considers the internal control system to be adequate for the Company. The Audit Committee reviews the scope and scale of the non-audit services undertaken by the auditors in order to ensure that their independence and objectivity is safeguarded. The Committee is satisfied with the objectivity and performance of the external auditor.

Report of the Remuneration Committee

The Remuneration Committee monitors the remuneration policies of the Company to ensure that they are consistent with its business objectives. Its terms of reference include the recommendation and execution of policy on Director and executive management remuneration and for reporting decisions made to the Board. The Committee determines the individual remuneration package of the executive management of the Board.

Corporate Governance Report continued

The Remuneration Committee recognises that incentivisation of staff is a key issue for the Company, which depends on the skill of its people for its success. The Remuneration Committee seeks to incentivise employees by linking individual remuneration to individual performance and contribution, and to the Company's results.

The duties of the Committee are to:

- determine and agree with the Board the framework or broad policy for the remuneration of the chairperson, executive directors, non-executive directors and any employees that the Board delegates to it;
- within the terms of the agreed policy, determine individual remuneration packages including bonuses, incentive payments, share options, pension arrangements and any other benefits;
- determine the contractual terms on termination and individual termination payments, ensuring that the duty of the individual to mitigate loss is fully recognised;
- in determining individual packages and arrangements, give due regard to the comments and recommendations of the Governance Code and the AIM Rules for Companies;
- be told of and be given the chance to advise on any major changes in employee benefit structures in the Group;
- recommend and monitor the level and structure of remuneration for senior managers below Board level as determined; and
- agree the policy for authorising claims for expenses from the Chief Executive Officer and from the Chairman of the Board.

The Committee is authorised by the Board to:

- seek any information it requires from any employee in order to perform its duties;
- be responsible for establishing the selection criteria and then for selecting, appointing and setting the terms of reference for any remuneration consultants providing advice to the Committee, at the Group's expense; and
- obtain, at the Group's expense, outside legal or other professional advice where necessary in the course of its activities.

Service contracts

The executive and non-executive Directors have signed service agreements that contain notice periods of six months, in the case of the Chief Executive and Chief Financial Officer and three months for all others. There are no additional financial provisions for termination.

Incentive Schemes

2020 EMI Share option scheme

On 15 July 2020 the Company established a new EMI Share option scheme to replace both the previous senior executive incentive schemes, being the 2018 EMI Share option scheme and the Growth Share incentive plan. The scheme is designed principally to incentivise senior, full time executives through the award of share options. The scheme provides for awards to be made which vest over a three year period subject to continuous employment. The ability to exercise the options is subject to performance conditions related to share price performance and are measured over a four year period from grant. The vesting of share options is accelerated in the case of a takeover. The options must be exercised within five years of grant.

Escape Hunt Plc Share incentive plan

In November 2020 the Company established a new HMRC tax-advantaged all employee share scheme, namely the Escape Hunt Plc Share Incentive Plan ("SIP"). The SIP has been adopted to promote and support the principles of wider share ownership amongst all the Company's employees. The Plan is available to all eligible employees, including Escape Hunt's executive directors, and invites individuals to elect to purchase ordinary shares of 1.25p each in the

Company ("Ordinary Shares") via the SIP trustee using monthly salary deductions. Shares are purchased monthly by the SIP trustee on behalf of the participating employees at the prevailing market price. Individual elections can be as little as £10 per month, but may not, in aggregate, exceed £1,800 per employee in any one tax year. The Ordinary Shares acquired in this manner are referred to as "Partnership Shares" and, for each Partnership Share purchased, participants will be awarded one further Ordinary Share, known as a "Matching Share", at nil cost.

Matching Shares must normally be held in the SIP for a minimum holding period of 3 years and, other than in certain exceptional circumstances, will be forfeited if, during that period, the participant in question ceases employment or withdraws their corresponding Partnership Shares from the Plan. The first purchases under the scheme took place in March 2021.

Report of the Nomination Committee

The function of the Nomination Committee shall be to provide a formal, rigorous and transparent procedure for the appointment of new directors to the Board. In carrying out its duties, the Nomination Committee is primarily responsible for:

- identifying and nominating candidates to fill Board vacancies;
- evaluating the structure and composition of the Board with regard to the balance of skills, knowledge and experience and making recommendations accordingly;
- reviewing the time requirements of Non-Executive Directors;
- giving full consideration to succession planning; and
- reviewing the leadership of the Group.

Statement of directors' responsibilities in respect of the annual report and the financial statements

The Directors are responsible for preparing the Annual Report and the Group and parent Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent Company financial statements for each financial year. Under the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with UK-adopted International Accounting Standards as issued by the International Accounting Standards Board and applicable law and they have elected to prepare the parent Company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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 state of affairs of the Group and parent Company and of their profit or loss for that period. In preparing each of the Group and Parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with UK-adopted International Accounting Standards;
- for the parent Company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Corporate Governance Report continued

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report and a Directors' Report that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Website publication

The Directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Directors' Confirmations

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and parent Company's position and performance, business model and strategy.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group and parent Company's auditors are unaware; and
- they have taken all the 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 Group and parent Company's auditors are aware of that information.

Signed by order of the Board

Richard Rose

31 May 2022

Independent Auditor's Report to the Members of XP Factory Plc (formerly Escape Hunt plc)

Opinion

We have audited the financial statements of XP Factory Plc (formerly Escape Hunt Plc) (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2021, which comprise the:

- the consolidated Statement of Comprehensive Income;
- the consolidated and Parent Company Statements of Financial Position,
- the consolidated and Parent Company Statement of Changes in Equity;
- the consolidated Statement of Cash Flows;
- the related notes to the Consolidated and Parent Company financial statements including significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK-adopted International Accounting Standards ('IAS'). The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

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 2021 and of the Group's loss for the year then ended;
- the Group's financial statements have been properly prepared in accordance with UK-adopted International Accounting Standards ('IAS');
- the Parent Company financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) 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 are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Summary of our audit approach

Context

There are twenty-eight components of the Group, twenty-two located and operating in the United Kingdom and 6 located and operating overseas. The audits of XP Factory Plc (formerly Escape Hunt Plc) and its UK subsidiary undertakings requiring statutory audits were conducted from the UK by the audit engagement team. Financial information from other components not considered to be individually significant was subject to limited review procedures carried out by the audit engagement team.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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

Independent Auditor's Report to the Members of XP Factory Plc (formerly Escape Hunt plc) continued

(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.

The key audit matters that we identified in the current year were:

- Revenue recognition arising from occurrence, completeness and cut-off in the period;
- Management override of controls;
- IFRS 9 and the resultant expected credit loss from franchisees;
- IFRS 16 and the adoption of IFRS 16;
- Valuation and impairment of goodwill and other intangible assets arising from business combinations;
- Valuation of contingent consideration arising from business combinations; and
- Going Concern.

Our application of materiality

In planning and performing our audit we applied the concept of materiality. An item is considered material if it could reasonably be expected to change the economic decisions of a user of the financial statements. We used the concept of materiality to both focus our testing and to evaluate the impact of misstatements identified.

Based on our professional judgement, we determined overall materiality for the Group financial statements as a whole to be £145,000, based on 1% of Group turnover.

An overview of the scope of our audit

The key audit matters identified above are discussed further in this section. This is not a complete list of all risks identified by our audit.

We identified going concern as a key audit matter and have detailed our response in the conclusions relating to going concern section below.

Area of focus

Revenue recognition arising from occurrence, completeness and cut-off in the period

There is a presumed risk of misstatement arising from lack of completeness or inaccurate cut-off relating to revenues.

How our audit addressed the area of focus

Our audit work included, but was not restricted to the following:

- We evaluated the sales controls system in place to determine the controls surrounding the income.
- We checked a sample of the franchise agreements and contracts through to the income recognised in the accounts and invoices.
- We checked a sample of sales from the booking system through to the income recognised in the accounts.
- We also completed checks on deferred and accrued income.
- We reviewed the revenue recognition accounting policy to ensure the application was consistent.

Based on our audit work detailed above, we confirm that we have nothing material to report, and or draw attention to in respect of these matters.

Management override of controls

Management is in a unique position to override controls that otherwise appear to be operating effectively.

Our audit work included, but was not restricted to the following:

- We undertook testing on the Company and Group's controls, we extended our audit testing to perform enhanced management override procedures.
- We undertook a review to gain an understanding of the overall governance and oversight process surrounding management's review of the financial statements.
- We examined the significant accounting estimates and judgements relevant to the financial statements for evidence of bias by the directors.
- We reviewed the financial statements and considered whether the accounting policies are appropriate and have been applied consistently.
- We undertook a review of the journals posted through the nominal ledger for significant and unusual transactions and investigated them, reviewing and confirming the journal entry postings.
- We undertook a review of the consolidation journals to ensure they were reasonable.

Based on our audit work detailed above, we confirm that we have nothing material to report, and or draw attention to in respect of these matters.

Independent Auditor's Report to the Members of XP Factory Plc (formerly Escape Hunt plc) continued

Area of focus

IFRS 9 and the resultant expected credit loss from franchisees

The Company is a co-tenant or has provided a guarantee on a number of property leases for which a franchisee is the primary lessee. IFRS 9 requires the recognition of expected credit losses in respect of financial guarantees, including those provided by the Group. Where there has been a significant increase in credit risk, the standard requires the recognition of the expected lifetime losses on such financial guarantees.

The assessment of whether there has been a significant increase in credit risk is based on whether there has been an increase in the probability of default occurring since previous recognition.

The assessment of the probability of default is inherently subjective and requires management judgement.

IFRS 16 and the adoption of IFRS 16;

The Group holds multiple property leases and judgement is required regarding the recognition of right of use assets and lease liabilities.

How our audit addressed the area of focus

Our audit work included, but was not restricted to the following:

- We obtained management's calculation of the expected credit loss provision and discussed the key inputs into the assessment with management.
- We reviewed the lease agreements to verify the terms of the lease which act as a basis for the calculation.
- We reviewed the calculation for completeness based on our knowledge of the business.
- We reviewed the appropriateness of the disclosures made and its consistency with our knowledge of the agreements.

Based on our audit work detailed above, we confirm that we have nothing material to report, and or draw attention to in respect of these matters.

Our audit work included, but was not restricted to the following:

- We obtained management's calculation of recognition of right of use assets and lease liabilities.
- We reviewed the lease agreements and re-performed calculations to verify the accuracy the calculation.
- We reviewed the calculation for completeness based on our knowledge of leases within the business.
- We reviewed the significant judgements made in the recognition of the right of use assets and lease liabilities, particularly with respect to the discount rate implicit in the lease based on the Group's incremental borrowing rate, which is assessed at 6.2%.
- We reviewed the appropriateness of the disclosures made and its consistency with our knowledge of the lease agreements and the application of IFRS 16.

Based on our audit work detailed above, we confirm that we have nothing material to report, and or draw attention to in respect of these matters

Valuation and impairment of goodwill and other intangible assets arising from business combinations

The Group's intangibles comprise of goodwill, trademarks, intellectual property, franchise agreements, and the portal.

Intangibles arising from business combinations amounted to £21.5m.

The total carrying value of intangible assets was £22m (2020: £0.9m).

The continued losses and impact of COVID-19 combined with the uncertainty of future cash flows indicate there could be an impairment in the carrying value of the intangible assets and such as we considered this to be a key audit matter.

Our audit work included, but was not restricted to the following:

Valuation

- We obtained management's valuation of the acquired intangibles and discussed the key inputs into the assessment with management.
- We performed procedures, including challenge regarding reasonableness of the inputs into the model.
- We reviewed the significant judgements made in the model, particularly with respect to the discount rate applied, the calculation of tax amortisation benefits and the recognition of deferred tax liabilities.
- We tested to ensure the mathematical accuracy of the model presented.

Impairment

- We obtained management's assessment of impairment and discussed the key inputs into the assessment with management.
- We performed procedures, including challenge regarding reasonableness of the inputs into the model.
- We considered management's sensitivity analysis and also performed an additional range of sensitivities to assess whether a reasonably likely change to a key input would result in an impairment charge.
- We tested to ensure the mathematical accuracy of the model presented.

Based on our audit work detailed above, we confirm that we have nothing material to report, and or draw attention to in respect of these matters.

Independent Auditor's Report to the Members of XP Factory Plc (formerly Escape Hunt plc) continued

Area of focus

Valuation of contingent consideration arising from business combinations

There is contingent consideration of £8.95m arising on the acquisition of the Boom Group.

Contingent consideration includes a preliminary estimate on the earnout payable in respect of the acquisition, recognised at fair value at the date of acquisition.

The contingent consideration is payable by means of an issue of up to 25,000,000 Consideration Shares.

How our audit addressed the area of focus

Our audit work included, but was not restricted to the following:

- We obtained management's calculation of the fair value at the date of acquisition and at the expected date of issue and discussed the key inputs into the assessment with management.
- We performed procedures, including challenge regarding reasonableness of the inputs into the model.
- We reviewed the significant judgements made in the model, particularly with respect to the cost of equity rate applied.
- We tested to ensure the mathematical accuracy of the model presented.
- We reviewed the appropriateness of the disclosures made and its consistency with our knowledge of the transaction.

Based on our audit work detailed above, we confirm that we have nothing material to report, and or draw attention to in respect of these matters.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included obtaining and reviewing the forecast financial projections.

Management prepared two main scenarios for the future business following the planned opening of new sites in the UK. As part of their assessment, the following scenarios were presented:

- A central case for which revenue forecasts are based on a regression analysis of previous performance for the twelve months to February 2020, prior to the impact of COVID-19, adjusted for seasonality. Sales are not expected to be affected by COVID-19, following the removal of all COVID-19 related restrictions. The central case includes the planned roll out of new sites and is based on existing property deals which are in legal stages, heads of terms or final negotiations and management have a high degree of visibility. The central case represents the targets considered achievable by divisional management.
- A downside case which reflects a combination of downside sensitivities in each of the Boom and Escape Hunt businesses. Sensitivities include a sales reduction of 10% leading to reduced margins, cost inflation of a further 3%, closure of all sites for one month as a result of the COVID-19 pandemic with government support, a delay in the timing of the opening of new sites by 60 days, a reduction of the number of new sites rolled out and a 10% increase in building costs.

In both scenarios the Group has surplus working capital to meet its working capital requirements for the foreseeable future.

We performed audit procedures, including but was not restricted to the following:

- We reviewed the forecast revenues and resulting cash flows within the assessment period;
- We compared the forecast to available management information for the business post year-end;
- We considered management's sensitivity analysis and also performed an additional range of sensitivities to assess whether a reasonably likely change to a key input would result in an erosion of the revised headroom on working capital available in the downside model used by management.
- We reviewed the announcements and considered if any items will have a financial impact affecting the going concern;
- We reviewed the appropriateness of the disclosures made and its consistency with our knowledge of the business.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group or Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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 contained within the annual report. Our opinion on the 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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the 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 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

Independent Auditor's Report to the Members of XP Factory Plc (formerly Escape Hunt plc) continued

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 (UK) 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

As part of our planning process:

- We enquired of management the systems and controls the Group and Company has in place, the areas of the financial statements that are most susceptible to the risk of irregularities and fraud, and whether there was any known, suspected or alleged fraud. The Group and Company did not inform us of any known, suspected or alleged fraud.
- We obtained an understanding of the legal and regulatory frameworks applicable to the Group and Company. We determined that the following were most relevant: UK-adopted International Accounting Standards and Companies Act 2006.
- We considered the incentives and opportunities that exist in the Group and Company, including the extent of management bias, which present a potential for irregularities and fraud to be perpetuated, and tailored our risk assessment accordingly.
- Using our knowledge of the Group and Company, together with the discussions held with the Group and Company at the planning stage, we formed a conclusion on the risk of misstatement due to irregularities including fraud and tailored our procedures according to this risk assessment.

The key procedures we undertook to detect irregularities including fraud during the course of the audit included:

- Identifying and testing journal entries and the overall accounting records, in particular those that were significant and unusual.
- Reviewing the financial statement disclosures and determining whether accounting policies have been appropriately applied.
- Reviewing and challenging the assumptions and judgements used by management in their significant accounting estimates.
- Assessing the extent of compliance, or lack of, with the relevant laws and regulations.
- Testing key revenue lines, in particular cut-off, for evidence of management bias.
- Performing a physical verification of key assets.
- Obtaining third-party confirmation of material bank and loan balances.
- Documenting and verifying all significant related party and consolidated balances and transactions.
- Reviewing documentation such as the Group and Company's board minutes for discussions of irregularities including fraud.
- Testing all material consolidation adjustments.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements even though we have properly planned and performed our audit in accordance with auditing standards. The primary responsibility for the prevention and detection of irregularities and fraud rests with the directors.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report

Use of our audit report

This report is made solely to the Parent Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Gary Miller (Senior Statutory Auditor)
For and on behalf of HW Fisher LLP

Chartered Accountants

Statutory Auditor

Acre House
11/15 William Road
London
NW1 3ER
United Kingdom

31 May 2022

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2021

All figures in £'000s	Note	Year ended 31 December 2021	Year ended 31 December 2020
Continuing operations			
Revenue	4	6,984	2,658
Cost of sales	6	(1,904)	(778)
Gross profit		5,080	1,880
Other income	32	3,607	394
Administrative expenses	6	(9,208)	(8,641)
Operating loss	6	(521)	(6,367)
Adjusted EBITDA		2,653	(1,445)
Amortisation of intangibles	12	(471)	(2,299)
Rent concessions recognised in the year	11	148	22
Depreciation of property plant and equipment	10	(1,721)	(1,819)
Depreciation of right-of-use assets	11	(613)	(380)
Loss on disposal of tangible assets	10	(39)	(23)
Loss on disposal of intangible assets	12	(11)	(7)
Profit on termination / change of leases	11	41	-
Branch closure costs		(4)	(52)
Branch pre-opening costs		(103)	-
Provision against loan to franchisee	15	(78)	(300)
Provision for guarantee leases	21	(8)	-
Exceptional professional costs	6	(235)	(35)
Foreign currency gains / (losses)		(18)	-
Share-based payment expense	24	(62)	(29)
Operating loss		(521)	(6,367)
Interest charged		(131)	(17)
Lease finance charges	11	(233)	(180)
Loss before taxation		(885)	(6,564)
Taxation	8	11	(15)
Loss after taxation		(874)	(6,579)
Other comprehensive income:			
Items that may or will be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		(3)	(62)
Total comprehensive loss		(877)	(6,641)
Loss attributable to:			
Equity holders of XP Factory Plc (formerly Escape Hunt plc)		(877)	(6,579)
Non-controlling interests		-	-
		(877)	(6,579)
Total comprehensive loss attributable to:			
Equity holders of XP Factory Plc (formerly Escape Hunt Plc)		(877)	(6,641)
Non-controlling interests		-	-
		(877)	(6,641)
Loss per share attributable to equity holders:			
Basic and diluted (Pence)	9	(0.93)	(12.36)

Consolidated Statement of Financial Position

As at 31 December 2021

	Note	As at 31 December 2021 £'000	As at 31 December 2020 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	5,516	3,885
Right-of-use assets	11	7,602	2,940
Intangible assets	12	22,046	913
Rent deposits		44	26
Loan to franchisee	15	84	2
		35,292	7,766
Current assets			
Inventories	17	24	16
Trade receivables	16	848	182
Other receivables and prepayments	16	4,142	691
Stocks and work in progress	17	438	-
Cash and cash equivalents	18	8,225	2,722
		13,677	3,611
TOTAL ASSETS		48,969	11,377
LIABILITIES			
Current liabilities			
Trade payables	19	1,527	606
Contract liabilities	20	1,201	441
Loan Notes	23	404	-
Other loans	23	256	-
Lease liabilities	11	393	489
Other payables and accruals	19	2,889	815
Provisions	21	637	-
		7,307	2,351

Consolidated Statement of Financial Position continued

As at 31 December 2021

	Note	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Non-current liabilities			
Contract liabilities	20	491	152
Provisions	21	9,248	128
Loan notes	23	373	289
Other loans	23	620	-
Deferred tax liability	8	1,101	-
Lease liabilities	11	8,012	3,253
		19,845	3,822
TOTAL LIABILITIES		27,152	6,173
NET ASSETS		21,817	5,204
EQUITY			
Capital and reserves attributable to equity holders of XP Factory Plc (formerly Escape Hunt Plc)			
Share capital	22	1,825	1,005
Share premium account	26	44,366	27,758
Merger relief reserve	26	4,756	4,756
Convertible loan note reserve	23	68	68
Accumulated losses	26	(29,317)	(28,444)
Currency translation reserve	26	(83)	(81)
Capital redemption reserve	26	46	46
Share-based payment reserve	26	158	96
		21,817	5,204
Non-controlling interests		-	-
TOTAL EQUITY		21,817	5,204

The notes on pages 47 to 97 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors and authorised for issue on 31st May 2022 and are signed on its behalf by:

Graham Bird

Director

Registered company number 10184316

Consolidated Statement of Changes in Equity

For the year ended 31 December 2021

	Attributable to owners of the parent								
	Share capital £'000	Share premium account £'000	Merger relief reserve £'000	Currency translation reserve £'000	Capital redemption reserve £'000	Share-based payment reserve £'000	Convertible loan note reserve £'000	Accumulated losses £'000	Total £'000
Year ended 31 Dec 2021									
Balance as at 1 Jan 2021	1,005	27,758	4,756	(81)	46	96	68	(28,444)	5,204
Loss for the year	-	-	-	-	-	-	-	(874)	(874)
Other comprehensive income	-	-	-	(3)	-	-	-	-	(3)
Total comprehensive loss	-	-	-	(3)	-	-	-	(874)	(877)
Issue of shares	820	17,819	-	-	-	-	-	-	18,639
Issue of convertible loan notes	-	-	-	-	-	-	-	-	-
Share issue costs	-	(1,211)	-	-	-	-	-	-	(1,211)
Share-based Payment Charges	-	-	-	-	-	62	-	-	62
Transactions with owners	820	16,608	-	-	-	62	-	-	17,491
Balance as at 31 Dec 2021	1,825	44,366	4,756	(83)	46	158	68	(29,317)	21,817
Year ended 31 Dec 2020:									
Adjusted balance as at 1 Jan 2020	336	24,717	4,756	(19)	46	67	-	(21,803)	8,100
Loss for the year	-	-	-	-	-	-	-	(6,641)	(6,641)
Other comprehensive income	-	-	-	(62)	-	-	-	-	(62)
Total comprehensive loss	-	-	-	(62)	-	-	-	(6,641)	(6,703)
Issue of shares	669	3,342	-	-	-	-	-	-	4,011
Issue of convertible loan notes	-	-	-	-	-	-	68	-	68
Share issue costs	-	(301)	-	-	-	-	-	-	(301)
Share-based payment charges	-	-	-	-	-	29	-	-	29
Disposal of subsidiary	-	-	-	-	-	-	-	-	-
Transactions with owners	669	3,041	-	-	-	29	68	-	3,807
Balance as at 31 Dec 2020	1,005	27,758	4,756	(81)	46	96	68	(28,444)	5,204

The notes on pages 47 to 97 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

	Note	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Cash flows from operating activities			
Loss before income tax		(885)	(6,564)
Adjustments:			
Depreciation of property, plant and equipment	10	1,721	1,819
Depreciation of right-of-use assets	11	613	380
Amortisation of intangible assets	12	472	2,299
Movement in provision against franchisee loan	15	78	300
Loss on disposal of plant and equipment	10	41	23
Loss on write off of intangibles	12	11	7
Net foreign exchange differences		(3)	-
Share-based payment expense	24	62	29
Lease interest charge	11	233	180
Rent concessions received	11	(148)	(22)
Profit on closure / modification of leases	11	(41)	-
Interest charge / (income)		131	17
Operating cash flow before working capital changes		2,285	(1,532)
Decrease in trade and other receivables	16	(2,628)	(30)
Decrease / (increase) in inventories	17	26	(3)
Decrease in stock and work in progress	17	67	-
(Decrease) / increase in provisions	21	(270)	54
Increase in trade and other payables	19	202	296
Increase / (decrease) in deferred income	20	1,075	(30)
Cash used in operations		757	(1,245)
Income taxes paid	8	(15)	(12)
Net cash generated / (used) in operating activities		742	(1,257)
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(2,584)	(1,809)
Purchase of intangibles	12	(119)	(237)
Payment of deposits		(18)	-
Loan made to master franchisee	15	(187)	(2)
Proceeds from new loans	23	728	-
Acquisition of subsidiaries, net of cash acquired	14	(9,732)	35
Interest received / (charged)		-	(17)
Net cash used in investing activities		(11,912)	(2,030)
Cash flows from financing activities			
Proceeds from issue of ordinary shares	22	18,639	3,976
Proceeds from issue of convertible loan note	23	-	340
Share issue costs	24	(1,211)	(301)
Lease interest charge payment	11	-	(180)
Repayment of leases	11	(759)	(1)
Net cash from financing activities		16,669	3,834
Net increase in cash and cash equivalents		5,499	547
Cash and cash equivalents at beginning of year		2,722	2,171
Effects of exchange rate changes on the balance of cash held in foreign currencies		4	4
Cash and cash equivalents at end of year		8,225	2,722

Notes to the Consolidated Financial Statements

1. General Information

The Company was incorporated in England on 17 May 2016 under the name of Dorcaster Limited with registered number 10184316 as a private company with limited liability under the Companies Act 2006. The Company was re-registered as a public company on 13 June 2016 and changed its name to Dorcaster Plc on 13 June 2016. On 8 July 2016, the Company's shares were admitted to AIM.

Until its acquisition of Experiential Ventures Limited on 2 May 2017, the Company was an investing company (as defined in the AIM Rules for Companies) and did not trade.

On 2 May 2017, the Company ceased to be an investing company on the completion of the acquisition of the entire issued share capital of Experiential Ventures Limited. Experiential Ventures Limited was the holding company of the Escape Hunt Group, the activities of which related solely to franchise.

On 2 May 2017, the Company's name was changed to Escape Hunt Plc and became the holding company of the enlarged Escape Hunt Group. Thereafter the group established the Escape Hunt owner operated business which operates through a UK subsidiary. All of the Escape Hunt franchise activity was subsequently transferred to a UK subsidiary. On 22 November 2021, the Company acquired BBB Franchise Limited, together with its subsidiaries operating collectively as Boom Battle Bars. At the same time, the group took steps to change its name to XP Factory Plc with the change taking effect on 3 December 2021.

XP Factory Plc currently operates two fast growing leisure brands. Escape Hunt is a global leader in providing escape-the-room experiences delivered through a network of owner-operated sites in the UK, an international network of franchised outlets in five continents, and through digitally delivered games which can be played remotely.

Boom Battle Bar is a fast-growing network of owner-operated and franchise sites in the UK that combine competitive socialising activities with themed cocktails, drinks and street food in a high energy, fun setting. Activities include a range of games such as augmented reality darts, Bavarian axe throwing, 'crazier golf', shuffleboard and others.

The Company's registered office is Belmont House, Station Way, Crawley, England, RH10 1JA.

The consolidated financial information represents the audited consolidated results of the Company and its subsidiaries, (together referred to as "the Group").

Basis of preparation

The audited consolidated financial statements have been prepared in accordance with UK-adopted International Accounting Standards ("IFRSs").

The audited financial statements are presented in Pounds Sterling, which is the presentational currency for the financial statements. All values are rounded to the nearest thousand pounds except where otherwise indicated. They have been prepared under the historical cost convention, except for financial instruments that have been measured at fair value through profit and loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

Changes in accounting policy

a) New standards, interpretations and amendments effective from 1 January 2021

New standards impacting the Group adopted in the annual financial statements for the year ended 31 December 2021, and which have given rise to changes in the Group's accounting policies are:

- IFRS 9 – Financial Instruments

In the year ended 2021 the company has been required to report more extensively on financial guarantee contracts.

Notes to the Consolidated Financial Statements continued

Financial guarantee contracts relate to leases where the Group has signed as co-tenant or has provided a guarantee for a site operated by a franchisee.

At the end of the reporting period, the directors of the Company have assessed the past due status of the debts under guarantee, the financial position of the debtors as well as the economic outlook of the industries in which the debtors operate. There has been no change in the estimation techniques or significant assumptions made during the reporting periods in assessing the loss allowance for these financial assets.

The Directors do not expect any material impact on the Group's reporting from new accounting standards, interpretations and amendments not yet effective but currently under contemplation by the International Accounting Standards Board.

2. Significant accounting policies

The principal accounting policies applied in the preparation of the audited consolidated financial information set out below have, unless otherwise stated, been applied consistently throughout.

Basis of consolidation

The audited consolidated financial information incorporates the preliminary financial statements of the Company and its subsidiaries. Subsidiaries are entities over which the Group has control. The Group controls an investee if the Group has power over the investee, exposure to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

Subsidiaries are consolidated from the date on which control is obtained by the Group up to the effective date on which control is lost, as appropriate.

Under the acquisition method, the results of the subsidiaries acquired or disposed of are included from the date of acquisition or up to the date of disposal. At the date of acquisition, the fair values of the subsidiaries' net assets are determined and these values are reflected in the Consolidated Financial Statements. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Any excess of the purchase consideration of the business combination over the fair value of the identifiable assets and liabilities acquired is recognized as goodwill. Goodwill, if any, is not amortised but reviewed for impairment at least annually. If the consideration is less than the fair value of assets and liabilities acquired, the difference is recognized directly in the statement of comprehensive income.

Acquisition-related costs are expensed as incurred.

Intra-group transactions, balances and recognized gains on transactions are eliminated. Unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the Financial Statements of subsidiaries to ensure consistency of accounting policies with those of the Group.

The financial statements of the subsidiaries are prepared for the same reporting period as that of the Company, using consistent accounting policies. Where necessary, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by other members of the Group.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary it derecognises the assets and liabilities of the subsidiary and any non-controlling interest. The profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount

of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of.

Going Concern

The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Directors have assessed the Group's ability to continue in operational existence for the foreseeable future in accordance with the Financial Reporting Council's Guidance on the going concern basis of accounting and reporting on solvency and liquidity risks issued in April 2016.

The Board has prepared detailed cashflow forecasts covering a three year period from the reporting date.

In May 2021, the Company entered into a convertible loan note facility with one of its then directors, through which the Company has access to a further £1m in funding. The Company is able to draw down the funds as required. Details of the convertible loan note facility are given in note 35. This facility was entered into to enable the Company to continue to invest in new sites notwithstanding the continued uncertainty brought about by the COVID-19 lockdown rules. The facility has not been drawn.

The Group plans to continue the roll out new sites under both the Escape Hunt and Boom Battle Bar brands in the UK which are expected to contribute to performance in future.

The central case is based on opening a number of new Escape Hunt and Boom owner operated sites in the UK in line with the Board's stated strategy. Sites are expected to take a period of time to reach maturity based on previous experience. The central case does not assume any further impact from COVID-19. In the central case the Group does not need to utilise the convertible loan facility and believes it has sufficient resources for its present needs.

The Group has also considered a 'downside' scenario. In this scenario the Group has assessed the potential impact of a reduction in sales across the group, reduced capacity within the Escape Hunt UK sites, delays in the opening of sites, cost increases and a substantial reduction in the pace of roll-out. The 'downside' scenario also considers a further lockdown of one month, which assumes that government support would be available to cover site level salaries only. The scenario also considers a delay in progress in the US. In the 'downside' scenario, the Group believes it can take mitigating actions to preserve cash. Principally the roll-out of further sites would be stopped and cost saving measures would be introduced at head office. The Group has previously made significant reductions in its head office property costs, and further cost reductions could be targeted in both people and areas such as IT, professional services and marketing. Other areas of planned capital expenditure would also be curtailed. These include planned expenditure on website and system improvements. Taking into account the mitigating factors, the Group believes it would have sufficient resources for its present needs, with or without access to the convertible loan note facility.

Based on the above, the Directors consider there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable, as well as to fund the Group's future operating expenses. The going concern basis preparation is therefore considered to be appropriate in preparing these financial statements.

Merger relief

The issue of shares by the Company is accounted for at the fair value of the consideration received. Any excess over the nominal value of the shares issued is credited to the share premium account other than in a business combination where the consideration for shares in another company includes the issue of shares, and on completion of the transaction, the Company has secured at least a 90% equity holding in the other company. In such circumstances the credit is applied to the merger relief reserve.

Foreign currency transactions and translation

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rate of exchange prevailing on the date of the transaction.

The functional currency of the Company's formerly active subsidiaries based overseas, namely Escape Hunt Operations Limited and E V Development Co. Limited are the US Dollar and Thai Baht respectively. Likewise, the functional currency of the Company's subsidiary Escape Hunt USA Franchises Limited, which is intended to operate franchises in North America, is the US Dollar and the functional currency of the company's subsidiary Escape Hunt Entertainment LLC, purchased in September 2020 and operating in the Middle East is the Arab Emirates Dinar. The Company's subsidiaries, BGP Escape France and BGP Entertainment Belgium, both purchased in March 2021 both have the functional currency Euros. These subsidiaries, when recording their own foreign transactions follow the principles below. At the end of

Notes to the Consolidated Financial Statements continued

each financial year, monetary items denominated in foreign currencies are retranslated at the rates prevailing as of the end of the financial year. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are included in profit or loss for the period.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in the presentational currency which is Pounds Sterling using exchange rates prevailing at the end of the financial year. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising are recognised initially in other comprehensive income and accumulated in the Group's foreign exchange reserve.

On disposal of a foreign operation, the accumulated foreign exchange reserve relating to that operation is reclassified to profit or loss.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

Office equipment	5 years
Furniture and fixtures	5 years
Leasehold improvements	5 years
Computers	3 years
Games	2 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Research and development expenditure

Research expenditure is recognised as an expense when it is incurred.

Development expenditure is recognised as an expense except that costs incurred on development projects are capitalised as long-term assets to the extent that such expenditure is expected to generate future economic benefits. Development expenditure is capitalised if, and only if an entity can demonstrate all of the following:-

- (i) its ability to measure reliably the expenditure attributable to the asset under development;
- (ii) the product or process is technically and commercially feasible;
- (iii) its future economic benefits are probable;
- (iv) its ability to use or sell the developed asset; and
- (v) the availability of adequate technical, financial and other resources to complete the asset under development.

Capitalised development expenditure is measured at cost less accumulated amortisation and impairment losses, if any. Certain internal salary costs are included where the above criteria are met. These internal costs are capitalised when

they are incurred in respect of new game designs which are produced and installed in the UK owner-operated sites, where the ensuing revenue is tracked on a weekly basis at each site by each game. Development expenditure initially recognised as an expense is not recognised as assets in subsequent periods.

Intangible assets

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

With the exception of goodwill, intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses.

Game design and development costs are expensed as incurred unless such expenditure meets the criteria to be capitalised as a non-current asset.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite.

The estimated useful lives are as follows:

Trademarks	3 years
Intellectual property:	
- Trade names and domain names	3 years
- Rights to system and business processes	3 years
- Internally generated intellectual property	3 years
Franchise agreements	Term of franchise
App development	2 years
Portal	3 years

Impairment of assets

Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows taking into account credit risk. The present value of the future cash flows represents the expected value of the future cash flows discounted at the appropriate rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ("CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are

Notes to the Consolidated Financial Statements continued

allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Employee benefits

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Revenue recognition

The Group is operating and developing a network of franchised, licensed and owner-operated branches and offsite "escape-the-room" type games under the Escape Hunt™ brand and a network of owner-operated and franchised competitive socialising cocktail bar venues under the Boom Battle Bar™ brand.. The Group receives revenues from its directly owned branches but also from franchisees, master-franchisees and sub-franchisees.

The Group, as franchisor, develops original escape games and other fun competitive socialising games and supporting materials and provides management, creative, technical and marketing services based on its knowledge of and expertise in the relevant disciplines to enable delivery of proprietary consumer experiences.

The Group considers that its contracts with franchisees, master-franchisees and sub-franchisees provide a customer with a right to access the Group's intellectual property throughout the franchise term which is typically for a minimum term of ten years. Accordingly, the Group satisfies each of its performance obligations by transferring control of goods and services to the customer over the period of the franchise agreement. Franchise revenues are therefore recognised over time.

The Group derives "upfront exclusivity fees" as well as training fees and documentation fees from the sale and set up of franchises and subsequent "Service Revenues" in the form of revenue shares, administration fees, and other related income.

New branch upfront location exclusivity fees

The initial non-refundable upfront exclusivity fees relate to the transfer of promised goods or services which are satisfied throughout the life of the franchise agreement. Payment of the initial upfront exclusivity fee is due immediately on the signing of a franchise agreement.

The Group, as franchisor, supplies a manual and grants to a franchisee during the term of a franchise agreement, the exclusive rights to carry on its business and to utilise the know-how, intellectual property rights and games within a territory. The franchise term typically provides for an initial term of 10 years, with automatic rights for renewal of successive 10-year periods. The Group offers to:

- Assist the franchisee to establish, manage and operate the business within the territory;
- Provide advice on the choice of branch location;
- Identify equipment, furniture, props and other items required to conduct the business;
- Assist in designing the layout and fit-out of any chosen branch location;
- Provide full game and other activity design to be installed in each branch;

- Provide guidance on setting up website, booking and other online services;
- Provide the franchisee with the franchise manual;
- Train the franchisee and its staff;
- Give the franchisee continuing assistance and advice for the efficient running of the franchise business;
- Regularly update the franchisee on any changes to the services and know-how;
- Design and provide territory-specific, and branch-specific, logos for use in advertising, merchandise and uniforms; and
- Communicate at all times with the franchisee in a timely manner.

The initial fee is recognised as revenue on a straight-line basis over the period of the franchise agreement where this is 10 years (or less in case of sub-franchise agreements, where the term of the sub-franchise agreement typically equals to the remaining term of the master franchise agreement). Where the franchise term is not specified or is greater than 10 years, revenue is recognised over 10 years to reflect a lack of certainty over the actual duration of the franchise arrangement. See Note 3 for more details.

Fees related to future periods are carried forward as deferred income within current and non-current liabilities, as appropriate. The amounts of deferred revenue at each reporting date are disclosed in Note 21 to the financial statements.

IFRS 15 also requires the Group to consider if there is a financing element to such long-term contracts. However, it is considered that there is no such financial element provided by the Group to franchisees as payment is received at the time of signing the franchise agreement and at the commencement of the delivery of the various services under such agreement.

Under a Master Franchise Agreement, the Group is entitled to a one-off upfront exclusivity fee representing an advance payment for a number of branches with all branches paid at a fixed rate, payable on signing of the Agreement. The contract is not deemed to be fulfilled and in force until this payment is received in full by the franchisor. This fee is recognised over the franchise term, or 10 years if this is greater than 10 years, in the same manner as in a single franchise arrangement.

Where the Group, through a Master Franchisee, enters into contracts with sub-franchisees, the initial fee is recognised in the same manner as contracts with direct franchisees (i.e. spread over 10 years), where not already covered in the fees attributed to the Master Franchisee. In the event of termination of a franchise agreement, any remaining deferred income related to this contract is immediately recognised in full.

Documentation fees are recognised when the franchise agreement and associated leases and other legal documents are exchanged and have reached practical completion. Training fees are recognised when the franchise site is opened.

In some instances, the Group will take on the full responsibility on a franchise new build, fitting out a franchise site and will have a direct relationship with the suppliers. The cost of the build will then be billed to the franchisee in stage payments, including a markup to cover internal costs and provide margin. In these instances, the cost of the build is carried as work in progress until it is invoiced to the franchisee. The total value of the build is recognised as revenue when invoiced. Profit is not recognised until completion of the build.

Franchise revenues

As part of each franchise agreement, the Group receives franchise service revenues at a fixed percentage of a franchisee's monthly revenues which are recognised as the income is earned.

Service revenues comprise:

- An agreed share of the franchisee's monthly revenues, payable weekly or monthly;
- Fixed monthly fees payable quarterly in advance;
- Extra costs in respect of site visits and website set-up fees; and
- Fees charged for additional services, such as management of marketing and social media on behalf of a franchisee, for which franchisees opt in.

Revenue shares, support and administration and other related revenues are recognised as and when those sales occur. Amounts billed in advance are deferred to future periods as deferred revenue.

Notes to the Consolidated Financial Statements continued

Owner-operated branch and offsite games

Revenues from the owner-operated branch and offsite activities include entrance fees and the sale of food and beverages and merchandise. Such revenues are recognised as and when those sales occur. Where customers book in advance, the recognition of revenue is deferred until the customer participates in the experience.

Deferred revenue

The amounts of deferred revenue at each reporting date are disclosed in Note 21.

Contract costs

Where the game design costs relate to games for individual franchisees, the costs are not capitalised but expensed as in line with the delivery of services to franchisees, unless these costs are significant and other capitalisation criteria are met.

Government Grants

Grants relating to revenue are recognised on the performance model through the consolidated statement of comprehensive income by netting off against the costs to which the grants were intended to compensate. Where the grant is not directly associated with costs incurred during the period, the grant is recognised as 'other income'. Grants relating to assets are recognised in income on a systematic basis over the expected useful life of the asset.

Leases

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of 12 months or less.

IFRS 16 was adopted 1 January 2019 without restatement of comparative figures. The following policies apply subsequent to the date of initial application, 1 January 2019.

Identifying Leases

The Group accounts for a contract, or a portion of a contract, as a lease when it conveys the right to use an asset for a period of time in exchange for consideration. Leases are those contracts that satisfy the following criteria:

- a) There is an identified asset;
- b) The Group obtains substantially all the economic benefits from use of the asset; and
- c) The Group has the right to direct use of the asset.

In determining whether the Group obtains substantially all the economic benefits from use of the asset, the Group considers only the economic benefits that arise use of the asset, not those incidental to legal ownership or other potential benefits.

In determining whether the Group has the right to direct use of the asset, the Group considers whether it directs how and for what purpose the asset is used throughout the period of use. If there are no significant decisions to be made because they are pre-determined due to the nature of the asset, the Group considers whether it was involved in the design of the asset in a way that predetermines how and for what purpose the asset will be used throughout the period of use. If the contract or portion of a contract does not satisfy these criteria, the Group applies other applicable IFRSs rather than IFRS 16.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used.

The discount rate is the rate implicit in the lease, if readily determinable. If not, the Company's incremental borrowing rate is used which the Company has assessed to be 6.2%. The Group currently has no borrowings and consequently there is no available interest rate to use as the basis for this calculation. However, as a small company which has been loss-making, a calculation has been performed to include an appropriate level of risk to the risk-free rate of borrowing.

Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Group if it is reasonably certain to assess that option;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provisions recognised where the Group is contractually required to dismantle, remove or restore the leased asset (typically leasehold dilapidations – see Note 22).

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

When the Group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the discount rate appropriate at the time of revision. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

Nature of leasing activities (in the capacity as lessee)

During the financial year, the Group leased its head office and a number of its owner-operated escape room branches. The Group also leases certain items of plant and equipment, but these are not significant to the activities of the Group.

Financing income and expenses

Financing expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the income statement (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Financing income comprise interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Taxation

Tax on the profit or loss for the year 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 which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided

Notes to the Consolidated Financial Statements continued

for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Share-based payment arrangements

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. Equity-settled share based payments to non-employees are measured at the fair value of services received, or if this cannot be measured, at the fair value of the equity instruments granted at the date that the Group obtains the goods or counterparty renders the service. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 26 to the consolidated financial statements.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. Where the conditions are non-vesting, the expense and equity reserve arising from share-based payment transactions is recognised in full immediately on grant.

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to other reserves.

Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Impairment provisions for current and non-current trade receivables are recognised based on the simplified approach within IFRS 9 using a provision matrix in the determination of the lifetime expected credit losses. In the process, the probability of the non-payment of the trade receivables is assessed. This probability is multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables.

Inventories and Work in Progress

Inventories are stated at the lower of cost and net realisable value. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and other costs in bringing them to their existing location and condition. Work in progress includes the cost associated with fit-out work on sites which are subsequently sold to a franchisee and is recognised at the point of transaction. Work in progress is derecognised when an invoice is raised to a franchisee or when it is determined that it is not recoverable.

Provisions

A provision is recognised when the Group has a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the

provision is reversed. Where the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

The Group has recognized provisions for liabilities of uncertain timing or amount including those for leasehold dilapidations, contingent consideration and losses arising of financial guarantee contracts.

Dilapidation provisions

Provisions for dilapidations are recognised on a lease by lease basis over the period of time landlord assets are being used and are based on the Group's best estimate of the likely committed cash outflow.

Contingent and deferred consideration

Contingent consideration is consideration that is payable in respect of acquisitions which is contingent on the achievement of certain performance or events after the date of acquisition. Deferred consideration is consideration payable in respect of acquisitions which is deferred, but is not dependent on any future performance or events.

The likely value of contingent consideration is estimated based on the anticipated future performance of the business acquired and a probability of the necessary performance being achieved. The expected future value of the contingent consideration is discounted from the anticipated date of payment to the present value. For cash settled contingent consideration, the discount rate is the risk free rate together with the Consumer Price index for inflation. For Equity settled contingent consideration, the future value is discounted using the Director's assessment of the company's cost of equity. The present value is recognised as a liability at the date of transaction. The implied interest is recognised over the period between the date of acquisition and anticipated date of payment of the contingent consideration.

Deferred consideration is recognised as a liability at its face value at the date of acquisition.

Losses arising on financial guarantee contracts

Provision for losses on financial guarantee contracts uses the simplified approach within IFRS 9 using a provision matrix in the determination of the lifetime expected losses. In the process, the probability of the guarantee being called is assessed. This probability is multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the financial guarantee contract.

Contingent liabilities

Contingent liabilities are possible obligations whose existence depends on the outcome of uncertain future events or present obligations where the outflow of resources is uncertain or cannot be measured reliably. Contingent liabilities are not recognised in the financial statements but are disclosed unless they are remote.

Financial Liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations rather than the financial instrument's legal form. Financial liabilities, excluding convertible debt and derivatives are initially measured at transaction price (including transaction costs) and subsequently held at amortised cost.

Financial liabilities

Basic financial liabilities, including trade and other payables, bank and other loans and loans from fellow group companies that are classified as debt are initially recognized at transaction price unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future payments discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Derecognition of financial liabilities

Financial liabilities are derecognized when, and only when, the Company's contractual obligations are discharged, cancelled or they expire.

Equity instruments

Equity instruments including share capital issued by the Company are recorded at the proceeds received, net of direct issue costs. Dividends payable on equity instruments are recognized as liabilities one they are no longer at the discretion of the company.

Notes to the Consolidated Financial Statements continued

3. Critical accounting estimates and judgements

In the application of the Company's accounting policies, which are described in Note 2 above, the Directors are required to make judgements and estimates about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period.

The key estimates and underlying assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. In particular:

Key judgements

Initial upfront exclusivity fees

Note 2 describes the Group's policies for recognition of revenues from initial upfront exclusivity fees. In making their judgement, the Directors consider that the upfront non-refundable exclusivity fee provides the customer with a right to access the Group's intellectual property throughout the franchise term which is typically for a minimum term of ten years. The Group's service obligations include a requirement to advise, assist and update the customer throughout the term of the agreement.

However, certain franchise contracts are for the unspecified term which theoretically can run in perpetuity. Furthermore, for term franchise contracts certain factors could reduce the franchise term (such as early termination) whilst franchises may be extended beyond their initial term. No franchises have yet been in place for a full term and in the absence of sufficient track record the Directors made a judgement that until a clear pattern of terminations and extensions of franchises becomes clear, it is reasonable to assume that franchises will on average run for 10 years, hence the initial upfront exclusivity fees are recognised over this estimated period.

Recognition of deferred tax assets

The Group's tax charge on ordinary activities is the sum of the total current and deferred tax charges.

A deferred tax asset is recognised when it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Recognition, therefore, involves judgement regarding the prudent forecasting of future taxable profits of the business and in applying an appropriate risk adjustment factor.

Based on detailed forward-looking analysis and the judgement of management, it has been concluded that a deferred tax asset should not be recognised for the carry forward of unused tax losses and unused tax credits totalling approximately £21m, as the timing and nature of future taxable profits remains uncertain given the relatively young stage of development of the group and the rate of planned expansion. As such the Directors do not yet regard it sufficiently probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised in the near term. In forming this conclusion, management have considered the same cash flow forecasts used for impairment testing purposes. Impairment testing adjusts for risk through the discounting of future cash flows and focus on cash generation rather than taxable profits.

Additionally, the owner-operated segment is in its early stages of development and the Directors envisage that there will be an extended period (and thus increasing uncertainty as time progresses) before it expects to recoup net operating losses. The analysis indicates that the unused losses may not be used in the foreseeable future as the Group does not yet have a history of taxable profits nor sufficiently convincing evidence that such profits will arise within the foreseeable future.

Recognition of R&D credits and other government grants

Research and development credits and other government grants are recognised as an asset when it has become probable that the grant will be received.

Companies within the Group have previously made successful applications for grants relating to research and development and in respect of support related to the COVID-19 pandemic.

In relation to research and development grants, no claims are outstanding, but the company expects to make claims in respect of activity undertaken in 2021. The amount of such potential claim is not yet known. Notwithstanding previous success in making such claims, recognition of these claims involves a judgement by management. Given the uncertainty of the amount and detailed nature of potential claims relating to 2021, Management does not consider it sufficiently probable that claims relating to 2021 will be paid and, as such, no claims in relation to 2021 have been recognised as an asset.

Contingent consideration

The likely value of contingent consideration is estimated based on the anticipated future performance of the business acquired and a probability of the necessary performance being achieved. The expected future value of the contingent consideration is discounted from the anticipated date of payment to the present value. For cash settled contingent consideration, the discount rate is the risk free rate together with the Consumer Price index for inflation. For Equity settled contingent consideration, the future value is discounted using the Director's assessment of the company's cost of equity, being 13.7 per cent. The present value is recognised as a liability at the date of transaction. The implied interest is recognised over the period between the date of acquisition and anticipated date of payment of the contingent consideration.

Key estimates

Impairment of intangible assets

IFRS requires management to undertake an annual test for impairment of indefinite lived assets and, for finite lived assets, to test for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Impairment testing is an area involving management judgement in determining estimates, requiring assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including management's expectations of:

- growth in EBITDA, calculated as adjusted operating profit before depreciation and amortisation;
- the forecast occupancy rate (and growth thereof) for each escape room using regression analysis based on historic experience from similar rooms;
- the level of capital expenditure to open new sites and the costs of disposals;
- long-term growth rates; and
- the selection of discount rates to reflect the risks involved.

The Group prepares and approves a detailed annual budget and strategic plan for its operations, which is updated regularly to take account of actual activity and which are used in the fair value calculations. The forecasts perform a detailed analysis for three years, apply an anticipated growth rate for years 4 and 5 and apply a 2% growth rate thereafter. Further details are provided in the sensitivity analysis below.

Changing the assumptions selected by management, in particular the discount rate and growth rate assumptions used in the cash flow projections, could significantly affect the Group's impairment evaluation and hence results.

The current strategic plan for the group indicates an excess of the net present value of future cashflows compared to the carrying value of intangible assets.

The sensitivity of impairment tests to changes in underlying assumptions is summarised below:

Site level EBITDA

If the site level EBITDA is 10% lower in each business unit within the Group than as set out in the strategic plan, this would lead to reduction in the net present value of intellectual property of £13.8m (2020: not measured) but would not result in the need for an impairment charge.

Notes to the Consolidated Financial Statements continued

Discount rate

The discount rate used for the fair value calculation has been assumed at 13.7%. A 100 basis point increase in the discount rate reduces the net present value of intellectual property across the group by £5.7m (2020: £1.3m) but would not result in the need for an impairment charge.

Long-term growth rates

The growth rate used for the fair value calculation after year 5 has been assumed at 2% per annum. If this rate was decreased by 100 basis points the net present value of intellectual property across the group would fall by £3.5m (2020: £1.2m) but would not result in the need for an impairment charge.

Capital expenditure

If capital expenditure over the forecast period were to be 10% higher than in the strategic plan, the net present value of intellectual property across the group would fall by £1.8m (2020: £0.4m) but would not result in the need for an impairment charge.

Estimation of useful life and amortisation rates for intellectual property assets

The useful life used to amortise intangible assets relates to the expected future performance of the assets acquired and management's estimate of the period over which economic benefit will be derived from the asset.

The estimated useful life principally reflects management's view of the average economic life of each asset and is assessed by reference to historical data and future expectations. Any reduction in the estimated useful life would lead to an increase in the amortisation charge. The average economic life of the intellectual property has been estimated at 3 years. If the estimation of economic lives was reduced by one year, the amortisation charge for IP would have increased by £299k (year ended 31 December 2020: £203k).

Estimation of useful life and depreciation rates for property, plant and equipment of the owner-operated business

The useful life used to depreciate assets of the owner-operated business relates to the expected future performance of the assets acquired and management's estimate of the period over which economic benefit will be derived from the asset.

Property, plant and equipment represent a significant proportion of the asset base of the Group being 11% (2020: 34%) of the Group's total assets. Therefore, the estimates and assumptions made to determine their carrying value and related depreciation are critical to the Group's financial position and performance.

The charge in respect of periodic depreciation is derived after determining an estimate of an asset's expected useful life and the expected residual value at the end of its life. Increasing an asset's expected life or its residual value would result in a reduced depreciation charge in the consolidated income statement. The useful lives and residual values of the Group's assets are determined by management at the time the asset is acquired and reviewed annually for appropriateness. The lives are based on historical experience with similar assets as well as anticipation of future events which may impact their life such as changes in technology. Historically changes in useful lives and residual values have not resulted in material changes to the Group's depreciation charge.

The useful economic lives of property, plant and equipment has been estimated at between 2 and 5 years. If the estimation of economic lives was reduced by one year, the depreciation charge for property, plant and equipment would have increased by £669k (year ended 31 December 2020: £1.02m).

Estimation of the value of right of use assets and lease liabilities arising from long term leases under IFRS16

The estimation of the value of right of use assets and the associated lease liability arising from long term leases is done by calculating the net present value of future lease payments. In doing so, the Directors have used a discount rate of 6.2 per cent.

Estimation of the debt and equity components of Convertible Loan notes

Debt securities which carry an option to convert into equity accounted for as a debt component and an equity component. Management are required to estimate the split by valuing the underlying debt with reference to a similar debt instrument which has no conversion rights and / or by reference to the value of the option inherent in the conversion right. These calculations involve the estimate of a number of key components such as appropriate interest rates, the expected volatility of the company's share price, the company's future dividend policy, and the likelihood and future date of conversion. On 2 July 2020, the company issued £340,000 convertible loan notes repayable on 3 July 2025 if not previously converted or redeemed. Management have estimated that £272,251 of the principal related to the debt component and £67,749 related to the equity component.

Estimation of share base payment charges

The calculation of the annual charge in relation to share based payments requires management to estimate the fair value of the share-based payment on the date of the award. The estimates are complex and take into account a number of factors including the vesting conditions, the period of time over which the awards are recognized, the exercise price of options which are the subject of the award, the expected future volatility of the company's share price, interest rates, the expected return on the shares, and the likely future date of exercise. A new executive scheme was established during the year ended 31 December 2020 and awards have been made under the scheme in both 2020 and 2021, details of which are set out in note 26. Management has estimated the annual charge related to the awards made in the year to 31 December 2020 to be £51,222 and £17,313 in respect of awards made in the year to 31 December 2021. The charge recognised in the year ended 31 December 2021 was £53,073 (2020: £23,477). Further details are provided in note 24.

Estimation of liabilities arising from Financial Guarantee Contracts – Franchise lease guarantees

The Company is a co-tenant or has provided a guarantee on a number of property leases for which a franchisee is the primary lessee. IFRS 9 requires the recognition of expected credit losses in respect of financial guarantees, including those provided by the Group. Where there has been a significant increase in credit risk, the standard requires the recognition of the expected lifetime losses on such financial guarantees. The assessment of whether there has been a significant increase in credit risk is based on whether there has been an increase in the probability of default occurring since previous recognition. An entity may use various approaches to assess whether credit risk has increased. The assessment of the probability of default is inherently subjective and requires management judgement.

In all cases where the Group is co-tenant or has provided guarantees for underlying leases, the Group has taken security in the form of personal guarantees from the lessee and, in addition, has step-in rights which enable the relevant company in the group to take over the assets and operations of the franchisee and to operate the site as an owner-operated site. Management believes that the personal guarantees and step in rights significantly reduce the probability of incurring losses and provide a mechanism to mitigate any adverse impact on the group in the event of any guarantees being called upon.

Details of the number of lease guarantees provided, the average length of the guarantee and the average annual rental are given in note 22.

Each guarantee is assessed separately. Management's view of the probability of the lessee defaulting on its lease obligations is assigned to the specific guarantee. Lessees are categorized on a rating of 1 – 5, which allocates a probability of default to each banding, with category 1 representing very limited risk, and 5 representing extreme risk. Management then assesses the likelihood of the personal guarantee from the lessee, together with the step-in rights being insufficient to cover in full the payments required to be made under the guarantee provided to the landlord. This is based on historic experience of the former owner of Boom Battle Bars which has, in a number of occasions, taken on existing franchisees within other parts of its business which have either been re-sold or have since become owner-operated sites. Based on this experience and taking account of the current economic environment, Management has judged that 1 in 6 sites where the guarantee is called would result in a loss. Finally, management applies an assessment as to the proportion of the future lease liability that might be suffered in the event that the guarantee is not fully covered by the personal guarantees and / or the step in rights. The proportion used in the calculation was 50%. This cumulative probability is applied to the net present value of the future lease liability. The net present value is calculated by reference to the expected future cash payments required under the lease using a discount rate of 6.2%, which is consistent with the rate used to assess the company's property lease liabilities under IFRS 16.

In the year to December 2021, the average probability of default used across the portfolio was assessed as 10% (2020: not applicable). This was made on the basis that the franchisees are all relatively new and, although we recognised, remain inexperienced in operating Boom sites. The overall expected loss provision at 31 December 2021 was £25,548 (2020: not applicable).

Notes to the Consolidated Financial Statements continued

Sensitivities.

The key assumptions impacting the assessment of the expected loss provision are the discount rate used to calculate the net present value of the leases under guarantee; the probability of default assigned to each guaranteed lease; the proportion of defaulted leases that would give rise to a credit loss; and the proportion of the total liability that would not be covered by security and step-in rights. The sensitivity to each of these assumptions in each of the three years to 31 March is shown in the table below:

Assumption	Base case	Sensitivity applied	Increase in Expected loss provision (£'000)	
			2021	2020
Discount rate	6.2%	1% decrease	1.7	na
Probability of default	Individually assessed	10% increase in probability of default	2.5	na
Proportion of defaulted leases giving rise to a loss	16.67% (1 in 6)	Increase by 3.33% (1 in 5)	5.1	na
Proportion of liability not covered by guarantee / step-in right	50%	10% increase in loss	5.1	na

Estimation of the value of Contingent consideration and implied interest charges

The value of the contingent consideration in relation to Boom Battle Bars has been estimated using a share price of 35.8p per XP Factory share, being the share price on 23rd November 2021, the date that the Acquisition of Boom Battle Bars completed, and assuming all 25,000,000 shares potentially due under the provisions of the sale agreement are issued. The valuation is considered a level 2 valuation under IFRS 13, indicating that it is a financial liability that does not have regular market pricing, but whose value can be determined using other data values or market prices. The future value of the contingent consideration, which is due to be settled on completion of the audit for the group for the year ended 31 December 2022 (assumed to be 18 months after the acquisition) has been calculated using a cost of capital of 13.7 per cent and an implied share price of 43.4 pence per share. The difference between the fair value at acquisition and the future value will be recognised as a finance charge over the 18 months between the date of acquisition and the expected date of settlement as set out below. The estimated consideration assumes the contingent consideration will be payable in full.

A 1% reduction in the discount rate used would reduce the implied interest charge in 2021 by £8k and by £142k over the 18 month period.

Estimation of valuation of acquired intangibles

As part of the acquisition of Boom Battle Bars, the Directors have recognised £4,386k as relating to franchise contracts in place at the date of acquisition. The valuation takes into account the forecasts revenue from the relevant franchise contracts over the remaining life of the contracts, net of tax and allocated costs to service the contracts, discounted at the estimated cost of capital, 13.7 per cent.

A 1% increase in the cost of capital applied would reduce the value of acquired intangibles in the year by £153k.

4. Revenue

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Upfront location exclusivity fees, support and administration fees	247	268
Franchise revenue share	456	309
Game revenues from owned branches	6,240	2,070
Other	41	11
	6,984	2,658

Revenues from contracts with customers:

	Year ended 31 December 2021 £'000	Year Ended 31 December 2020 £'000
Revenue from contracts with franchise customers	703	577
Revenue from customers at owner operated branches	6,281	2,081
Total revenue from contracts with customers	6,984	2,658

In respect of contracts from franchise customers, the satisfaction of performance obligations is treated as over a period of up to 10 years. The typical timing of payment from customers is a mixture of upfront fees, payable at the start of the contract, fixed fees payable quarterly or monthly during the term of the contract and variable consideration typically received shortly after the month in which the revenue has been accrued.

Future upfront exclusivity fee income that has been deferred on the balance sheet is certain as the amount has already been received. Support and administrative fees and other fees are considered to be reasonably certain and unaffected by future economic factors, except to the extent that adverse economic factors would result in premature franchise closure. Revenue based service fees are dependent on and affected by future economic factors, including the performance of franchisees.

A total of £6.28m (2020: £2.08m) of revenues relate to the owner-operated segment. All other revenues in the table refer to the franchise segment as detailed in Note 5 (Segment Information).

Upfront exclusivity fees are billed and received in advance of the performance of obligations. This generally creates deferred revenue liabilities which are greater than the amount of revenue recognised from each customer in a financial year.

Revenue share income is necessarily billed monthly in arrears (and accrued on a monthly basis).

Notes to the Consolidated Financial Statements continued

5. Segment information

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 group of executive directors and the chief executive officer who make strategic decisions.

Management considers that the Group has four operating segments. Revenues are reviewed based on the nature of the services provided under each of the Escape Hunt™ and Boom Battle Bar™ brands as follows:

1. The Escape Hunt franchise business, where all franchised branches are operating under effectively the same model;
2. The Escape Hunt owner-operated branch business, which as at 31 December 2021 consisted of 16 Escape Hunt sites in the UK, one in Dubai, one in Paris and one in Brussels; and
3. The Boom Battle Bar franchise business, where all franchised branches operate under the same model within the Boom Battle Bar™ brand.;
4. The Boom Battle Bar owner-operated branch and franchise business comprising 2 Boom Battle Bar sites in the UK.

The Group operates on a global basis. As at 31 December 2021, the Company had active Escape Hunt franchisees in 10 countries. The Company does not presently analyse or measure the performance of the franchising business into geographic regions or by type of revenue, since this does not provide meaningful analysis to managing the business.

The geographic split of revenue was as follows:

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
United Kingdom	5,094	2,081
Europe	880	204
Rest of world	1,011	373
	6,984	2,658

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The cost of sales in the owner-operated business comprise variable site staff costs and other costs directly related to revenue generation.

Year ended 31 December 2021	Escape Hunt Owner operated £'000	Escape Hunt Franchise operated £'000	Boom Owner operated £'000	Boom Franchise operated £'000	Unallocated £'000	Total £'000
Revenue	6,018	592	263	111	-	6,984
Cost of sales	(1,585)	(185)	(134)	-	-	(1,904)
Gross profit/(loss)	4,433	407	129	111	-	5,080
Site level operating costs	(1,974)	-	(108)	-	-	(2,082)
Other income	371	-	-	-	-	371
IFRS 16 adjustment	598	-	63	-	-	661
Site level EBITDA	3,428	407	84	111	-	4,030
Centrally incurred overheads	(1,479)	(130)	(2)	(30)	(3,009)	(4,651)
Other income	-	-	-	-	3,236	3,236
IFRS 16 adjustment	-	-	-	-	37	37
EBITDA	1,949	277	82	81	264	2,653
Interest charges	-	-	-	-	(131)	(131)
Lease charges	(208)	-	(25)	-	-	(233)
Depreciation and amortisation	(1,706)	(16)	(15)	-	(455)	(2,192)
Depreciation – right-of-use assets	(578)	-	(35)	-	-	(613)
Foreign currency losses	-	-	-	-	(18)	(18)
Share-based payment expenses	-	-	-	-	(62)	(62)
Provision against loan to franchisee	-	(78)	-	-	-	(78)
Provision for guarantee losses	-	-	(8)	-	-	(8)
Loss of disposal of assets	-	-	-	-	(50)	(50)
Exceptional Professional & Branch Closure Costs	(4)	-	-	-	(235)	(239)
Branch pre-opening costs	(54)	-	(49)	-	-	(103)
Profit on closure / modification of leases	41	-	-	-	-	41
Rent credits recognised	148	-	-	-	-	148
Profit/(loss) before tax	(412)	183	(50)	81	(687)	(885)
Taxation	-	-	-	-	11	11
Profit/(loss) after tax	(412)	183	(50)	81	(676)	(874)
<i>Other information:</i>						
Non-current assets	12,155	405	956	4,349	17,427	35,292

Notes to the Consolidated Financial Statements continued

Year ended 31 December 2020	Escape Hunt Owner operated £'000	Escape Hunt Franchise operated £'000	Boom Owner operated £'000	Boom Franchise operated £'000	Unallocated £'000	Total £'000
Revenue	2,081	577	-	-	-	2,658
Cost of sales	(740)	(38)	-	-	-	(778)
Gross profit/(loss)	1,341	539	-	-	-	1,880
Site level operating costs	(1,030)	-	-	-	-	(1,030)
Other income	135	-	-	-	-	135
Site level EBITDA	446	539	-	-	-	985
Centrally incurred overheads	(69)	(242)	-	-	(2,379)	(2,690)
Other income	186	-	-	-	73	259
EBITDA	563	297	-	-	(2,306)	(1,445)
Interest charges	-	-	-	-	(17)	(17)
Lease charges	(168)	-	-	-	(12)	(180)
Depreciation and amortisation	(1,817)	(19)	-	-	(2,282)	(4,118)
Depreciation – right-of-use assets	(310)	-	-	-	(70)	(380)
Share-based payment expenses	-	-	-	-	(29)	(29)
Loss of disposal of assets	(30)	-	-	-	-	(30)
Exceptional Professional & Branch Closure Costs	(52)	(29)	-	-	(6)	(87)
Rent credits recognised	22	-	-	-	-	22
Provision against loan to franchisee	-	-	-	-	(300)	(300)
Profit/(loss) before tax	(1,792)	249	-	-	(5,022)	(6,564)
Taxation	-	(15)	-	-	-	(15)
Profit/(loss) after tax	(1,792)	234	-	-	(5,022)	(6,579)
<i>Other information:</i>						
Non-current assets	6,588	42	-	-	1,136	7,766

In 2020, the company made a provision against the full amount of a loan made to a franchisee in 2018 as a result of the impact of COVID-19. The loan was made to provide funding for the fit-out of sites in the Nordic region, has previously been held as a non-current asset, and is not related to trading activity. The company does not have a policy of lending money to franchisees and for this reason the provision is separately disclosed.

Significant customers:

No customer provided more than 10% of total revenue in either the year ended 31 December 2021 or 2020.

6. Operating loss before taxation

Loss from operations has been arrived at after charging / (crediting):

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Auditor's remuneration:		
- Audit of the financial statements	75	33
- Review of interim financial statements	2	2
Impairment of trade receivables	56	101
Exceptional impairment of loan to franchisee	-	300
Foreign exchange losses / (gains)	18	(21)
Staff costs including directors, net of amounts capitalized	3,739	2,656
Depreciation of property, plant and equipment (Note 10)	1,721	1,819
Depreciation of right-of-use assets (Note 11)	613	395
Amortisation of intangible assets (Note 12)	471	2,299
Impairment of intangible assets (Note 12)	-	-
Share-based payment costs (non-employees)	62	29
Research and development grant	3,236	259
Professional fees paid in respect of R&D grants	647	52

Detailed information on statement of profit or loss items:

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Cost of sales		
Wages and salaries	1,395	608
Food and beverages	92	10
Other costs of sale	417	160
	1,904	778

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Administrative expenses		
Depreciation of property, plant and equipment	1,721	1,819
Depreciation of right-of-use assets	613	395
Amortisation	471	2,299
Write-off of assets	50	30
Staff costs including directors, net of amounts capitalised	3,739	1,535
Share-based payments	62	29
Foreign currency losses / (gains)	18	(21)
Other administrative expenses	2,534	2,570
	9,208	8,656

Exceptional professional costs of £235k incurred during year relate to fees paid in respect of elements of the acquisition of Boom Battle Bars which were aborted.

Notes to the Consolidated Financial Statements continued

7. Staff costs

	Year Ended 31 December 2021 £'000	Year Ended 31 December 2020 £'000
Wages salaries and benefits (including directors)	3,897	2,796
Share-based payments	63	29
Social security costs	313	227
Other post-employment benefits	153	111
Less amounts capitalised	(164)	(286)
Less amounts received under the CJRS scheme	(460)	(756)
	3,802	2,121

Key management personnel:

	Year Ended 31 December 2021 £'000	Year Ended 31 December 2020 £'000
Wages, salaries and benefits (including directors)	644	544
Share-based payments	40	24
Social security costs	83	71
Pensions	23	22
Other post-employment benefits	6	13
Less amounts capitalised	(56)	(87)
Less amounts received under the CJRS scheme	(56)	(40)
	685	547

Key management personnel are the directors and one member of staff. Their remuneration was as follows:

Year ended 31 December 2021	Salary and fees £'000	Share-based payments £'000	Pension contributions £'000	Other benefits £'000	Total £'000
Graham Bird	167	12	7	3	189
Richard Rose	60	-	-	-	60
Richard Harpham	224	17	10	1	252
Karen Bach	30	-	-	-	30
John Story	18	-	-	-	18
Other key management	146	11	6	2	165
	644	40	23	6	714
Amounts capitalised	(56)	-	-	-	(56)
Furlough claims	(56)	-	-	-	(56)
Profit and loss expense	533	40	23	6	602

Year ended 31 December 2020	Salary and fees £'000	Share-based payments £'000	Pension contributions £'000	Other benefits £'000	Total £'000
Graham Bird	137	6	7	4	153
Richard Rose	47	-	-	4	51
Richard Harpham	198	10	9	3	220
Adrian Jones	4	-	-	-	4
Karen Bach	26	-	-	-	26
John Story	8	-	-	-	8
Other key management	124	8	6	13	140
	544	24	22	13	602
Amounts capitalised	(87)	-	-	-	(87)
Furlough claims	(40)	-	-	-	(40)
Profit and loss expense	417	24	22	13	476

The average monthly number of employees was as follows:

	Year ended 31 December 2021 No.	Year ended 31 December 2020 No.
Management	4	4
Administrative	27	22
Operations	191	120
	222	146

8. Taxation

The Group has made no provision for taxation as it has not yet generated any taxable profits. A reconciliation of income tax expense applicable to the loss before taxation at the statutory tax rate to the income tax expense at the effective tax rate of the Group is as follows:

	Year Ended 31 December 2021 £'000	Year Ended 31 December 2020 £'000
Loss before taxation	(885)	(6,564)
Tax calculated at the standard rate of tax of 19% (2020:19%)	(168)	(1,247)
Tax effects of:		
Expenses not deductible for tax purposes	53	118
Non-taxable income	(597)	-
Enhanced relief for qualifying additions	(35)	-
Unrecognised tax losses	625	1,113
Foreign operations	(29)	-
Non qualifying amortisation	33	-
Depreciation on ineligible assets	81	-
Increase in dilapidation provision	14	-
Capital allowances in excess of depreciation	-	4
Notional interest on contingent consideration	20	-
Other	(8)	27
	(11)	15

Notes to the Consolidated Financial Statements continued

The Group has tax losses of approximately £18,839k as at 31 December 2021 (£15,195k as at 31 December 2020) which, subject to agreement with taxation authorities, are available to carry forward against future profits. The tax value of such losses amounted to approximately £3,579k (£2,887k as at 31 December 2020). A deferred tax asset has been recognised in respect of £572k (2020: £Nil) of these losses to offset the deferred tax liability in respect of fixed asset temporary differences. A deferred tax asset has therefore not been recognised in respect of the remaining tax losses of £18,267k (2020: £15,195k).

Recognised temporary differences as at 31 December

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Fixed asset temporary differences	143	-
Unused tax losses	(143)	-
	-	-

Tax expense (continued)

Changes in tax rates and factors affecting the future tax charge

Changes to the UK corporation tax rates were made as part of the 2021 Budget. These were substantially enacted on 24 May 2021. This included an increase to the main rate from 19% to 25% from April 2023. The company will be taxed at a rate of 25% unless its profits are sufficiently low enough to qualify for a lower rate of tax, the lowest being 19%.

A deferred tax liability arises on fixed asset temporary differences.

On the acquisition of both the French master franchise in March 2021 and the Boom group of companies in November 2021, there were intangibles acquired as part of the purchase. These acquired intangibles have been deemed to create a deferred tax liability and calculated at 25.75% for France and 25% for Boom. In total, these amounted to £1,112k. These deferred tax liabilities have been recognised in the period and are being amortised over the same periods as the acquired intangibles in each group.

9. Loss per share

Basic loss per share is calculated by dividing the loss attributable to equity holders by the weighted average number of ordinary shares in issue during the period. Diluted net loss per share is calculated by dividing net loss by the weighted average number of shares in issue and potential dilutive shares outstanding during the period.

Because Escape Hunt is in a net loss position, diluted loss per share excludes the effects of ordinary share equivalents consisting of stock options and warrants, which are anti-dilutive. The total number of shares subject to share options and conversion rights outstanding excluded from consideration in the calculation of diluted loss per share for the year ended 31 December 2021 was 19,699,481 shares (year ended 31 December 2020: 19,699,481 shares).

	Year Ended 31 December 2021	Year Ended 31 December 2020
Loss after tax attributable to owners of the Company (£'000)	(874)	(6,641)
Weighted average number of shares:		
Basic and diluted	93,846,053	53,720,694
Loss per share		
Basic and diluted (Pence)	(0.93)	(12.36)

10. Property, plant and equipment

	Leasehold improvements £'000	Office equipment £'000	Computers £'000	Furniture and fixtures £'000	Games £'000	Total £'000
<i>Cost:</i>						
At 1 January 2020	2,776	9	75	238	3,071	6,169
Additions	793	6	35	24	980	1,838
Additions arising from acquisition	336	-	12	-	-	347
Disposals	-	-	-	-	(89)	(89)
As at 31 December 2020	3,905	15	122	262	3,962	8,266
Additions	965	-	32	37	1,601	2,635
Additions arising from acquisition	617	36	19	543	12	1,227
Disposals	(22)	(1)	(8)	(18)	(49)	(98)
As at 31 December 2021	5,465	50	165	824	5,526	12,030
<i>Accumulated depreciation:</i>						
As at 1 January 2020	(749)	(8)	(34)	(50)	(1,393)	(2,234)
Additions arising from acquisition	(318)	-	(9)	-	-	(327)
Depreciation charge	(584)	(5)	(43)	(60)	(1,128)	(1,820)
Disposals	-	-	-	-	-	-
As at 31 December 2020	(1,651)	(13)	(86)	(110)	(2,521)	(4,381)
Additions arising from acquisition	(322)	(34)	(1)	(92)	-	(449)
Depreciation charge	(822)	(3)	(22)	(78)	(796)	(1,721)
Translation differences	(2)	-	-	-	(18)	(20)
Disposals	12	1	8	10	26	57
As at 31 December 2021	(2,785)	(49)	(101)	(270)	(3,308)	(6,514)
<i>Net book value</i>						
As at 31 December 2021	2,680	1	64	554	2,217	5,516
As at 31 December 2020	2,254	2	36	152	1,441	3,885

The amount of expenditure recognised in the carrying value of leasehold improvements in the course of construction at 31 December 2021 is £nil (2020: £62,000).

Notes to the Consolidated Financial Statements continued

11. Right-of-use assets and lease liabilities

Right-of-use assets

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Land and buildings – right-of-use asset cost b/f	3,884	3,127
Closures / leases ended for renegotiation during the year	(211)	(336)
Additions during the year, including through acquisition	5,400	1,034
Newly negotiated leases	86	152
Less: Accumulated depreciation b/f	(944)	(657)
Depreciation charged for the year	(613)	(380)
Net book value	7,602	2,940

The Group leases land and buildings for its offices and escape room and battle bar venues under agreements of between five to fifteen years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

During the year ended 31 December 2021, £148k of rent concessions have been recognised in the profit and loss (2020: £22k) to reflect credits provided by landlords during the COVID-19 pandemic. Only those rent concessions which adequately fulfil the criteria of paragraph 46A of the amendment to IFRS 16 on this subject have been included in the profit and loss.

Where leases have been renegotiated during the year due to the COVID-19 pandemic, these have been treated as modifications of leases and included as separate items in the note above.

Lease liabilities

	Year ended 31 Dec 2021 £'000	Year ended 31 Dec 2020 £'000
In respect of right-of-use assets		
Balance at beginning of period	3,742	2,602
Closures / leases ended for renegotiation during the year	(253)	(317)
Additions during the year	5,400	1,034
Newly negotiated leases	87	152
Interest incurred	233	180
Rent concessions received	(148)	(22)
Repayments during the period	(759)	(181)
Reallocated from accruals and trade payables	103	294
Lease liabilities at end of period	8,405	3,742

	As at 31 Dec 2021 £'000	As at 31 Dec 2020 £'000
Maturity		
Current		
< 1 month	42	41
1 – 3 months	84	81
3 – 12 months	290	367
Non-current	7,989	3,253
Total lease liabilities	8,405	3,742

In the Escape Hunt group of companies, leases are generally 10 years with a 5 year break clause. Where the break clause is tenant only the leases are accounted for over 10 years as it is assumed the break clause will not be enacted, whereas where the 5 year break clause is both ways, leases are accounted for over 5 years.

In the Boom group of companies, leases are generally over 15 years with a 10 year break clause, so leases are accounted for over 10 years. The group has no short term leases of properties. None of these leases imposed restrictions or covenants.

The group also leases laptops for a small number of staff on leases of 3 years. The charge to the profit and loss for the year ended 31 December 2021 for these computers was £7k (2020: £1k). These leases are all cancellable on short notice.

There are a small number of properties for which turnover rent is payable. The amount charged to the profit and loss for these turnover rent payments in the year ended 31 December 2021 was £99k (2020: £14k).

As at 31 December 2021 there were no leases that had not commenced to which the group were committed.

Notes to the Consolidated Financial Statements continued

12. Intangible assets

	Goodwill £'000	Trademarks £'000	Intellectual property £'000	Internally generated IP £'000	Franchise agreements £'000	App Quest £'000	Portal £'000	Total £'000
Cost								
At 1 January 2020	1,393	78	10,195	568	802	100	269	13,405
Additions arising from internal development	-	-	-	294	-	-	-	294
Additions arising from acquisition	19	-	-	-	-	-	-	19
Disposals	-	-	-	(7)	-	-	-	(7)
At 31 December 2020	1,412	78	10,195	855	802	100	269	13,711
Additions arising from internal development	-	-	-	119	-	-	-	119
Additions arising from acquisition	16,284	-	-	752	4,446	-	47	21,529
Disposals	-	-	-	(10)	-	-	-	(10)
As at 31 December 2021	17,696	78	10,195	1,715	6,668	100	316	35,349
Accumulated amortisation/ impairment								
At 1 January 2020	(1,393)	(29)	(8,353)	(151)	(306)	(100)	(167)	(10,499)
Amortisation for the year	-	(18)	(1,842)	(254)	(114)	-	(72)	(2,299)
Impairment provision	-	-	-	-	-	-	-	-
At 31 December 2020	(1,393)	(47)	(10,195)	(404)	(420)	(100)	(239)	(12,798)
Amortisation for the year	-	(13)	-	(265)	(160)	-	(34)	(472)
Additions arising from acquisition	-	-	-	-	-	-	(30)	(30)
Translation differences	-	-	-	-	-	-	(3)	(3)
Disposals	-	-	-	-	-	-	-	-
As at 31 December 2021	(1,393)	(60)	(10,195)	(669)	(591)	(100)	(306)	(13,303)
Carrying amounts								
At 31 December 2021	15,238	18	-	1,046	6,077	-	10	22,046
At 31 December 2020	19	31	-	450	382	-	31	913

Goodwill and acquisition related intangible assets recognised have arisen from the acquisition of Experiential Ventures Limited in May 2017, Escape Hunt Entertainment LLC in September 2020 and of BGP Escape France and BGP Entertainment Belgium in March 2021 plus the Boom group of companies in November 2021. Refer to Notes 13 and 14 for further details.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units ('CGUs') that are expected to benefit from that business combination. Management considers that the goodwill is attributable to the

owner-operated business because that is where the benefits are expected to arise from expansion opportunities and synergies of the business.

No value was attributed to the brand and customer relationships as the Board's strategic review of the business and a repositioning of our branding exercise enabled the Group to clearly define its quality, service and values, and make it more attractive to new customers and partners. Furthermore, the value of any existing brand and customer relationships which was separately identifiable from other intangible assets was insignificant.

The Group tests goodwill annually for impairment or more frequently if there are indications that these assets might be impaired. The recoverable amounts of the CGU are determined from fair value less costs to sale. The value of the goodwill comes from the future potential of the assets rather than using the assets as they are (i.e. there is assumed expansionary capex which supports growth in revenues and the value of the business and therefore goodwill).

The key assumptions for the fair value less costs to sale approach are those regarding capital expenditure which supports a consequent growth in revenues and associated earnings and a discount rate. The Group monitors its pre-tax Weighted Average Cost of Capital and those of its competitors using market data. In considering the discount rate applying to the CGU, the Directors have considered the relative sizes, risks and the inter-dependencies of its CGUs. The impairment reviews use a discount rate adjusted for pre-tax cash flows. The Group prepares cash flow forecasts derived from the most recent financial plan approved by the Board and extrapolates revenues, net margins and cash flows for the following three years based on forecast growth rates of the CGU. Cash flows beyond this period are also considered in assessing the need for any impairment provisions. A discount rate of 13.7% and capex of £15.9 million over the three years has been assumed. Growth in years 4- 6 is assumed at 3% per annum. The rate used for the fair value calculation thereafter is 2%. The directors consider these assumptions are consistent with that which a market participant would use in determining fair value.

Intellectual property

The Intellectual Property relates to the valuation of the Library of Game Wire Frame Templates of games, the process of games development and the inherent know how and understanding of making successful games.

The fair value of these assets on acquisition of £10,195k was determined by discounting estimated future net cash flows generated by the asset where no active market for the assets exists.

The Group tests intellectual property for impairment only if there are indications that these assets might be impaired. An impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows.

Franchise agreements

The intangible asset of the Franchise Business was the net present value of the net income from the franchisee agreements acquired.

The approach selected by management to value the franchise agreements was the Multi-Period Excess Earnings Method ("MEEM") which is within the income approach. The multi-period excess earnings method estimated value is based on expected future economic earnings attributable to the agreements.

The key assumptions used within the intangible asset valuation were as follows:

- Economic life – The valuation did not assume income for a period longer than the asset's economic life (the period over which it will generate income). The contractual nature of the Franchise Agreements (with terms typically between 6 and 10 years) means it is possible to forecast with a reasonable degree of certainty the remaining term of each agreement and therefore the period in which it will generate revenue. Only contracts which were signed at the acquisition date were included.
- Renewal – No provision for the renewal of existing Franchise Contracts has been included with the valuation. This reflects the fact that potential contract renewals will only take place several years in the future, and the stated strategy of management has been to focus on the development of owner-managed sites rather than renewing the franchises when they are due for renewal – as they may be bought out.
- Contributory Asset Charges (CAC) – The projections assumed after returns are paid/charged to complementary assets which are used in conjunction with the valued asset to generate the earnings associated with it. The only CAC identified by management is the charge relating to IP – a charge has been included to take into account the Intellectual Property used within the franchise operation. This is considered key in generating earnings at the franchised sites. Management has applied the same royalty rate of 10% used to value this asset.
- Discount Rate – The Capital Asset Pricing Model ("CAPM") has been used to calculate a discount rate of 13.7%.

Notes to the Consolidated Financial Statements continued

- Taxation – At the time of acquisition, the franchise profits were earned within a group subsidiary which was incorporated in the Labuan province of Malaysia. The tax rate applicable in Labuan was applied to the earnings generated from franchise operations for franchise contracts acquired at that time. The acquisitions in France and the UK during 2021 have used anticipated tax rates of 25.75% and 25% respectively.

The carrying amount of the franchise agreements has been considered on the basis of the value in use derived from the expected future cash flows.

13. Subsidiaries

Details of the Company's subsidiaries as at 31 December 2021 are as follows:

Name of subsidiary	Country of incorporation	Principal activity	Effective equity interest held by the Group (%)	Ref
Experiential Ventures Limited	Seychelles	Former holding company - In dissolution	100	#2
Escape Hunt Group Limited	England and Wales	Operator of escape rooms	100	#1
Escape Hunt Operations Ltd	Malaysia	Former operator of escape rooms - In dissolution	100	#2
E V Development Co. Ltd	Thailand	Formerly game design - In dissolution	99.9	#2
Escape Hunt IP Limited	England and Wales	IP licensing	100	#1
Escape Franchises Limited	England and Wales	Franchise holding	100	#1
Escape Hunt Innovations Limited	England and Wales	Game design	100	#1
Escape Hunt Limited	England and Wales	Dormant	100	#1
Escape Hunt USA Franchises Ltd	England and Wales	Franchise holding	100	#1
Escape Hunt Entertainment LLC	United Arab Emirates	Operator of Escape Rooms in Dubai and master franchise to the Middle East	100	#3
BGP Escape France	France	Operator of Escape Rooms in Paris and master franchise to France, Belgium and Luxembourg	100	#1
BGP Entertainment Belgium	Belgium	Operator of Escape Rooms in Brussels	100	#1
Boom BB One Limited	England and Wales	Operator of battle bar Lakeside	100	#2
BBB Seven Limited	England and Wales	Operator of battle bar O2	100	#2
BBB UK Trading Limited	England and Wales	Previous head office for Boom group	100	#2
BBB Seventeen Limited	England and Wales	Holder of Boom IP	100	#2
BBB Franchise Limited	England and Wales	Franchise holding	100	#1
BBB Thirteen Limited	England and Wales	Operator of battle bar Oxford Street	100	#2

BBB Ventures Limited	England and Wales	Intermediate holding company	100	#2
Boom BB Two Limited	England and Wales	Operator of battle bar – location TBC	100	#2
BBB Sixteen Limited	England and Wales	Operator of battle bar – location TBC	100	#2
BBB Six Limited	England and Wales	Operator of battle bar – Edinburgh	100	#2
BBB Eleven Limited	England and Wales	Operator of battle bar – Location TBC	100	#2
BBB Fifteen Limited	England and Wales	Operator of battle bar – location TBC	100	#2
BBB Twelve Limited	England and Wales	Operator of battle bar – Manchester	100	#2
BBB Three Limited	England and Wales	Operator of battle bar – location TBC	100	#2
BBB Fourteen Limited	England and Wales	Operator of battle bar – Exeter	100	#2

Each of the companies incorporated in England and Wales have their registered office at Belmont House, Station Way, Crawley, RH10 1JA.

Each of the subsidiaries for which reference #1 is shown is directly held by the Company. Those referenced #2 are held indirectly through one of the directly held subsidiaries. Those referenced #3 are held via nominee arrangements.

The registered address of each overseas subsidiary is as follows:

Experiential Ventures Limited

103 Sham Peng Tong Plaza, Victoria, Mahe, Seychelles.

Escape Hunt Operations Ltd

Lot A020, Level 1, Podium Level, Financial Park Labuan, Jalan Merdeka, 8700 Labuan, Malaysia.

E V Development Co. Ltd

No. 689 Bhiraj Tower at EmQuartier, Sukhumvit (Soi 35) Road, Klongton-Nua Sub-district, Bangkok, Thailand.

Escape Hunt Entertainment LLC

Retail Space 26, Galleria Mall, Al Wasl Road, Bur Dubai, Dubai,

BGP Escape France

112 bis rue cardinet 75017, France

BGP Entertainment Belgium

13-15 rue de Livourne, 1060 Brussels

Notes to the Consolidated Financial Statements continued

14. Business Combination

Acquisition of French and Belgium master franchise

On 9th March 2021, XP Factory Plc acquired 100% of the equity interest in BGP Entertainment Belgium and BGP Escape France, thereby obtaining control. BGP Entertainment Belgium runs an owner operated escape room in Brussels and BGP Escape France holds the master franchise for the territory of France, Belgium and Luxembourg and also runs an owner operated venue in Paris.

The details of the business combination are as follows:

	£'000
Fair value of consideration transferred	
Amounts settled in cash	278
Net loan receivable	(19)
Contingent consideration	248
Total purchase consideration	507

Contingent consideration includes a preliminary estimate on the earnout payable on the owned and operated sites.

There were no shares or other contingent consideration to be included in the total purchase price.

Further acquisition related costs of £66k that were not directly attributable to the issue of shares are included in administrative expenses under the owner operated segment.

	Book Value £'000	Fair Value Adjustment £'000	Fair Value £'000
Assets and liabilities recognised as a result of the acquisition			
Cash	139	-	139
Trade receivables (net of provisions)	78	-	78
Other receivables and deposits	19	-	19
Property, plant and equipment	95	-	95
Right of use assets	282	-	282
Intangible assets	17	-	17
Trade payables	(161)	-	(161)
Lease liabilities	(282)	-	(282)
Other payables	(135)	-	(135)
Net identifiable assets acquired	52	-	52
Valuation of acquired intangibles	-	61	61
Goodwill arising on consolidation	-	410	410
Deferred tax liability recognised	-	(16)	(16)
Total	52	455	507

The fair value of acquired trade receivables is £78k. The gross contractual amount for trade receivables due is £128k of which £50k had been provided against as at the date of acquisition.

The excess of the total consideration over the net identifiable assets acquired of £456k has been analysed and £61k has been recognised on the balance sheet as an intangible asset relating to the future cashflows from the franchise

agreements active in the region. The remaining £395k of goodwill is primarily related to growth expectations, expected future profitability and the expertise and experience of BGP Entertainment and BGP Escape's workforce. A further £16k has been recognised as Goodwill related to the deferred tax liability recognised on the £61k intangible asset. Goodwill has been allocated to the owner operated segment and is not expected to be deductible for tax purposes. The intangible assets have been allocated to the franchise segment and are being amortised over 6 years to reflect the average length of time remaining on the franchise agreements.

BGP Entertainment and BGP Escape together contributed revenues of £634k and net losses of (£1k) in the nine months between acquisition and 31 December 2021. If the acquisition had occurred on 1 January 2021, consolidated revenue would have been £50k higher, however consolidated net profits would have been £35k lower due to the Brussels site being closed due to COVID for most of the period.

Acquisition of Boom Battle Bars

On 22nd November 2021, XP Factory Plc acquired 100% of Boom Battle Bars Group, thereby obtaining control. The group consists of fifteen companies, their individual activities as listed in Note 13, however at the time of purchase there was one overall holding company, one IP Holding company, one head office company, one franchise holding company and eleven operating companies intending to each run a Boom Battle Bar location, of which one was already live and five more had sites allocated and intending to open.

The details of the business combination are as follows:

	£'000
Fair value of consideration transferred	
Amounts settled in cash	9,607
Vendor Loan	360
Contingent consideration	8,950
Deferred consideration	637
Total consideration	19,554

Contingent consideration includes a preliminary estimate on the earnout payable in respect of the acquisition, discounted to present value at a rate of 4.7 per cent. Deferred consideration represents the amount estimated to be payable as a result of the net debt adjustment which will be finalised with the completion of the audits of the Boom companies acquired. The contingent consideration is payable by means of an issue of up to 25,000,000 Consideration Shares. The deferred consideration is expected to give rise to an additional £637k payable to the vendors.

The issue of the Consideration Shares is conditional on the performance of the Boom Battle Bars Group following completion of the acquisition. The Consideration Shares are subject to an earn-out and will only be issued if the performance of the Boom Battle Bars Group in the financial year ending 31 December 2022 meets a combination of the turnover and site roll-out targets set out below. The Consideration Shares are expected to be issued during the first half of 2023 and are be subject to lock-in until 15 July 2023.

The turnover component comprises 66.7 per cent. of the earn-out calculation and the site roll-out plan makes up the balance of 33.3 per cent, (with 20 per cent. linked to owner operated sites and 13.3 per cent. linked to franchise sites). There is a limited ability for an over-performance against one target to compensate for potential under-performance against another such that the turnover component can comprise a maximum of 75% of the earn-out calculation, if the turnover target is exceeded but the site roll-out target is not achieved, and the site roll-out plan a maximum of 40% of the earn-out calculation, if the site roll-out plan is exceeded but the turnover earn-out target is not achieved. .

The earn-out target numbers are:

- £10.96 million combined turnover from the owner-operated Boom sites and from the Boom franchise revenue share in the year to 31 December 2022;
- 7 owner operated sites open by 31 December 2022; and
- 20 franchise sites open by 31 December 2022.

If each of these earn-out targets is achieved in full then the maximum number of Consideration Shares will be issued to the seller.

If the earn-out targets are not satisfied in full then there is a reducing straight line sliding scale for the partial achievement of each component of the earn-out down to the minimum criteria. If the minimum criteria are not met in every element of the earn-out then no Consideration Shares will be issued. The minimum criteria for each element of the earn-out are:

Notes to the Consolidated Financial Statements continued

- £8.15 million combined turnover from the owner-operated sites and from the franchise revenue share in the year to 31 December 2022;
- 13 franchise sites open by 31 December 2022; and
- 5 owner operated sites open by 31 December 2022.

Further acquisition related costs of £99k that were not directly attributable to the issue of shares are included in administrative expenses under the owner operated segment.

	Book Value £'000	Fair Value Adjustment £'000	Fair Value £'000
Assets and liabilities recognised as a result of the acquisition			
Cash	15	-	15
Inventory	34	-	34
Trade receivables (net of provisions)	351	-	351
Other receivables	1,036	-	1,036
Stock and work in progress	510	-	510
Property, plant and equipment	725	-	725
Intangible assets	752	-	752
Right of use assets	4,818	-	4,818
Trade payables	(900)	-	(900)
Accruals, deferred income and other payables	(1,739)	-	(1,739)
Loans	(375)	-	(375)
Lease liabilities	(4,818)	-	(4,818)
Net identifiable assets acquired	409	-	409
Valuation of acquired intangibles	-	4,385	4,385
Goodwill arising on consolidation	-	15,874	15,874
Deferred tax liability recognised	-	(1,096)	(1,096)
IFRS 9 provision	-	(18)	(18)
Total	409	19,145	19,554

The fair value of acquired trade receivables is £351k. The gross contractual amount for trade receivables due is £351k of which none had been provided against as at the date of acquisition.

The excess of the total consideration over the net identifiable assets acquired of £19,145k has been analysed and £4,385k has been recognised on the balance sheet as an intangible asset relating to the future cashflows from the franchise agreements active in the UK. The remaining £14,759k of goodwill is primarily related to growth expectations, expected future profitability and the expertise and experience of the team. A further £1,096k has been recognised as Goodwill related to the deferred tax liability recognised on the £4,385k intangible asset. Goodwill has been allocated to the owner operated segment and is not expected to be deductible for tax purposes. The intangible assets have been allocated to the franchise segment and are being amortised over 10 years to reflect the average length of time remaining on the franchise agreements.

The Boom Group of companies together contributed revenues of £374k and net losses of (£76k) in period between acquisition and 31 December 2021. If the acquisition had occurred on 1 January 2021, consolidated revenue would have been £2,953k higher but consolidated net profits would have been £150k lower due to pre-opening costs of both the Lakeside and O2 venues.

15. Loan to franchisee

A loan of £300,000 is due from a master franchisee which bears interest at 5% per annum plus 2% of the franchisee's revenues and is repayable in instalments between January 2020 and June 2023.

The majority of income receivable under the terms of the loan relates to interest at a fixed rate. The impact of COVID-19 on the borrower in 2020 has been significant, as a result of which it is considered unlikely that the loan will be repaid. The pandemic caused the franchisee to fall into arrears on rent and on loan repayments. A compromise has been reached between the franchisee and the respective landlord, but payments have not resumed. As at 31 December 2021 this loan has been provided for in full.

£84k has been loaned to our area representative in the US in return for an enhanced revenue share from the Houston site. The agreement entitles the group to an additional 25 per cent revenue share from certain games in the Houston site and rolls up interest at 20 per cent per annum. Repayments commence six months after the installation of the games, which were completed in November 2021.

16. Trade and other receivables

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Trade receivables (customer contract balances)	848	182
Prepayments	666	208
Accrued income (customer contract balances)	122	20
Accrued interest	-	-
Deposits and other receivables	3,354	491
	4,990	901

The Group's exposure to credit risk and impairment losses related to trade receivables is disclosed in Note 29.

Significant movements in customer contract assets during the year ended 31 December 2021 are summarised below:

Year ended 31 December 2021:	Trade Receivables £'000	Accrued income £'000
Contract assets:		
Balance at 1 January 2021	182	20
Transfers from contract assets recognised at the beginning of the period to receivables	20	(20)
Net increases as a result of changes in the measure of progress	910	122
Provisions for doubtful amounts	(264)	-
Balance at 31 December 2021	848	122

The amount of revenue recognised from performance obligations satisfied in previous periods is nil.

We receive payments from customers based on terms established in our contracts. In the case of franchise revenues in Escape Hunt, amounts are billed within five working days of a month end and settlement is due by the 14th of the month. In the case of franchise revenues in Boom Battle Bar, amounts are billed every Tuesday and settlement is due by Friday each week.

Accrued income relates to our conditional right to consideration for our completed performance under the contract, primarily in respect of franchise revenues. Accounts receivable are recognised when the right to consideration becomes unconditional.

Notes to the Consolidated Financial Statements continued

17. Inventories

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Branch consumables (at cost)	24	16
Stocks and Work in Progress	438	-
Total inventories	462	16

Inventories are stated at the lower of cost and net realisable value. Cost is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and other costs in bringing them to their existing location and condition. As items are sold, the costs of those items are drawn down from the value of inventory and recorded as an expense under costs of sale in the profit and loss for the period.

Work in progress includes the cost associated with fit-out work on sites which are subsequently sold to a franchisee and is recognised at the point of transaction. Work in progress is derecognised when an invoice is raised to a franchisee or when it is determined that it is not recoverable.

The movement in stocks and work in progress was as follows:

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Balance brought forward	16	12
Utilised in the year	(218)	(10)
Acquired through acquisition	544	-
Purchases / construction incurred	120	14
Total inventories	462	16

18. Cash and cash equivalents

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Bank balances	8,225	2,722
Cash and cash equivalents in the statement of cash flow	8,225	2,722

The currency profiles of the Group's cash and bank balances are as follows:

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Pounds Sterling	7,202	2,337
Australian Dollars	192	34
United States Dollars	350	7
Euros	339	235
Others	142	108
	8,225	2,722

19. Trade and other payables (current)

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Trade payables	1,527	606
Accruals	2,065	652
Deferred income	1,201	441
Taxation	-	17
Loans due in <1 yr	404	-
Other taxes and social security	605	82
Other payables	219	65
	6,201	1,861

Notes to the Consolidated Financial Statements continued

20. Deferred income

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Contract liabilities (deferred income):		
Balance at beginning of year	592	622
Revenue recognised in the year that was included in the deferred income balance at the beginning of the year	(229)	(335)
Increases due to cash received, excluding amounts recognised as revenue during the period	614	343
Increases on acquisition of new businesses	754	-
Decreased on termination of franchises	(42)	(35)
Translation differences	3	(3)
Transaction price allocated to the remaining performance obligations	1,692	592

All of the above amounts relate to contracts with customers and include amounts which will be recognised within one year and after more than one year. The amounts on the early termination of upfront franchise fees were recognised as revenue as all performance obligations have been satisfied.

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Upfront exclusivity, legal and training fees	859	212
Escape room advance bookings	356	13
Boom Battle Bar advance bookings	15	-
Gift vouchers	462	367
	1,692	592

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
<i>Upfront exclusivity, legal and training fees</i>		
Within one year	368	60
After more than one year	491	152
	859	212

Deferred revenues in respect of upfront exclusivity fees are expected to be recognised as revenues over the remaining lifetime of each franchise agreement. Deferred legal fees are recognised on the earlier of the date of completion of the franchise lease and the date of occupation and training fees are recognised on the date the franchise site is opened. The average remaining period of the Escape Hunt franchise agreements is approximately four years. The average remaining life on all Boom franchise agreements is ten years. All other deferred revenue is expected to be recognised as revenue within one year.

21. Provisions

The following provisions have been recognised in the period:

	Year ended 31 Dec 2021 £'000	Year ended 31 Dec 2020 £'000
Provision for contingent consideration	9,056	-
Provision for deferred consideration	637	-
Dilapidations provisions	162	125
Provision for financial guarantee contracts	26	-
Other provisions	5	3
Total	9,885	128

Provisions represent future liabilities and are recognised on an item by item basis based on the Group's best estimate of the likely committed cash outflow. No amounts have been used or reversed during the year.

Movements on provisions can be illustrated as follows:

	Contingent consideration £'000	Deferred consideration £'000	Dilapidations £'000	Financial guarantee contracts £'000	Other £'000	Total £'000
Cost:						
As at 31 December 2020	-	-	125	-	3	128
Additions arising from acquisition	8,950	637	-	17	-	9,604
Provisions recognised	106	-	46	8	3	163
Releases recognised	-	-	(10)	-	-	(10)
As at 31 December 2021	9,056	637	162	25	5	9,885

The ageing of provisions can be split as follows:

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Within one year	637	-
After more than one year	9,248	128
	9,885	128

The contingent consideration is in respect of the Boom acquisition, please see Note 14 for more details.

The value of the contingent consideration has been estimated using a share price of 35.8p per XP Factory share, being the share price on 23rd November 2021, the date that the Acquisition of Boom Battle Bars completed, and assuming all 25,000,000 shares potentially due under the provisions of the sale agreement are issued. The valuation is considered a level 2 valuation under IFRS 13, indicating that it is a financial liability that does not have regular market pricing, but whose value can be determined using other data values or market prices. The future value of the deferred consideration, which is due to be settled on completion of the audit for the group for the year ended 31 December 2022 (assumed to be 18 months after the acquisition) has been calculated using a cost of capital of 13.7 per cent and an implied share price of 43.4 pence per share. The difference between the fair value at acquisition and the future value will be recognised as a finance charge over the 18 months between the date of acquisition and the expected date of settlement as set out below.

Notes to the Consolidated Financial Statements continued

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Fair value of contingent consideration at acquisition	8,950	-
Financing charges recognized in year to 31 December	106	-
Provision for contingent consideration as at 31 December	9,056	-

The recognition of the financing charges is expected to be as follows:

	£'000
Finance charge in the year to 31 December 2021	106
Finance charge in the year to 31 December 2022	1,267
Finance charge in the year to 31 December 2023	528
Total	1,901

Financial guarantee contracts relate to leases where the Group has signed as co-tenant or has provided a guarantee for a site operated by a franchisee.

	31 December 2021 £'000	31 December 2020 £'000
Provision for financial guarantee contracts acquired	18	-
Additional provision in year	8	-
Provision at 31 December 2021	26	-
Number sites for which guarantees provided	2	-
Average term of lease remaining (years)	14.8	-
Average annual rent (£'000)	175	-

At the end of the reporting period, the directors of the Company have assessed the past due status of the debts under guarantee, the financial position of the debtors as well as the economic outlook of the industries in which the debtors operate. There has been no change in the estimation techniques or significant assumptions made during the reporting periods in assessing the loss allowance for these financial assets.

22. Share capital

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
<i>Issued and fully paid:</i>		
At beginning of the year: 80,369,044 (2020: 26,925,925) Ordinary shares of 1.25 pence each	1,005	336
Issued during the year: 65,636,054 Ordinary shares	820	669
As at end of period / year		
- 146,005,098 (2020: 80,369,044) Ordinary shares of 1.25 pence each	1,825	1,005

XP Factory Plc (formerly Escape Hunt Plc) does not have an authorised share capital and is not required to have one.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

During the year ended 31 December 2021, the following changes in the issued share capital of the Company occurred:

- On 27 January 2021 the Company issued 8,036,904 new shares at 17.5 pence per share in an equity placing raising £1.4m (before expenses of £64,200). The expenses have been deducted from the premium of £1.3m arising from the fund raise. The Company also issued a further 89,143 new ordinary shares at 17.5 pence per share to one of its advisers as consideration for fees connected to the placing. The total 8,126,047 shares were admitted to trading on AIM on 28 January 2021.
- On 4 February 2021 the company issued 125,000 new shares at 1.25 pence per share to the trustees of the Company's Share Incentive Scheme ("SIP") to meet anticipated demand for Matching Shares. Details of the Company's SIP share scheme are given in note 26.
- On 22 November 2021 the Company issued 57,385,007 new shares at 30.0 pence per share in a fund raise comprising a placing, open offer and share subscription, raising £17.2 million (before expenses of £1.1m). The expenses have been deducted from the premium of £16.3m arising from the fund raise. All 57,385,007 new shares were admitted to trading on AIM on 23 November 2021.

23. Loan notes

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
<i>Amounts due within one year</i>		
Loan notes	401	-
Rolled up interest on vendor loan notes	3	-
Other loans	256	-
	660	-
<i>Amounts due in more than one year:</i>		
Vendor loan notes	43	-
Rolled up interest on vendor loan notes	2	-
Convertible loan notes	272	272
Rolled up interest on convertible loan notes	56	17
Other loans	620	-
As at end of period / year	1,653	289

On 1 July 2020, the Company issued £340,000 convertible loan notes ("Convertible Notes"). The Convertible Notes are unsecured and interest rolls up at a fixed rate of 10 per cent. per annum. The Convertible Notes are repayable in full on 3 July 2025, inclusive of rolled up interest, although they may be prepaid in whole or in part at the Company's discretion after the period of 18 months from the date of issue, provided that the holders of the Convertible Notes will

Notes to the Consolidated Financial Statements continued

first be given the opportunity to serve notice to convert their respective Convertible Notes and unpaid interest into new Ordinary Shares.

The Convertible Notes are convertible at the election of the holders of the Convertible Notes at any time up until and including the date of repayment at the price which is the lower of 9 pence for each new Ordinary Share or the placing price of the most recent placing by the Company of new Ordinary Shares prior to conversion.

At the date of issue, the Company determined that £272,251 of the principal related to the debt component of the Convertible Notes with the balance of £67,749 be classified as the equity component of the Convertible Notes. This gives an effective underlying interest rate on the Notes of 13.4 per cent. per annum.

Application will not be made for the Convertible Notes to be admitted to trading on AIM or any other exchange. The Company has adequate authority to issue the maximum number of new Ordinary Shares which could result from the conversion of all the Convertible Notes. Any new Ordinary Shares arising on conversion will rank pari passu with the Ordinary Shares in issue at that time and application for admission to trading on AIM will be made at the appropriate time.

€100,000 vendor loan notes were issued on 9 March 2021 ("France Notes") as part of the consideration for the acquisition of the French and Belgian master franchise. The France Notes carry interest at 4 per cent per annum and are repayable, together with accrued interest, in two equal tranches on the first and second anniversary of issue. The France Notes are secured by means of a pledge of the shares in BGP Entertainment Belgium.

On 22 November 2021, the Company issued £360,000 vendor loan notes as part of the consideration for the acquisition of Boom Battle Bars ("Boom Notes"). The Boom Notes are unsecured and carry interest at 5 per cent per annum. They are repayable on the first anniversary of issue.

Convertible Loan note facility

The company has entered into a Convertible Loan Note facility with John Story, a former non executive director. Under the terms of the facility, John Story has undertaken to subscribe for up to £1m in convertible loan notes, subject to receiving a drawdown notice from the company. The principal terms of the notes are as follows:

- The term of the Convertible Loan Note facility is from the date of issue to 30 June 2023
- The notes can be issued in denominations of £50,000;
- The notes can be issued by the company at any time during the term, subject to providing 10 days notice of a drawdown; John Story has undertaken to subscribe for up to £1m principal notes
- The notes carry a 7 per cent coupon, payable quarterly;
- the notes are repayable on 30 June 2023 if not previously repaid or converted
- The Noteholder has the right to convert the notes into ordinary shares on a Conversion Date
- A Conversion Date is any date on which the company undertakes an equity issue for cash comprising 5 per cent or more of the company's issued share capital; 30 June 2022; or 30 June 2023
- The notes are convertible at the issue price of any new equity raise undertaken before 30 September 2021 subject to a 2 per cent early redemption fee; or at a 10 per cent discount to any new equity raise undertaken after 30 September 2021 but before 30 June 2023.
- If converted on 30 June 2022 or 30 June 2023, the conversion price is calculated as a 10 per cent discount to the volume weighted average trading price of the shares in the 30 days before the conversion.
- The notes are unsecured.

As at 31 December 2021, the Convertible Loan Note facility remained undrawn.

24. Share option and incentive plans

XP Factory Plc (formerly Escape Hunt Plc) Enterprise Management Incentive Plan

On 15 July 2020, the Company established the Escape Hunt Plc Enterprise Management Incentive Plan ("2020 EMI Plan"). The 2020 EMI Plan is an HMRC approved plan which allows for the issue of "qualifying options" for the purposes of Schedule 5 to the Income Tax (Earnings and Pensions) Act 2003 ("Schedule 5"), subject to the limits specified from time to time in paragraph 7 of Schedule 5, and also for the issue of non qualifying options.

It is the Board's intention to make awards under the 2020 EMI Plan to attract and retain senior employees. The 2020 EMI Plan is available to employees whose committed time is at least 25 hours per week or 75% of his or her "working time" and who is not precluded from such participation by paragraph 28 of Schedule 5 (no material interest). The 2020 EMI Plan will expire on the 10th anniversary of its formation.

The Company has made three awards to date as set out in the table below. The options are exercisable at their relevant exercise prices and vest in three equal tranches on each of the first, second and third anniversary of the grants, subject to the employee not having left employment other than as a Good Leaver. The number of options that vest are subject to a performance condition based on the Company's share price. This will be tested on each vesting date and again between the third and fourth anniversaries of awards. If the Company's share price at testing equals the first vesting price, one third of the vested options will be exercisable. If the Company's share price at testing equals the second vesting price, 90 per cent of the vested options will be exercisable. If the Company's share price at testing equals or exceeds the third vesting price, 100% of the vested options will be exercisable. The proportion of vested options exercisable for share prices between the first and second vesting prices will scale proportionately from one third to 90 per cent. Similarly, the proportion of options exercisable for share prices between the second and third vesting prices will scale proportionately from 90 per cent to 100 per cent.

The options will all vest in the case of a takeover. If the takeover price is at or below the exercise price, no options will be exercisable. If the takeover price is greater than or equal to the second vesting price, 100 per cent of the options will be exercisable. The proportion of options exercisable between the first and second vesting prices will scale proportionately from nil to 100 per cent.

If not exercised, the options will expire on the fifth anniversary of award. Options exercised will be settled by the issue of ordinary shares in the Company.

Awards	#1	#2	#3
Date of award	15-Jul-20	18-Nov-21	23-Nov-21
Date of expiry	15-Jul-25	18-Nov-26	23-Nov-26
Exercise price	7.5p	35.0p	35.0p
Qualifying awards - number of shares under option	13,333,332	700,001	533,334
Non-qualifying awards - number of shares under option	2,400,000	0	0
First vesting price	11.25p	43.75p	43.75p
Second vesting price	18.75p	61.25p	61.25p
Third vesting price	25.00p	70.00p	70.00p
Proportion of awards vesting at first vesting price	33.33%	33.33%	33.33%
Proportion of awards vesting at second vesting price	90.00%	90.00%	90.00%
Proportion of awards vesting at third vesting price	100%	100%	100%

As at 31 December 2021, 16,966,667 options were outstanding under the 2020 EMI Plan (2020: 15,733,332).

	As at 31 December 2021 '000	As at 31 December 2020 '000
Options outstanding at the beginning of the period	15,733	-
Awards made during the year	1,233	15,733
Options exercised	-	-
Options lapsed or forfeited	-	-
Options outstanding at the end of the year	16,966	15,733

Notes to the Consolidated Financial Statements continued

The sum of £53,073 has been recognised as a share-based payment and charged to the profit and loss during the year (2020: £23,477). The fair value of the options granted during the period has been calculated using the Black & Scholes formula with the following key assumptions:

Awards	#1	#2	#3
Exercise price	7.5p	35.0p	35.0p
Volatility	34.60%	31%	31%
Share price at date of award	7.375p	33.50p	32.00p
Option exercise date	15-Jul-24	18-Nov-25	23-Nov-25
Risk free rate	-0.05%	1.55%	1.55%

The performance conditions were taking into account as follows:

The value of the options have then been adjusted to take account of the performance hurdles by assuming a lognormal distribution of share price returns, based on an expected return on the date of issue. This results in the mean expected return calculated using a lognormal distribution equalling the implied market return on the date of issue validating that the expected return relative to the volatility is proportionately correct. This was then used to calculate an implied probability of the performance hurdles being achieved within the four year window and the Black & Scholes derived option value was adjusted accordingly.

Time based vesting: It has been assumed that there is between a 90% and 95% probability of all share option holders for each award remaining in each consecutive year thereafter.

The weighted average remaining contractual life of the options outstanding at 31 December 2021 is 43.7 months (2020: 54.5 months).

An option-holder has no voting or dividend rights in the Company before the exercise of a share option.

Escape Hunt Employee Share Incentive Scheme

On 25 November 2020, the Company established an employee share incentive plan ("SIP") which is available to all employees, including executive directors, in the Group once they have completed three months of employment. The scheme allows employees to acquire ordinary shares in the Company each month from pre-tax income, such shares being 'Partnership Shares'. Shares are purchased monthly by the SIP trustee on behalf of the participating employees at the prevailing market price and are funded by deductions from payroll. For each Partnership Share so acquired, the participant is granted a 'Matching Share'. Matching Shares must normally be held in the SIP for a minimum holding period of 3 years and, other than in certain exceptional circumstances, will be forfeited if, during that period, the participant in question ceases employment or withdraws their corresponding Partnership Shares from the Plan. The SIP is administered by an independent trustee who holds all Partnership and Matching shares for the benefit of the participants.

The SIP has been adopted to promote and support the principles of wider share ownership amongst all the Company's employees.

On 4 February 2021, the Company issued 125,000 shares to the trustee of the scheme to be allocated to individuals as Matching Shares during the operation of the scheme.

As at 31 December 2021, 54,073 matching shares had been awarded and were held by the trustees for release to employees pending satisfaction of their retention conditions. A charge of £9,478 (2020: £nil) has been recognised in the accounts in respect of the Matching Shares awards.

25. Capital management

The Board defines capital as share capital and all components of equity.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. In particular, the Company has raised equity as a means of executing its acquisition strategy and as a sound basis for operating the acquired Escape Hunt business in line with the Group's strategy. The Board of Directors will also monitor the level of dividends to ordinary shareholders.

The Company is not subject to externally imposed capital requirements.

26. Reserves

The share premium account arose on the Company's issue of shares and is not distributable by way of dividends.

The share-based payment reserve represents the cumulative charge for share options over the vesting period with such charges calculated at the fair value at the date of the grant.

The merger relief reserve arises from the issue of shares to by the Company in exchange for shares in Experiential Ventures Limited and is not distributable by way of dividends.

In the case of the Company's acquisition of Experiential Ventures Limited, where certain shares were acquired for cash and others on a share for share basis, then merger relief has been applied to those shares issued on a share for share basis.

The convertible loan note reserve represents the equity component of the convertible loan notes on the date of issue

The translation reserve represents cumulative foreign exchange differences arising from the translation of the Financial Statements of foreign subsidiaries and is not distributable by way of dividends.

The capital redemption reserve has arisen following the purchase by the Company of its own shares pursuant to share buy-back agreements and comprises the amount by which the distributable profits were reduced on these transactions in accordance with the Companies Act 2006.

27. Related party transactions

Related parties are entities with common direct or indirect shareholders and/or directors. Parties are considered to be related if one party has the ability to control the other party in making financial and operating decisions.

Details of the convertible loan note facility entered into with John Story, who was a director during the year, are set out in note 23 of the consolidated financial statements.

During the period under review, other than those disclosed elsewhere in the financial statements there were no significant related party transactions.

28. Directors and key management remuneration

Details of the Directors' remuneration are set out in Note 7 above.

Notes to the Consolidated Financial Statements continued

29. Financial risk management

General objectives, policies and processes

The overall objective of the Directors is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

The Directors review the Company's monthly reports through which they assess the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

Categories of financial assets and liabilities

The Company's activities are exposed to credit, market and liquidity risk. The Company's overall financial risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

The principal financial instruments used by the Company, from which financial instrument risk arises, are as follows:

- cash and cash equivalents;
- trade and other receivables; and
- trade and other payables;

The financial assets and financial liabilities maturing within the next 12 months approximated their fair values due to the relatively short-term maturity of the financial instruments.

The Company had no financial assets or liabilities carried at fair values. The Directors consider that the carrying amount of financial assets and liabilities approximates to their fair value.

A summary of the financial instruments held by category is provided below:

Financial assets at amortised cost:

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Trade receivables	848	182
Other receivables and deposits	3,476	511
Cash and cash equivalents	8,225	2,722
	12,550	3,415

Financial liabilities at amortised cost:

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Trade payables	1,527	606
Accruals and other payables	3,930	815
Loan notes	417	3,742
Other loans	1,236	-
Deferred consideration	637	-
Contingent consideration	9,056	-
	16,803	5,163

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

The Group manages its exposure to credit risk by the application of credit approvals, credit limits and monitoring procedures on an ongoing basis. For other financial assets (including cash and bank balances), the Group minimises credit risk by dealing exclusively with high credit rating counterparties.

Management have assessed the increase in credit risk over the last 12 months and have adjusted the carrying values of receivables where appropriate. In aggregate, Management does not consider there to have been a significant change in credit risk since initial recognition of receivables balances. Management reviews credit risk on an ongoing basis taking into account the circumstances at the time.

Impairment of financial assets

As described in Note 2 above, the Group applies the "expected loss" model which focuses on the risk that a loan or receivable will default rather than whether a loss has been incurred.

The carrying amount of financial assets in the statement of financial position represents the Group's maximum exposure to credit risk, before taking into account any collateral held. The Group does not hold any collateral in respect of its financial assets.

Concentration of credit risk relating to trade receivables is limited due to the Group's many varied customers. The Group's historical experience in the collection of accounts receivable falls within the recorded allowances. Due to these factors, Management believes that no additional credit risk beyond the amounts provided for collection losses is inherent in the Group's trade receivables. The ageing of trade receivables at the reporting date was as follows:

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Gross amounts (before impairment):		
Not past due	666	94
Past due 0-30 days	32	8
Past due 31-60 days	22	7
Past due more than 60 days	402	447
	1,112	556

Notes to the Consolidated Financial Statements continued

Impairment losses:

The movement in the allowance for impairment losses in respect of trade receivables during the year was as follows:

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
At beginning of year	(184)	(100)
Impairment losses recognised	(117)	(104)
Bad debts written off	38	20
At end of year	(264)	(184)

The allowance account for trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written off against the trade receivables directly.

The Group assesses collectability based on historical default rates and expected credit losses to determine the impairment loss to be recognised. Management has reviewed the trade receivables ageing and believes that, except for certain past due receivables which are specifically assessed and impaired, no impairment loss is necessary on the remaining trade receivables due to the good track records and reputation of its customers.

During the year ended 2020 the Group recognised an impairment in full against both the capital and accrued interest portions of the loan receivable from a master franchise. Therefore as at 31 December 2021 the net balance outstanding on this loan per these financial statements is nil (2020: £nil).

Liquidity risk

The ageing of financial liabilities at the reporting date was as follows:

	As at 31 December 2021 £'000
Not past due	15,604
Past due 0-30 days	790
Past due 31-60 days	22
Past due more than 60 days	387
	16,803

As at 31 December 2021 £7,202k (2020: £2,387k) of the cash and bank balances, as detailed in Note 18 to the financial statements are held in financial institutions which are regulated and located in the UK, which management believes are of high credit quality. Management does not expect any losses arising from non-performance by these counterparties.

The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

Liquidity risk arises from the Company's management of working capital. It is the risk that the Company will encounter difficulty in meeting its financial obligations as they fall due.

The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. The principal liabilities of the Group arise in respect of trade and other payables which are all payable within 12 months. At 31 December 2021, total trade payables within one year were £1,527k (2020: £606k), which is considerably less than the Group's cash held at the year-end of £8,225k (2020: £2,722k). The Board receives and reviews cash flow projections on a regular basis as well as information on cash balances.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Company has insignificant financial assets or liabilities that are exposed to interest rate risks.

Foreign currency risk

The Group has exposure to foreign currency movements on trade and other receivables, cash and cash equivalents and trade and other payables denominated in currencies other than the respective functional currencies of the Group entities. It also exposed to foreign currency risk on sales and purchases that are denominated in foreign currencies. The currencies giving rise to this risk are primarily the United States ("US") dollar, the Euro ("EUR"), Australian ("AUD") dollars, and Thai Baht ("THB"). Currently, the Group does not hedge its foreign currency exposure. However, management monitors the exposure closely and will consider using forward exchange or option contracts to hedge significant foreign currency exposure should the need arise.

The Group's exposure to foreign currency risk expressed in Pounds was as follows:

As at 31 December 2021	UK Pound Sterling £'000	United States Dollar £'000	Euro £'000	Australian Dollar £'000	Other £'000	Total £'000
Financial assets:						
Trade receivables	647	-	41	-	160	848
Other receivables and deposits	3,207	130	139	-	1	3,476
Cash and bank balances	7,202	350	339	192	142	8,225
	11,056	479	519	192	303	12,550
Financial liabilities:						
Trade payables	1,303	7	186	0	30	1,527
Other payables and accruals	3,474	25	220	0	211	3,930
Loan notes	417	-	-	-	-	417
Other loans	1,236	-	-	-	-	1,236
Deferred consideration	637	-	-	-	-	637
Contingent consideration	9,056	-	-	-	-	9,056
	16,079	32	613	0	314	16,803
Foreign currency exposure (net)	0	447	(94)	192	(12)	534

Notes to the Consolidated Financial Statements continued

As at 31 December 2020	UK Pound Sterling £'000	United States Dollar £'000	Thai Bhat £'000	Euro £'000	Australian Dollar £'000	Other £'000	Total £'000
Financial assets:							
Trade receivables	172	-	-	-	-	10	182
Other receivables and deposits	509	2	-	-	-	-	511
Cash and bank balances	2,264	81	36	235	34	72	2,722
	2,945	83	36	235	34	82	3,415
Financial liabilities:							
Trade payables	584	6	-	-	-	15	606
Other payables and accruals	771	43	-	-	-	1	815
Lease liabilities	3,649	-	-	-	-	93	3,742
	5,004	49	-	-	-	109	5,163
Foreign currency exposure (net)	-	34	36	235	34	(27)	312

Sensitivity analysis

A 10% strengthening of the Pound against the following currencies at 31 December 2021 would increase/(decrease) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant.

	Increase/ (Decrease) £'000 2021	Increase/ (Decrease) £'000 2020
Effects on profit after taxation/equity		
United States Dollar:		
- strengthened by 10%	(48)	(8)
- weakened by 10%	48	8
Thai Bhat:		
- strengthened by 10%	-	(4)
- weakened by 10%	-	4
Euro:		
- strengthened by 10%	(52)	(24)
- weakened by 10%	52	24
Australian Dollar:		
- strengthened by 10%	(19)	(3)
- weakened by 10%	19	3

30. Commitments

As at 31 December 2021, the Group had capital expenditure commitments in respect of escape rooms games and leasehold improvements totalling £nil (2020: £152,921).

31. Contingencies

The Directors are not aware of any other contingencies which might impact on the Company's operations or financial position.

32. Government grants

The following Government grants have been recognised during the period:

	Year ended 31 Dec 2021 £'000	Year ended 31 Dec 2020 £'000
Local authority Small Business Grants	371	135
R&D Claims made under the SME Scheme	3,236	259
Total	3,607	394

In addition, the Company benefitted from Business Rates Relief introduced for the retail, hospitality and leisure industries. The benefit in the period was £230k (2020: £188k)

The Group also benefitted from the Coronavirus Job Retention Scheme from furloughing some of its staff. The benefit in the period was £460k (2020: £756k)

The claim made under the SME R&D Scheme related to 2019 and 2020. As at the date of signing these accounts, £3,236k of these monies had been received.

33. Events after the reporting period

Convertible Loan Notes

In early January, the Company received a Noteholder Notice of Conversion in relation to all of its outstanding Convertible Loan Notes. As a result, 4,378,082 new ordinary shares were issued on 2 February 2022 at 9.0p per share in respect of the principal amount and rolled up interest on the Convertible Loan Notes. The conversion of the loan notes is considered a non-adjusting post balance sheet event.

34. Ultimate controlling party

As at 31 December 2021, no one entity owns greater than 50% of the issued share capital. Therefore, the Company does not have an ultimate controlling party.

Company Statement of Financial Position

As at 31 December 2021

(registered company number: 10184316)

	Note	As at 31 December 2021 £'000	As at 31 December 2020 £'000
ASSETS			
Non-current assets			
Property, plant and equipment	4	17	17
Fixed asset investments	5	20,177	117
Loan receivable	7	105	-
Deposits		26	26
		20,325	160
Current assets			
Trade and other receivables		322	90
Prepayments		52	52
Amounts due from subsidiaries	6	14,311	13,333
Cash and bank balances	8	6,337	2,037
		21,023	15,512
TOTAL ASSETS		41,348	15,672
LIABILITIES			
Current liabilities			
Trade and other payables	9	555	245
Other provisions	11	637	-
Loan notes	10	404	-
Non-current liabilities			
Loan Notes	10	373	289
Other provisions	11	9,056	-
TOTAL LIABILITIES		11,025	534
NET ASSETS		30,322	15,138
EQUITY			
Share capital	11	1,825	1,006
Share premium account	13	44,365	27,758
Merger relief reserve	13	4,756	4,756
Accumulated losses		(20,896)	(18,592)
Capital redemption reserve	13	46	46
Share-based payment reserve	13	158	96
Convertible loan note reserve	13	68	68
TOTAL EQUITY		30,322	15,138

The Company has taken advantage of Section 408 of the Companies Act 2006 and has not included a Profit and Loss account in these separate financial statements. The loss attributable to members of the Company for the year ended 31 December 2021 is £2,306,320 (2020: £1,957,617).

The notes on pages 100 to 113 form an integral part of these Financial Statements. The Financial Statements on pages 98 to 113 were authorised for issue by the board of Directors on 31 May 2022 and were signed on its behalf by.

Richard Harpham
Director

Company Statement of Changes in Equity

For the year ended 31 December 2021

	Share capital £'000	Share premium account £'000	Merger relief reserve £'000	Capital redemption reserve £'000	Share-based payment reserve £'000	Convertible loan note reserve £'000	Accumulated losses £'000	Total £'000
For the year ended 31 December 2021:								
Balance as at 1 January 2021	1,006	27,758	4,756	46	96	68	(18,592)	15,138
Loss for the year	-	-	-	-	-	-	(2,306)	(2,306)
Issue of shares	819	17,819	-	-	-	68	-	18,638
Share-based payment charge	-	-	-	-	62	-	-	62
Share issue costs	-	(1,212)	-	-	-	-	-	(1,212)
Rounding	-	-	-	-	-	-	2	2
Transactions with owners	819	16,607	-	-	62	-	(2,304)	15,184
Balance as at 31 December 2021	1,825	44,365	4,756	46	158	68	(20,896)	30,322
For the year ended 31 December 2020:								
Loss for the year	-	-	-	-	-	-	(1,958)	(1,958)
Issue of shares	669	3,342	-	-	-	68	-	4,079
Share-based payment charge	-	-	-	-	29	-	-	29
Share issue costs	-	(301)	-	-	-	-	-	(301)
Transactions with owners	669	3,041	-	-	29	68	(1,958)	1,850
Balance as at 31 December 2020	1,006	27,758	4,756	46	96	68	(18,592)	15,138

The notes on pages 100 to 113 are an integral part of these financial statements.

Notes to the Company Financial Statements

For the year ended 31 December 2021

1. General Information

The Company was incorporated in England on 17 May 2016 under the name of Dorcaster Limited with registered number 10184316 as a private company with limited liability under the Companies Act 2006. The Company was re-registered as a public company on 13 June 2016 and changed its name to Dorcaster Plc on 13 June 2016. On 8 July 2016, the Company's shares were admitted to AIM.

Until its acquisition of Experiential Ventures Limited on 2 May 2017, the Company was an investing company (as defined in the AIM Rules for Companies) and did not trade.

On 2 May 2017, the Company ceased to be an investing company on the completion of the acquisition of the entire issued share capital of Experiential Ventures Limited. Experiential Ventures Limited is the holding company of the Escape Hunt Group which is a global provider of live 'escape the room' experiences through a network of franchised, licensed and owner-operated branches and offsite "escape the room" type games.

On 2 May 2017, the Company's name was changed to Escape Hunt Plc.

On 3rd December 2021, the Company's name was changed to XP Factory Plc

The Company's registered office is Belmont House, Station Way, Crawley, RH10 1JA.

2. Summary of significant accounting policies

(a) Basis of preparation

These financial statements have been prepared in accordance with applicable United Kingdom accounting standards, including Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS 102'), and with the Companies Act 2006.

These financial statements are prepared under the historical cost convention. Historical cost is generally based on the fair value of the consideration given in exchange of assets. The principal accounting policies are set out below.

The Company has taken advantage of Section 408 of the Companies Act 2006 and has not included a Profit and Loss account in these separate financial statements. The loss attributable to members of the Company for the year ended 31 December 2021 is £2,306,320 (year ended 31 December 2020: loss of £1,957,617).

The Company has taken advantage of the following disclosure exemptions in preparing these Financial Statements, as permitted by FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7:
Statement of Cash Flows
- the requirements of Section 11:
Financial Instruments
- The disclosure of the compensation of Key Management Personnel of the Company
- The disclosures required by Section 26 Share Based Payments in respect of Group settled share-based payments for its own separate financial statements.

The Company produces true and fair consolidated accounts which include the results of the Company.

(b) Going Concern

The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

The Directors have assessed the Company's ability to continue in operational existence for the foreseeable future in accordance with the Financial Reporting Council's Guidance on the going concern basis of accounting and reporting on solvency and liquidity risks issued in April 2016.

The Board has prepared detailed cashflow forecasts covering a three year period from the reporting date.

In May 2021, the Company entered into a convertible loan note facility with one of its then directors, through which the Company has access to a further £1m in funding. The Company is able to draw down the funds as required. Details of the convertible loan note facility are given in note 10. This facility was entered into to enable the Company to continue to support investment in new sites within its subsidiaries notwithstanding the continued uncertainty brought about by the COVID-19 lockdown rules. The facility has not been drawn.

The Company plans to continue to support the roll out new sites under both the Escape Hunt and Boom Battle Bar brands in the UK which are expected to contribute to performance in future.

The central case is based on opening a number of new Escape Hunt and Boom owner operated sites in the UK in line with the Board's stated strategy. Sites are expected to take a period of time to reach maturity based on previous experience. The central case does not assume any further impact from COVID-19. In the central case the Group does not need to utilise the convertible loan facility and believes it has sufficient resources for its present needs.

The Company has also considered a 'downside' scenario. In this scenario the Directors have assessed the potential impact of a reduction in sales across the group, reduced capacity within the Escape Hunt UK sites, delays in the opening of sites, cost increases and a substantial reduction in the pace of roll-out. The 'downside' scenario also considers a further lockdown of one month, which assumes that government support would be available to cover site level salaries only. The scenario also considers a delay in progress in the US. In the 'downside' scenario, the Directors believe there are mitigating actions that can be taken to preserve cash. Principally the roll-out of further sites would be stopped and cost saving measures would be introduced at head office. The Company has previously made significant reductions in its head office property costs, and further cost reductions could be targeted in both people and areas such as IT, professional services and marketing. Other areas of planned capital expenditure within subsidiaries would also be curtailed. These include planned expenditure on website and system improvements. Taking into account the mitigating factors, the Directors believe the Company has sufficient resources for its present needs, with or without access to the convertible loan note facility.

Based on the above, the Directors consider there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, as well as to fund its future operating expenses. The going concern basis preparation is therefore considered to be appropriate in preparing these financial statements.

(c) Fixed asset investments

Fixed asset investments are carried at cost less, where appropriate, any provision for impairment.

(d) Loans to subsidiaries

Loans to subsidiaries are measured at the present value of the future cash payments discounted at a market rate of interest for a similar debt instrument unless such amounts are repayable on demand. The present value of loans that are repayable on demand is equal to the undiscounted cash amount payable reflecting the Company's right to demand immediate repayment.

(e) Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the reporting date and the gains or losses on translation are included in the profit and loss account.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, bank balances, deposits with financial institutions and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Notes to the Company Financial Statements continued

For the year ended 31 December 2021

(g) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

(h) Income taxes

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current or deferred tax for the year is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively.

(i) Provisions

A provision is recognised when the Company has a present obligation, legal or constructive, as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. Where the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

The Company has recognized provisions for liabilities of uncertain timing or amount including contingent and deferred consideration.

Contingent and deferred consideration

Contingent consideration is consideration that is payable in respect of acquisitions which is contingent on the achievement of certain performance or events after the date of acquisition. Deferred consideration is consideration payable in respect of acquisitions which is deferred, but is not dependent on any future performance or events.

The likely value of contingent consideration is estimated based on the anticipated future performance of the business acquired and a probability of the necessary performance being achieved. The expected future value of the contingent consideration is discounted from the anticipated date of payment to the present value. For cash settled contingent consideration, the discount rate is the risk free rate together with the Consumer Price index for inflation. For Equity settled contingent consideration, the future value is discounted using the Director's assessment of the company's cost

of equity. The present value is recognised as a liability at the date of transaction. The implied interest is recognised over the period between the date of acquisition and anticipated date of payment of the contingent consideration.

Deferred consideration is recognised as a liability at its face value at the date of acquisition.

(j) Leases

Assets that are held by the Company under leases which transfer to the Company substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Company are classified as operating leases. Operating lease rentals are charged to profit and loss on a straight-line basis over the period of the lease.

(k) Share-based payment arrangements

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. Equity-settled share based payments to non-employees are measured at the fair value of services received, or if this cannot be measured, at the fair value of the equity instruments granted at the date that the Company obtains the goods or counterparty renders the service. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Notes 23 and 24 to the consolidated financial statements.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. Where the conditions are non-vesting, the expense and equity reserve arising from share-based payment transactions is recognised in full immediately on grant.

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to other reserves.

(l) Trade and other payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Share capital

Proceeds from issuance of ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new ordinary shares or options are shown in equity as a deduction from the proceeds.

(n) Financial instruments

Financial instruments are recognised in the statements of financial position when the Company has become a party to the contractual provisions of the instruments.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability are reported as an expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

Financial instruments are offset when the Company has a legally enforceable right to offset and intends to settle either on a net basis or to realise the asset and settle the liability simultaneously.

A financial instrument is recognised initially at its fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial instrument.

Financial instruments recognised in the statements of financial position are disclosed in the individual policy statement associated with each item.

(i) Financial liabilities

Financial liabilities are recognised when, and only when, the Company becomes a party to the contractual provisions of the financial instrument.

All financial liabilities are recognised initially at fair value plus directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method other than those categorised as fair value through profit or loss.

Fair value through profit or loss category comprises financial liabilities that are either held for trading or are designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise

Notes to the Company Financial Statements continued

For the year ended 31 December 2021

arise. Derivatives are also classified as held for trading unless they are designated as hedges. There were no financial liabilities classified under this category.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same party on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

(ii) Equity instruments

Ordinary shares are classified as equity. Dividends on ordinary shares are recognised as liabilities when approved for appropriation.

(iii) Other financial instruments

Other financial instruments not meeting the definition of Basic Financial Instruments are recognised initially at fair value. Subsequent to initial recognition other financial instruments are measured at fair value with changes recognised in profit or loss except as follows:

- investments in equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably shall be measured at cost less impairment; and
- hedging instruments in a designated hedging relationship shall be recognised as set out below.

(o) Merger relief

The issue of shares by the Company is accounted for at the fair value of the consideration received. Any excess over the nominal value of the shares issued is credited to the share premium account other than in a business combination where the consideration for shares in another company includes the issue of shares, and on completion of the transaction, the Company has secured at least a 90% equity holding in the other company. In such circumstances the credit is applied to the merger relief reserve.

In the case of the Company's acquisition of Experiential Ventures Limited, where certain shares were acquired for cash and others on a share for share basis, then merger relief has been applied to those shares issued in exchange for shares in Experiential Ventures Limited.

(p) Government Grants

Grants relating to revenue are recognised on the performance model through the consolidated statement of comprehensive income by netting off against the costs to which the grants were intended to compensate. Where the grant is not directly associated with costs incurred during the period, the grant is recognised as 'other income'. Grants relating to assets are recognised in income on a systematic basis over the expected useful life of the asset.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, which are described in Note 2, management is required to make judgements, estimates and assumptions about the carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The key sources of judgment that have a significant effect on the amounts recognised in the financial statements are described below.

Impairment of fixed asset investments and amounts due from subsidiaries

As described in Note 2 to the financial statements, fixed asset investments are stated at the lower of cost less provision for impairment. The present value of loans to subsidiaries that are repayable on demand is equal to the undiscounted cash amount payable reflecting the Company's right to demand immediate repayment.

At each reporting date fixed asset investments and loans made to subsidiaries are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset is estimated and compared with its carrying amount. If estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognised immediately in profit or loss. The Directors have carried out an impairment test on the value of the loans due from subsidiaries and have concluded that no further impairment provision (2020: £Nil) is required to write down the loans to their estimated recoverable amount.

If an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

The investments in and loans to subsidiaries are supported by the intangible assets in the subsidiaries, most notably intellectual property and franchise agreements as well as tangible fixed assets, cash and receivables.

The Company tests the receivables and intangible assets for impairment only if there are indications that these assets might be impaired. The Company considers that there are no such indications of impairment and impairment testing has not been performed. Accordingly, the Company considers that the value of investments in and loans to subsidiaries are not impaired.

Estimation of the debt and equity components of Convertible Loan notes

Debt securities which carry an option to convert into equity accounted for as a debt component and an equity component. Management are required to estimate the split by valuing the underlying debt with reference to a similar debt instrument which has no conversion rights and / or by reference to the value of the option inherent in the conversion right. These calculations involve the estimate of a number of key components such as appropriate interest rates, the expected volatility of the company's share price, the company's future dividend policy, and the likelihood and future date of conversion. On 2 July 2021, the company issued £340,000 convertible loan notes repayable on 3 July 2025 if not previously converted or redeemed. Management have estimated that £272,251 of the principal related to the debt component and £67,749 related to the equity component.

Estimation of share base payment charges

The calculation of the annual charge in relation to share based payments requires management to estimate the fair value of the share-based payment on the date of the award. The estimates are complex and take into account a number of factors including the vesting conditions, the period of time over which the awards are recognized, the exercise price of options which are the subject of the award, the expected future volatility of the company's share price, interest rates, the expected return on the shares, and the likely future date of exercise. A new executive scheme was established during the year ended 31 December 2021 and awards were made under the scheme, details of which are set out in note 26. Management has estimated the annual charge related to the awards made in the year to 31 December 2021 to be £25,611 and recognized this charge accordingly.

Contingent consideration

Where acquisitions include an element of consideration which is contingent on the performance of the business acquired, an estimate is made of the amount which the Directors believe will become payable based on the anticipated performance of the business acquired and the probability of the performance requirements being met. Where these amounts are significant, the estimated total contingent consideration is discounted back to the present value at the date of acquisition using the risk free rate of interest and the consumer price inflation index at the date of acquisition for cash settled contingent consideration and the Directors' estimate of the cost of equity for equity settled contingent consideration. The discounted value is recognised as part of the consideration. The implied interest is recognised in the period between acquisition and the expected date of payment of the contingent consideration.

Notes to the Company Financial Statements continued

For the year ended 31 December 2021

4. Property, plant and equipment

	Computer equipment £'000	Furniture and fittings £'000	Office equipment £'000	Total £'000
Cost				
At 1 January 2020	21	22	15	58
Additions	1	5	-	6
At 31 December 2020	22	27	15	64
Additions	16	-	-	16
Disposals	(6)	(18)	(1)	(25)
At 31 December 2021	32	9	14	55
Accumulated depreciation				
At 1 January 2020	15	9	8	32
Depreciation charge for the year	5	5	5	15
At 31 December 2020	20	14	13	47
Depreciation charge for the year	3	2	2	7
Disposals	(5)	(1)	(1)	(7)
At 31 December 2021	18	6	14	38
Carrying amounts				
At 31 December 2021	14	3	-	17
At 31 December 2020	2	13	2	17

5. Fixed asset investments

Investments in subsidiary undertakings

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Balance brought forward	117	1
Additions	20,060	116
Balance at end of year	20,177	117

The Company's investments comprise 100% holdings in the issued ordinary share capital of the following companies:

- Escape Hunt Group Limited
- Escape Hunt Franchises Limited
- Escape Hunt IP Limited
- Escape Hunt Innovations Limited
- Escape Hunt USA Limited
- Escape Hunt USA Franchises Limited
- Escape Hunt Entertainment LLC (registered in Dubai)
- BGP Escape France
- BGP Entertainment Belgium
- Boom BB One Limited
- BBB Seven Limited
- BBB UK Trading Limited
- BBB Seventeen Limited
- BBB Franchise Limited
- BBB Thirteen Limited
- BBB Ventures Limited
- Boom BB Two Limited
- BBB Sixteen Limited
- BBB Six Limited
- BBB Eleven Limited
- BBB Fifteen Limited
- BBB Twelve Limited
- BBB Three Limited
- BBB Fourteen Limited

No impairment provision has been made against the investments in subsidiaries.

Note 13 to the consolidated financial statements contains further information on the Company's holdings in subsidiaries including their activities and address of registered office.

Notes to the Company Financial Statements continued

For the year ended 31 December 2021

6. Amounts due from subsidiaries

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Gross receivable	23,333	21,660
Provision made in prior years	(10,000)	(10,000)
Balance brought forward at beginning of year	13,333	11,660
Amounts advanced	978	1,673
Balance at end of year	14,311	13,333

The amounts owing from subsidiaries are unsecured, interest-free and repayable on demand. The amounts owing are to be settled in cash. The present value of amounts that are repayable on demand is equal to the undiscounted cash amount payable reflecting the Company's right to demand immediate repayment.

7. Loan to master franchisee

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Balance brought forward	-	300
Trading balances converted to loan	47	31
New loans recognised	105	-
Provision against balance	(47)	(331)
Balance carried forward	105	-

The loan to the Norway master franchisee is unsecured, bears interest at 5% per annum plus 2% of the franchisee's revenues. During the year, the repayment terms of the loan were deferred and the a repayment plan was set which would result in the loan was agreed to be being repaid in instalments between July 2021 and October 2023. The amounts owing are to be settled in cash.

The majority of income receivable under the terms of the loan relates to interest at a fixed rate. The valuation of this loan also takes account of the expected income under the revenue share; however, the impact of this estimate is not significant to the valuation. For more information please see note 15 of the Group consolidated statements.

8. Cash and cash equivalents

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Bank balances	6,337	2,037
Cash and cash equivalents	6,337	2,037

9. Trade and other payables

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Trade payables	104	65
Accruals	363	142
Taxes and social security	84	36
Other payables	3	1
Amounts due to subsidiaries	1	1
	555	245

The amounts owing to subsidiaries are unsecured, interest-free and repayable on demand. The amounts owing are to be settled in cash.

Accruals includes an amount for the audit of the parent financial statements for the year ended 31 December 2021 of £25k.

The directors consider that the carrying amounts of amounts falling due within one year approximate to their fair values.

10. Loan Notes

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
<i>Amounts due within one year</i>		
Loan notes	401	–
Rolled up interest on vendor loan notes	3	–
	404	–
<i>Amounts due in more than one year:</i>		
Vendor loan notes	43	–
Rolled up interest on vendor loan notes	2	–
Convertible loan notes	272	272
Rolled up interest on convertible loan notes	56	17
As at end of period / year	373	289

On 1 July 2021, the Company issued £340,000 convertible loan notes (“Notes”). The Notes are unsecured and interest rolls up at a fixed rate of 10 per cent. per annum. The Notes are repayable in full on 2 July 2025, inclusive of rolled up interest, although they may be prepaid in whole or in part at the Company’s discretion after the period of 18 months from the date of issue, provided that the holders of the Convertible Loan Notes will first be given the opportunity to serve notice to convert their respective Notes and unpaid interest into new Ordinary Shares.

The Notes are convertible at the election of the holders of the Notes at any time up until and including the date of repayment at the price which is the lower of 9 pence for each new Ordinary Share or the placing price of the most recent placing by the Company of new Ordinary Shares prior to conversion.

At the date of issue, the Company determined that £272,251 of the principal related to the debt component of the loan note with the balance of £67,749 be classified as the equity component of the convertible loan note. This gives an effective underlying interest rate on the Notes of 13.4 per cent. per annum.

Application will not be made for the Convertible Loan Notes to be admitted to trading on AIM or any other exchange. The Company has adequate authority to issue the maximum number of new Ordinary Shares which could result from the conversion of all the Notes. Any new Ordinary Shares arising on conversion will rank pari passu with the Ordinary Shares in issue at that time and application for admission to trading on AIM will be made at the appropriate time.

Notes to the Company Financial Statements continued

For the year ended 31 December 2021

€100,000 vendor loan notes were issued on 9 March 2021 as part of the consideration for the acquisition of the French and Belgian master franchise. The notes carry interest at 4 per cent per annum and are repayable, together with accrued interest, in two equal tranches on the first and second anniversary of issue.

£360,000 vendor loan notes were issued on 22 November 2021 as part of the consideration for the acquisition of Boom Battle Bars. The notes carry interest at 5 per cent per annum and are repayable, together with accrued interest, on the first anniversary of issue.

Convertible Loan note facility

The company has entered into a Convertible Loan Note facility with John Story, a former non executive director. Under the terms of the facility, John Story has undertaken to subscribe for up to £1m in convertible loan notes, subject to receiving a drawdown notice from the company. The principal terms of the notes are as follows:

- The term of the Convertible Loan Note facility is from the date of issue to 30 June 2023
- The notes can be issued in denominations of £50,000;
- The notes can be issued by the company at any time during the term, subject to providing 10 days notice of a drawdown; John Story has undertaken to subscribe for up to £1m principal notes
- The notes carry a 7 per cent coupon, payable quarterly;
- the notes are repayable on 30 June 2023 if not previously repaid or converted
- The Noteholder has the right to convert the notes into ordinary shares on a Conversion Date
- A Conversion Date is any date on which the company undertakes an equity issue for cash comprising 5 per cent or more of the company's issued share capital; 30 June 2022; or 30 June 2023
- The notes are convertible at the issue price of any new equity raise undertaken before 30 September 2021 subject to a 2 per cent early redemption fee; or at a 10 per cent discount to any new equity raise undertaken after 30 September 2021 but before 30 June 2023.
- If converted on 30 June 2022 or 30 June 2023, the conversion price is calculated as a 10 per cent discount to the volume weighted average trading price of the shares in the 30 days before the conversion.
- The notes are unsecured.

As at 31 December 2021, the Convertible Loan Note facility remained undrawn.

11. Provisions

The following provisions have been recognised in the period:

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Provision for contingent consideration	9,056	–
Provision for deferred consideration	637	–
Total	9,693	–

Provisions represent future liabilities and are recognised on an item by item basis based on the Group's best estimate of the likely committed cash outflow. No amounts have been used or reversed during the year.

The value of the contingent consideration has been estimated using a share price of 35.8p per XP Factory share, being the share price on 23rd November 2021, the date that the Acquisition of Boom Battle Bars completed, and assuming all 25,000,000 shares potentially due under the provisions of the sale agreement are issued. The valuation is considered a level 2 valuation under IFRS 13, indicating that it is a financial liability that does not have regular market pricing, but whose value can be determined using other data values or market prices. The future value of the contingent consideration, which is due to be settled on completion of the audit for the group for the year ended 31 December 2022 (assumed to be 18 months after the acquisition) has been calculated using a cost of capital of 13.7 per cent and an implied share price of 43.4 pence per share. The difference between the fair value at acquisition and the future value will be recognised as a finance charge over the 18 months between the date of acquisition and the expected date of settlement as set out below.

	As at 31 December 2021 £'000	As at 31 December 2020 £'000
Fair value of contingent consideration at acquisition	8,950	–
Financing charges recognised in the year to 31 December	106	–
Provision for contingent consideration as at 31 December	9,056	–

The ageing of provisions can be split as follows:

	As at 31 December 2021 £'000	Period ended 31 December 2020 £'000
Within one year	637	–
After more than one year	9,056	–
	9,693	–

12. Share capital

Details of the Company's allotted, called-up and fully paid share capital are set out in Note 22 to the Consolidated Financial Statements.

Notes to the Company Financial Statements continued

For the year ended 31 December 2021

13. Reserves

The share premium account arose on the Company's issue of shares and is not distributable by way of dividends.

The merger relief reserve arises from the issue of shares to by the Company in exchange for shares in Experiential Ventures Limited and is not distributable by way of dividends.

The share-based payment reserve arises from the requirement to value share options and warrants in existence at the year end at fair value (see Notes 24 and 26 to the Consolidated Financial Statements).

The convertible loan note reserve represents the equity component of the convertible loan notes on the date of issue.

The capital redemption reserve has arisen following the purchase by the Company of its own shares pursuant to share buy-back agreements and comprises the amount by which the distributable profits were reduced on these transactions in accordance with the Companies Act 2006.

14. Share based payments

Details of the Company's share options and warrants are contained in Notes 24 and 26 to the Consolidated Financial Statements.

15. Segment information

Operating segments are identified on the basis of internal reports about components of the Company that are regularly reviewed by the Board. Until its acquisition of Experiential Ventures Limited on 2 May 2017, the Company was an investing company (as defined in the AIM Rules for Companies) and did not trade. On the completion of the acquisition of Experiential Ventures Limited and its subsidiaries, the Company became the holding company of the Group. Its subsidiaries provide live 'escape-the-room' experiences through a network of franchised, licensed and owner-operated branches and offsite "escape the room" type games.

The Company has one segment, namely that of a parent company to its subsidiaries. Accordingly, no segmental analysis has been provided in these financial statements.

16. Employees

	Year ended 31 December 2021 £'000	Year ended 31 December 2020 £'000
Wages salaries and benefits (including directors)	1,048	874
Share-based payments	52	24
Social security costs	126	108
Other post-employment benefits	6	13
Less amounts capitalized	(56)	(87)
Less amounts received under the CJRS scheme	(70)	(26)
	3,802	2,138

The average monthly number of employees including directors was as follows:

	Year ended 31 December 2021 No.	Period ended 31 December 2020 No.
Management	3	3
Administrative	10	8
	13	11

17. Related party transactions

The only key management personnel of the Company are the Directors. Details of their remuneration are contained in Note 7 to the Consolidated Financial Statements.

Details of amounts due between the Company and its subsidiaries are shown in Notes 6 and 9 above.

Details of the convertible loan note facility entered into with John Story, who was a director during the year, are set out in note 10.

18. Subsequent events

Convertible Loan Notes

In early January 2022, the Company received a Noteholder Notice of Conversion in relation to all of its outstanding Convertible Loan Notes. As a result, 4,378,082 new ordinary shares were issued on 2 February 2022 at 9.0p per share in respect of the principal amount and rolled up interest on the Convertible Loan Notes. The conversion of the loan notes is considered a non-adjusting post balance sheet event.

19. Contingent Liabilities

For the financial year ended 31 December 2021, the below subsidiaries are exempt from the requirements stipulating that they be audited since they fulfil all the conditions for exemption under section 479A of the Companies Act 2006.

Boom BB Two Limited
BBB Three Limited
BBB Six Limited
BBB Eleven Limited
BBB Twelve Limited
BBB Fourteen Limited
BBB Fifteen Limited
BBB Sixteen Limited

The outstanding liabilities at the balance sheet date of the above subsidiary undertakings have been guaranteed by XP Factory Plc pursuant to s479A to s479C of the Companies Act 2006. The aggregate liabilities of these subsidiaries at 31 December 2021 was £15,634.

20. Ultimate controlling party

As at 31 December 2021, no one entity owns greater than 50% of the issued share capital. Therefore, the Company does not have an ultimate controlling party.

Company information

Directors

Richard Rose, Independent Non-Executive Chairman
Richard Harpham, Chief Executive Officer
Graham Bird, Chief Financial Officer
Karen Bach, Non-Executive Director

Company secretary

Graham Bird

Company number

10184316

Registered address

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