

## SECOND SUPPLEMENTARY PROSPECTUS

### INDOOR SKYDIVE AUSTRALIA GROUP LIMITED ACN 154 103 607

This Second Supplementary prospectus (“**Second Supplementary Prospectus**”) is dated 10 December 2012 and is supplementary to the prospectus dated 1 November 2012 (“**Original Prospectus**”) and Supplementary Prospectus dated 5 December 2012 (“**First Supplementary Prospectus**”) issued by Indoor Skydive Australia Group Limited ACN 154 103 607 (“**Company**”) relating to the initial public offering of up to 60,000,000 Ordinary Shares in the Company at an offer price of \$0.20 cents each to raise up to \$12 million (“**Offer**”).

This Second Supplementary Prospectus was lodged with the Australian Securities and Investments Commission (“**ASIC**”) on 10 December 2012. Neither ASIC nor Australian Securities Exchange Limited (“**ASX**”), nor their respective officers, take any responsibility for the contents of this Second Supplementary Prospectus or the merits of the investment to which this Second Supplementary Prospectus relates.

**This Second Supplementary Prospectus was issued by the Company to supplement the Original Prospectus and First Supplementary Prospectus and must be read together with the Original Prospectus and the First Supplementary Prospectus.** If there is a conflict between the Original Prospectus and the First Supplementary Prospectus and this Second Supplementary Prospectus, this Second Supplementary Prospectus will prevail to the extent of the inconsistency. Unless the context otherwise requires, terms and abbreviations defined in the Original Prospectus have the same meaning in this Second Supplementary Prospectus.

The Company has issued both a printed and electronic version of this Second Supplementary Prospectus, and the Original Prospectus and First Supplementary Prospectus. Electronic versions of all may be accessed at [www.indoorskydiveaustralia.com.au](http://www.indoorskydiveaustralia.com.au).

The Original Prospectus, the First Supplementary Prospectus and this Second Supplementary Prospectus are important documents and should both be read in their entirety. Please consult your accountant, stockbroker, lawyer or other professional adviser before deciding whether to invest or if you do not fully understand the contents of these documents.

This Second Supplementary Prospectus contains particulars of changes to the Original Prospectus. Other than the changes set out below and in the First Supplementary Prospectus, all other details in relation to the Original Prospectus remain unchanged.

#### 1. REASONS FOR SUPPLEMENTARY PROSPECTUS

This Second Supplementary Prospectus has been prepared to:

- 1.1 reduce the Minimum Subscription Amount under the Offer from \$12,000,000 to \$4,000,000;
- 1.2 provide that the Company reserves the right to accept oversubscriptions of up to an additional \$8,000,000;
- 1.3 outline the material terms and conditions of a Convertible Note Deed entered into between the Company and Birkdale Holdings (Qld) Pty Ltd as trustee for the Baxter Family Trust (“**Birkdale**”) in relation to a convertible note facility of up to \$8,000,000. Birkdale is a company associated with Steve Baxter, a Director of ISA Group;
- 1.4 provide an independent indoor skydive industry market research report; and
- 1.5 provide an updated Investigating Accountant’s Report as a result of the matters referred to in paragraphs 1.1, 1.2 and 1.3 above.

#### 2. REDUCTION IN MINIMUM SUBSCRIPTION AMOUNT

As the Company has been able to negotiate and enter into a Convertible Note Deed under which the Company will have access to drawdown an amount of up to \$8 million if the Company lists on the

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ASX (see paragraph 4 below), the Board of Directors has resolved to reduce the Minimum Subscription Amount under the Offer from \$12,000,000 to \$4,000,000. Accordingly, the minimum subscription under the Offer will now be reached when the Company has received applications for 20,000,000 Shares at an issue price of \$0.20 per Share in order to raise \$4,000,000.

### 3. OVERSUBSCRIPTIONS

While the Company has in place the Convertible Note Deed (see paragraph 4 below), the Board of Directors does not want to disenfranchise investors who may wish to invest in the Company through the Offer. Accordingly, the Board of Directors has resolved that the Company reserves the right under the Offer to accept oversubscriptions up to an additional 40,000,000 Shares at an issue price of \$0.20 per Share to raise up to an additional \$8,000,000.

### 4. CONVERTIBLE NOTE DEED

The Board of Directors is pleased to announce that on 10 December 2012, the Company entered into a Convertible Note Deed (“Note”) with Birkdale Holdings (Qld) Pty Ltd ACN 120 407 981 as trustee for the Baxter Family Trust (“Birkdale”). Birkdale is a company associated with Steve Baxter, a Director of the Company.

Pursuant to the Note, Birkdale will acquire from the Company a convertible note with a face value of the lower of \$8 million and such amount as is the difference between \$12 million and the amount actually raised by the Company pursuant to the Original Prospectus (as amended by the First Supplementary Prospectus and this Second Supplementary Prospectus) as at the Closing Date. Key provisions of the Note are summarised at paragraph 7 below under the heading “Page 47 – section 9.4 *“Summary of Material Contracts” – this section is amended to insert a NEW section 9.4(g) “Convertible Note Deed”.*”

### 5. INDEPENDENT INDOOR SKYDIVE INDUSTRY MARKET RESEARCH REPORT

As the Company operates in a relatively new industry in Australia, the Board of Directors determined (subsequent to the issue of the Prospectus), that it would be advantageous to commission an independent market research firm, Telsyte, to prepare an independent market research report for the Company on the indoor skydiving industry in general and worldwide in an attempt to fill the void of industry information available to the public.

The Company is now pleased to be able to share this independent research report with investors who have applied for shares in the Company in the Offer, and also to potential investors who may be considering an investment in the Company.

Accordingly, the Original Prospectus (as supplemented by the First Supplementary Prospectus) is now amended by inserting a new **Section 8A – Independent Indoor Skydive Industry Market Research Report**, being the document by Telsyte titled “*ISA Group Independent Financial Analysis*” as it appears on the following pages of this Second Supplementary Prospectus.

### 6. UPDATED INVESTIGATING ACCOUNTANT’S REPORT

Due to the changes to the Minimum Subscription Amount, capacity to accept oversubscriptions, and the entry by the Company into the Convertible Note Deed referred to in paragraphs 2, 3 and 4 above, the Company has obtained an updated Investigating Accountant’s Report. Accordingly, the Investigating Accountant’s Report dated 10 December 2012 as it appears in this Second Supplementary Prospectus now replaces the Investigating Accountant’s Report that was included at pages 33 to 45 of the Original Prospectus.

***This Second Supplementary Prospectus is intended to be read with the Prospectus dated 1 November 2012 and the Supplementary Prospectus dated 5 December 2012 relating to the initial public offer of Ordinary Shares in Indoor Skydive Australia Group Limited***

## 7. OTHER CHANGES TO ORIGINAL PROSPECTUS

As a result of the changes referred to in paragraphs 2, 3 and 4 above, in addition to the amendments to the Original Prospectus referred to in paragraphs 5 and 6 above, the Original Prospectus (as supplemented by the First Supplementary Prospectus) is amended as set out below:

- *Page 3: Key Offer Statistics – the Key Offer Statistics set out below will now apply:*

Share Price per Share	\$0.20
Number of Shares offered under this Prospectus (if fully subscribed)	20,000,000 Shares
Maximum oversubscriptions	40,000,000 Shares
Total number of Shares on issue following the Offer if fully subscribed and fully oversubscribed	88,333,333 Shares
Cash proceeds of the Offer if fully subscribed and fully oversubscribed	\$12,000,000

- *Page 10 – section 1.5 “Summary of the Offer” – this section is amended so that the following “Summary of the Offer” will now apply:*

“The Offer comprises the issue of Shares by ISA Group. This Prospectus invites Applicants to apply for up to 20,000,000 Shares in ISA Group at an issue price of \$0.20 per Share to raise a Minimum Subscription Amount of \$4 million.

ISA Group reserves the right to accept oversubscriptions for up to 40,000,000 Shares to raise a further \$8 million. The maximum amount that may be raised under this Prospectus, including oversubscriptions, is therefore \$12 million. If the Offer is fully subscribed and fully oversubscribed, the Shares issued under this Prospectus will represent approximately 68% of the issued capital of ISA Group.”

- *Page 10 – section 1.7 “Minimum Raising” – this section is amended so that the following “Minimum Raising” will now apply:*

This Offer is not underwritten. The minimum amount to be raised pursuant to this Prospectus is \$4 million representing 20,000,000 Shares in ISA Group. No Shares will be issued under this Prospectus unless the Minimum Subscription Amount is raised.

- *Page 10 – NEW section 1.7A “Oversubscriptions” – a new section 1.7A Oversubscriptions is inserted into the Prospectus as follows:*

“ISA Group reserves the right to accept oversubscriptions for up to an additional 40,000,000 Shares at an issue price of \$0.20 per Share to raise up to an additional \$8 million.”

- *Page 11 – section 2.1 “Description of the Offer” – this section is amended so that the following “Description of the Offer” will now apply:*

“By this Prospectus, ISA Group invites investors to subscribe for up to 20,000,000 Shares in ISA Group at an issue price of \$0.20 per Share to raise a Minimum Subscription Amount of \$4 million if the Offer is fully subscribed, and up to a further 40,000,000 Shares at an issue price of \$0.20 per Share to raise a further \$8 million if maximum oversubscriptions are accepted.

If the Offer is fully subscribed and maximum oversubscriptions are accepted, the Shares offered under this Prospectus will represent approximately 68% of the ISA Group’s issued Shares on the Listing Date. The maximum gross proceeds raised by the Offer will be \$12 million based on the issue price if the Offer is fully subscribed and fully oversubscribed. The Offer is not underwritten. The minimum amount to be raised under the Offer is \$4 million representing 20,000,000 Shares in ISA Group.”

***This Second Supplementary Prospectus is intended to be read with the Prospectus dated 1 November 2012 and the Supplementary Prospectus dated 5 December 2012 relating to the initial public offer of Ordinary Shares in Indoor Skydive Australia Group Limited***

- *Page 11 – section 2.3 “Use of Proceeds” – this section is amended so that the following “Use of Proceeds” will now apply:*

**“Assuming the Offer is fully subscribed and if maximum oversubscriptions are accepted so that \$12 million is raised:**

<b>Use of Funds</b>	<b>Full subscription to Minimum Subscription Amount</b>	<b>Full subscription with maximum oversubscriptions</b>
Cash payment for the Equipment and other establishment costs associated with the proposed VWT in Penrith	\$3,475,000	\$9,500,000
Payment of the Offer costs	\$525,000	\$400,000
Available cash for working capital	\$0*	\$2,100,000
<b>Total Proceeds from the Offer</b>	<b>\$4,000,000</b>	<b>\$12,000,000</b>

Notes:

The above table is a statement of current intentions as at the date of this Prospectus. As with any budget, intervening events and new circumstances have the potential to affect the ultimate way funds will be applied. The Board reserves the right to alter the way funds are applied on this basis.

\*ISA Group has access to sufficient working capital by way of existing cash and the issue of a convertible note (refer to section 9.4(g). Refer also to note 2 of the Investigating Accountants Report referred to in paragraph 6 of this Second Supplementary Prospectus.

Following completion of the Offer, the Directors believe ISA Group will have sufficient working capital to carry out ISA Group’s stated objectives.

If less than the Minimum Subscription Amount is raised then no Shares will be issued under this Prospectus.

- *Page 11 – section 2.4 “Pro-forma Capital Structure” – this section is amended so that the following “Pro Forma Capital Structure” will now apply:*

“The table below sets out the pro-forma capital structure of ISA Group as at admission to the Official List of the ASX:

**Assuming the Offer is fully subscribed and if maximum oversubscriptions are accepted so that \$12 million is raised:**

<b>Shareholder</b>	<b>Number if Minimum Subscription Amount fully subscribed</b>	<b>%</b>	<b>Number with maximum oversubscriptions</b>	<b>%</b>
Shares currently on issue to Existing Shareholders	28,333,333*	59%	28,333,333	32%
IPO – Shares held by new investors	20,000,000	41%	60,000,000	68%
<b>Total issued Shares</b>	<b>48,333,333**</b>	<b>100%</b>	<b>88,333,333</b>	<b>100%</b>

A proportion of the Shares held by Existing Shareholders will be escrowed for periods of up to 2 years.

Notes:

\* (Refer to section 9.4(g)) - the Shares currently on issue to Existing Shareholders will not change prior to the Listing Date, however if ISA Group exercises its right to obtain drawdowns pursuant

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to the Convertible Note Deed, the number of Shares held by Existing Shareholders after the Listing Date may increase to the extent that Birkdale Holdings (Qld) Pty Ltd is issued Shares as a result of that company exercising its right under the Convertible Note Deed to be issued Shares by way of conversion pursuant to the terms of the Convertible Note Deed.

NB: The Conversion Date pursuant to the Convertible Note Deed means a date not before the date that is 18 months from the Issue Date, and the Issue Date is 10 December 2012.

\*\* (Refer to section 9.4(g)) - after the Listing Date, if the Offer is fully subscribed to the Minimum Subscription Amount but the maximum number of oversubscriptions is not accepted, the number of Shares on issue after the Listing Date may increase above 48,333,333 as a result of Birkdale Holdings (Qld) Pty Ltd exercising its right under the Convertible Note Deed to be issued Shares by way of conversion pursuant to the terms of the Convertible Note Deed.

NB: The Conversion Date pursuant to the Convertible Note Deed means a date not before the date that is 18 months from the Issue Date, and the Issue Date is 10 December 2012.

As shown in the table above, a total of 88,333,333 Shares will be on issue in ISA Group at the date of admission to the Official List of the ASX assuming that the Offer is fully subscribed and maximum oversubscriptions are accepted.”

- *Page 13 – section 2.13 “Minimum and Maximum Subscription” – this section is deleted and replaced with a NEW section 2.13 “Minimum Subscription and Maximum Oversubscription” will now apply:*

“The minimum subscription to the Offer pursuant to this Prospectus is 20,000,000 Shares at an issue price of \$0.20 per Share to raise \$4,000,000 before expenses of the Offer. If the Minimum Subscription Amount is not raised within 3 months after the date of this Prospectus ISA Group will refund all Application monies by a date which is no later than 4 months after the date of the Prospectus. Interest will not be paid on any Application monies refunded.

ISA Group reserves the right to accept oversubscriptions for up to 40,000,000 Shares at an issue price of \$0.20 to raise a further \$8 million.

The maximum amount that may be raised under this Prospectus, including oversubscriptions, is therefore \$12 million.”

- *Page 46 – section 9.2 “Share Capital” – this section is amended so that the following “Share Capital” will now apply:*

“At the date of this Prospectus, ISA Group has 28,333,333 issued Shares. At Listing Date, ISA Group will have 88,333,333 Shares if the Offer is fully subscribed and maximum oversubscriptions are accepted.”

- *Page 47 – section 9.4 “Summary of Material Contracts” – this section is amended to insert a NEW section 9.4(g) “Convertible Note Deed” as follows:*

“On 10 December 2012, ISA Group entered into a Convertible Note Deed (“Note”) with Birkdale Holdings (Qld) Pty Ltd ACN 120 407 981 as trustee for the Baxter Family Trust (“Birkdale”). Birkdale is a company associated with Steve Baxter, a Director of ISA Group.

Pursuant to the Note, Birkdale will acquire from ISA Group a convertible note with a face value of the lower of \$8 million and such amount as is the difference between \$12 million and the amount actually raised by ISA Group pursuant to the Offer as at the Closing Date. Key provisions of the Note are summarised as follows:

- The Note has a term of two years from its issue date;

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- ISA Group may issue drawdown notices to Birkdale for such sums and at such frequency as ISA Group may determine, up to the face value of the Note, by providing 30 days notice to Birkdale;
  - ISA Group must pay interest, calculated daily at the rate of 10% per annum, calendar quarterly in arrears on the amount outstanding on the Note from time to time, without any outstanding interest being capitalised;
  - ISA Group may in whole or in part pay any amount outstanding in relation to the Note at any time, and must repay to Birkdale that part of the amount then outstanding and all interest then accrued and outstanding. An early repayment fee will apply in the sum equivalent to 1% of the amount of the relevant repayment;
  - ISA Group may at any time choose to reduce the whole or any part of the face value of the Note, provided that part of the face value to be reduced is not at the time outstanding. In this regard ISA Group must pay to Birkdale an early reduction fee, being the sum equivalent to 1% of the amount by which the face value of the Note is being reduced;
  - ISA Group must pay to Birkdale an establishment fee equivalent to 2% of the face value of the Note on or before the date which is 30 days from the Listing Date and if the listing on the ASX does not occur within 30 days of the Issue Date of the Note, then no monies will be payable pursuant to the Note at all;
  - The Note is unsecured except in the event that the Borrower defaults in the performance of its obligations under the Note and that default is not remedied within ten business days of ISA Group being required to do so. In such circumstances Birkdale may require ISA Group to provide such security as Birkdale reasonably requires, provided that the provision of that security must not cause ISA Group to be in breach of a prior obligation owed to any third party. ISA Group appoints Birkdale its attorney in this regard. If ISA Group wishes to grant security to third parties during the term of the Note (other than in the ordinary course of business) it must obtain the consent of Birkdale);
  - An undrawn line fee calculated at the rate of 2% per annum of the total undrawn amount of the Note, calculated on daily balances, is payable in arrears calendar quarterly (or the date of earlier cancellation of the Note, as the case may be).
  - Birkdale may convert the then outstanding amount of the Note in whole or in part by providing a conversion notice, provided that such election must not be made until after the date which is 18 months from the issue date of the Note. The conversion rate means the lower of \$0.20 per share or 10% discount to the 30 day volume weighted average price (“VWAP”) as at the conversion date.”
- *Page 52 – section 9.6 “Directors’ Interests” – this section is amended to add the following final paragraph:*

“(Refer to section 9.4(g)) - the interests of the Directors set out above will not change prior to the Listing Date, however if ISA Group exercises its right to obtain drawdowns pursuant to the Convertible Note Deed, the number of Shares held indirectly by Mr Baxter through Birkdale Holdings (Qld) Pty Ltd, being a company associated with him, may increase as a result of that company exercising its right under the Convertible Note Deed to be issued Shares by way of conversion pursuant to the terms of the Convertible Note Deed.  
NB: The Conversion Date pursuant to the Convertible Note Deed means a date not before the date that is 18 months from the Issue Date, and the Issue Date is 10 December 2012.”
  - *Page 53 – section 9.8 “Agreements with Directors or Related Parties” – this section is amended to insert a NEW section 9.8(e) “Convertible Note Deed” as follows:*

“On 10 December 2012, ISA Group entered into a Convertible Note Deed (“Note”) with Birkdale Holdings (Qld) Pty Ltd ACN 120 407 981 as trustee for the Baxter Family Trust (“Birkdale”). Birkdale is a company associated with Steve Baxter, a Director of ISA Group. For details of this Deed, please refer to section 9.4(g) “Convertible Note Deed.”
  - *Page 55 – section 9.11(c) “Expenses of the Offer” – this section is amended so that the following “Expenses of the Offer” now applies:*

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“The total expenses of the Offer are estimated to be as follows:

Item of Expenditure	Full subscription to Minimum Subscription Amount	Full subscription with maximum oversubscriptions
ASX/ASIC fees	\$31,771	\$66,271
Investigating Accountant’s Report	\$35,000	\$35,000
Legal	\$140,000	\$140,000
Prospectus design, typesetting and printing	\$43,000	\$43,000
Share registry processing fees	\$6,600	\$6,600
Disbursements and contingencies	\$55,129	\$55,629
Consultation services of Mr John Diddams relating to IPO	\$50,000	\$50,000
Marketing consulting services	\$3,500	\$3,500
Convertible Note establishment fee	\$160,000	\$0
<b>TOTAL</b>	<b>\$525,000</b>	<b>\$400,000</b>

## 8. HOW TO APPLY FOR SHARES

The Offer of Shares is made in the Original Prospectus (as supplemented by the First Supplementary Prospectus and this Second Supplementary Prospectus).

If you wish to apply for Shares, please complete and return an Application Form which is attached to or accompanies the Original Prospectus, following the instructions set out at page 12 of the Original Prospectus and on the Application Form, or submit your Application Form electronically following the instructions set out at page 12 of the Original Prospectus and on the Application Form via [www.boardroomlimited.com.au/ISAGroupOffer](http://www.boardroomlimited.com.au/ISAGroupOffer).

The Application Form (whether paper Application Form or electronic Application Form) must be received by 5.00pm (AEDT) on the Closing Date (being **14 December 2012** as specified in the indicative timetable set out in the First Supplementary Prospectus).

## 9. CONSENTS TO BE NAMED

The following persons or firms have each consented to be named in the Prospectus (as amended by the First Supplementary Prospectus and this Second Supplementary Prospectus) and to the inclusion of the following statements and statements identified in the Prospectus (as amended by the First Supplementary Prospectus and this Second Supplementary Prospectus) as being based on statements made by those persons, in the form and context in which they are included, and have not withdrawn their consent before lodgement of this Second Supplementary Prospectus with the ASIC:

- RSM Bird Cameron Corporate Pty Limited – Investigating Accountant’s Report dated 10 December 2012
- Telsyte – ISA Group Financial Analysis – a Telsyte report into the Financial Dynamic Modelling of the Indoor Skydiving Industry generally and the financial modelling used by Indoor Skydive Australia Group Limited

***This Second Supplementary Prospectus is intended to be read with the Prospectus dated 1 November 2012 and the Supplementary Prospectus dated 5 December 2012 relating to the initial public offer of Ordinary Shares in Indoor Skydive Australia Group Limited***

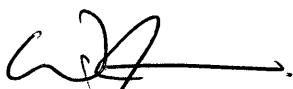
To the maximum extent permitted by law, each of the persons referred to above expressly disclaims and takes no responsibility for any part of the Original Prospectus, the First Supplementary Prospectus or this Second Supplementary Prospectus other than the statements referred to in the Original Prospectus and this paragraph 9 and the statements identified in this Second Supplementary Prospectus as being based on statements made by those persons.

**10. APPROVAL OF SECOND SUPPLEMENTARY PROSPECTUS**

This Second Supplementary Prospectus is issued by the Company and its issue has been authorised by a resolution of the Directors of the Company.

In accordance with section 720 of the Corporations Act 2001, each of the Directors of the Company has given, and has not withdrawn, their consent to the lodgement of this Second Supplementary Prospectus with ASIC.

Signed for and on behalf of Indoor Skydive Australia Group Limited:



.....  
**WAYNE JONES**, Director

***This Second Supplementary Prospectus is intended to be read with the Prospectus dated 1 November 2012 and the Supplementary Prospectus dated 5 December 2012 relating to the initial public offer of Ordinary Shares in Indoor Skydive Australia Group Limited***





# **ISA GROUP INDEPENDENT FINANCIAL ANALYSIS**

**A TELSYTE REPORT INTO THE FINANCIAL DYNAMIC MODELLING OF THE  
INDOOR SKYDIVING INDUSTRY GENERALLY AND THE FINANCIAL  
MODELLING USED BY INDOOR SKYDIVE AUSTRALIA GROUP**

*An independent market research report into the financial assumptions made by Indoor Skydive Australia Group Limited providing market support.*

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## **EXECUTIVE SUMMARY**

In December 2012 Indoor Skydive Australia Group Limited, ACN 154 103 607 ("ISA Group") commissioned Telsyte to conduct a review of the company's financial model assumptions prior to its initial public offering. The key findings are listed below:

- The assumptions made by the ISA Group for the company financial modeling are consistent with comparable indoor skydiving facilities located in Europe, North America and Singapore.
- The location and construction costs are consistent with other facilities in terms of exposure, access and the surrounding population.
- The key financial metrics are conservatively modeled and do not over-assume the level of trading.
- Most indoor skydiving facilities have a mix of consumer, professional and military customers. The consumer participation is generally the highest and ISA Group is targeting both markets.
- In addition to the capital expenditure, the main costs for indoor skydiving facilities are payroll, rent and power and ISA Group has conservative assumptions for all these factors.
- ISA Group's initial public offering (IPO) to raise \$4 million with the capacity to accept oversubscriptions to raise up to a further \$8 million (and taking into account the facility ISA Group has under a Convertible Note Deed for up to \$8 million) is consistent with the funds required to start and initially operate similar successful indoor skydiving facilities.

Telsyte  
Lvl 29, 580 George St.  
Sydney, NSW 2000  
Australia  
Tel: +612 8297 4600  
[info@telsyte.com.au](mailto:info@telsyte.com.au)  
[www.telsyte.com.au](http://www.telsyte.com.au)

## FINANCIAL ASSUMPTIONS

Telsyte conducted an assessment and evaluation of the indoor skydiving business model for similar organisations based outside of Australia. The evaluation included the assessment of financial ratios and further verification of variables:

- Number of operating hours per day, and operating months
- Payroll cost ratio and variable
- Revenue (year 1 to 5)
- Total COGS ratio
- Total expense ratio, and multi-year if varied
- EBITDA margin
- Number of days closed
- Annual additional operating hours
- Royalty Payment
- Yearly marketing costs ratio (year 1 to 5)

Telsyte research consisted of extensive assessment of documentation available from public sources, assessment of extracts of lodged financials from international indoor skydiving centre operators, an annual report from the Australian Parachute Federation, and six interviews with respective similar businesses globally providing indoor skydiving services. Telsyte has provided a confidence scale and six point verification scale to present the research findings.

Telsyte used a balanced scorecard methodology to estimate the confidence level of each assumption. A breakdown of the weightings and the list of interviewees is provided in the report appendices.

Assumption	Confidence level
Operating months in a year (12)	100%
Total cost of goods (COGS) is a conservative estimate, in line with other operators.	93%
The facility will be able to operate 364 days a year with only 1 day of closure.	89%
Revenue (year 1 to 5) of \$2.5M to \$7.4M	87%
Payroll cost ratio	92%
Total expense ratio of 52.2% to 35.3%	88%
EBITDA margin of 33.8% to 46.1%	75%
Annual additional operating hours	69%
Operating hours in a day will be 13 to 15 hours.	83%
Royalty payment consistency.	99%
Yearly marketing costs ratio is conservative.	93%

# APPENDICIES

## 1. VERIFICATION SOURCE

To verify the validity of the ISA Group financial model Telsyte conducted extensive desk research and interviews with the equipment vendor and similar operators of indoor skydiving facilities. The following scale was used to verify information captured:

- 0. Unable to verify
- 1. Verified by Telsyte consistent with our knowledge of similar businesses, utilising our proprietary databases and existing research
- 2. Verified through desk research and publicly available information (news articles, marketing material, etc)
- 3. Verified through public information (financial records, verifiable announcements, stock market announcements)
- 4. Verified through an interview with one authority or manager of a comparable indoor skydiving business globally
- 5. Verified through interviews with multiple authorities or managers of a comparable indoor skydiving businesses globally

### Verification source (0-5)

Operating months in a year (12)	5,1
Indoor Skydive Australia Group (ISA Group) has a sound business model with potential for profitability.	5,3,4,1
Estimates for visitor numbers and paid flying sessions are reasonable.	5,2,1
Total cost of goods (COGS) is a conservative estimate.	5,2,1
The facility will be able to operate 364 days a year with only 1 day of closure.	5,2,1
Revenue (first year to year X)	5,2,3,1
Total expense ratio	5,2,3,1
EBITDA margin	5,2,3,1
Annual additional operating hours	5,2,3,1
Operating hours in a day will be 13 to 15 hours.	5,2,1
Location suitability for visitor access and marketing exposure.	5,1
Royalty payment consistency.	5,2,1
Yearly marketing costs ratio is conservative.	5,1
Customer segmentation will fall with expectations of consumer and pro/military forecast.	4,3

## 2. EXECUTIVE INTERVIEW NOTES

As part of the research Telsyte conducted a number of interviews with executives from indoor skydiving facilities operating in North America, Europe and Singapore. The questions tested the assumptions made by ISA Group and raised awareness of risk factors the company should consider for its facility.

*In your experience what is a reasonable assumption for the number of operating hours per day?*

13 hours is reasonable. Across six tunnels an average of 13.5 hours of run time per day has been achieved. One tunnel in the US does 16 hours a day.

*Number of days closed in a calendar year?*

Six tunnels in the US operate 365 days a year. Mechanical issues can cause a closure, but that is very rare. In 13 years the original prototype tunnel planned to be used by ISA Group is running and over that time there have been six generations of development. Older tunnels have had a few breakdowns, but old tunnels are end-of-life and parts are no longer made for them. Newer sixth-generation tunnels, like the one to be purchased by ISA Group are much less prone to failure than older tunnels.

*Maximum number of customers per hour?*

The average capacity per hour is 26 and on average a tunnel is 60% full. Singapore [same size as the proposed tunnel in Sydney] has capacity for 36 customers every 60 minutes.

*Average cost per experience?*

There are typical rates for different regions and different size tunnels can demand different rates. Sydney's tunnel is same size as Singapore's. Assuming a cost of \$80 to \$120 for two flights per person is a reasonable estimate. For example, the cost for two flights is about \$US65 in Austin, Texas, however Telsyte is comfortable that the price proposed by ISA Group is sustainable in Australia.

*Payroll cost ratio and variable?*

ISA Group's modeling is conservative. The average is in mid-twenties (from 24% to 26%) and there is no real reason why it should be higher the first year then lower in successive years due to the startup period.

*Royalty payments of 7%?*

ISA Group has factored in a flat 7% royalty charge and this is unlikely to change. Telsyte has verified this rate with equipment provider.

*Typical first year revenue?*

ISA Group's target revenue of \$5 million (growing to \$6 to \$7 million when fully operational) is definitely possible. In much less expensive markets (than Sydney) operators have achieved \$4 million in the first year. A new facility in Austin aims to make \$3.8M in its first year, in a market with only 1 million people. The Sydney tunnel will serve about 1.8 million people within 25 minutes travel time. Revenue generally climbs with inflation. Most revenue build models have a ramp but indoor

skydiving comes online with almost full capacity. There is a general, gentle trend up in revenue. Location is critical.

*Total expense ratio, and multi-year if varied*

ISA Group's total expense ratio is conservative. Operators start to become better at running the business and it often takes a few years to properly staff and market a facility. Telsyte understands that this form of offering is about building awareness in the market.

*EBITDA margin?*

ISA Group's assumed EBITDA is reasonable. ISA Group expect to reach 45% after royalty payment. Owner-operated facilities are averaging 42% EBITDA.

*Yearly marketing costs ratio (first year to year 2018)*

ISA Group has set a marketing budget of \$350,000 and the marketing costs ratio varies from 6.8% to 5.2%. This is seen as high and hence very conservative by many executives. This cost could be reduced in second and consequential years.

*What is the ratio of consumer to professional skydivers like?*

About 20 to 30% of minutes are typically used by professionals including sport and military skydivers. However, being the only tunnel in Australia servicing the professional and military skydiving markets, ISA Group's market split can reasonably reach 50% consumer and 50% professional.

*What are the power costs like?*

Generally the third highest cost is electricity at about 6.9% as determined by five different tunnels of different sizes and generations. Newer tunnels use less electricity.

### **3. ADDITIONAL RISK FACTORS IDENTIFIED**

#### **Safety**

ISA Group should develop a communications plan in the event of an injury at the facility. One executive noted there have been more claims and injuries from people slipping outside the tunnel machine than inside it. If there was an injury at the facility (inside or out of the tunnel) ISA Group may need to defend its public reputation as a safe venue. ISA Group will mitigate risks by following the iFLY procedures that are in place along with abiding by regulations with the IBA (International Body Flight Association).

#### **Auxiliary sales**

ISA Group should avoid over-estimating revenue from products and merchandise. Selling low-margin products at the facility is generally not recommended. One executive told Telsyte food and beverage sales are low-margin and carry a large management overhead. Most merchandise sales are in photos and videos and there is not much in food and beverage. Photos and videos carry "ridiculously high" margins. For example a DVD for a 1 minute of video can sell for \$25.

## **Novelty factor**

One potential risk is if the business experiences a high number of visitors when it first opens and then visitor numbers fall due to a loss in the “novelty factor”. One executive experiences a 44 to 45 per cent repeat rate of flyers and a lot of regular people take it up as a sport. The executive has not seen a lot of people indoor skydiving 3 or 4 times a year, rather many people are coming 15 times a year.

## **Seasonality**

Is indoor skydiving more popular at certain times of the year than others? Telsyte investigated whether seasonality introduces any risk factors. One executive said indoor skydiving is a “very seasonal” business, however, it is also “pretty predictable”. Indoor skydiving is dependent on school holidays as the entertainment aspect is directly connected to school holidays. In the US there are about 140 school holiday days each year which is almost half of the year, however, in Australia there are about 12 weeks (84 days) of school holidays each year which is significantly less. One executive described the business as “huge in the summer and at Christmas time” and during one holiday period some \$800,000 in gift cards were sold.

## **Monopoly position challenged**

Is the ISA Group’s monopoly on the Australian market likely to be challenged by other entrants or, in the case of the military, private sales? So far none of the tunnels built by Skyventure are in price competition with others. One executive said the facilities for consumers are not in competition, but for military they can be. However, the military demand is high even if a few indoor skydiving facilities opened in Australia as “there will be plenty of demand”. The executive said military forces tend to invest more in special deployment operations. Skyventures has sold three military facilities but the company considers it rare for military organisations to buy their own as they “have a preference to buy time”. The executive said there is a trend among military organisations to outsource services and every civilian tunnel in operation has a strong military component.

## **Location dependence**

The decision to invest in – and the viability of – indoor skydiving operations are heavily dependent upon location. Skyventure’s worst performing facility is located in Hollywood despite the high population of Los Angeles. Skyventure puts this down to locals not liking to go to Universal Studios. One executive told Telsyte for the indoor skydiving business to work has to have a regular mix of tourists and locals. The location must be easy to get to, safe and family friendly. One executive said the Panthers site is “definitely not a negative, it is a positive”.

## **4. MARKETING NOTES**

In addition to the ISA Group’s marketing strategy, Telsyte has recommended a number of additional marketing notes the company can incorporate into its prospectus.

### **Media and entertainment market**

Include provisions to market to media and entertainment businesses. Media businesses could use the tunnel for:

- Movie scenes

- TV show scenes
- Video advertisements (TV and online)
- Ability to accommodate film/sound crews for internal and corporate filming activities
- NOTE: iFly Hollywood was designed for entertainment customers. One executive interviewed remarked that while media and entertainment business is not large in the US, the ISA Group facility will have a monopoly on this market in Australia meaning it could be worthwhile.

### **On-site corporate facilities**

The following facilities can be marketed to all corporate customers:

- Wireless internet facilities
- Ability for food catering or bring your own food
- Corporate branding on take-away photo and video recordings of group dives
- Private conference/multi-purpose room

### **Social media marketing**

- The ability to “check-in” to the facility using check in applications like foursquare and Facebook places
- The ability to “take off” and notify your social network
- Record and publish photos and video from your dive (relates to internet access at facility) directly to social networks such as Facebook and Twitter

### **Children/school market**

- School excursion groups
- School sports
- Birthday parties
- Competition prizes
- NOTE: One executive identified school holidays as a peak operating period.

## **5. COMPANIES INTERVIEWED**

List of companies interviewed and location.

- Skyventure (CEO)
- Airkix UK
- SkyVenture Montreal
- iFly Seattle
- SkyVenture (VP Sales)
- iFly Singapore

## **6. BALANCED SCORECARD WEIGHTING SCALE**

Telsyte used the following balanced score card scale, based on the relevance of the interviewee and usefulness of the information provided. Telsyte also included our own desk research and view within this scale.



<b>Weighting</b>	<b>%</b>
Skyventure (CEO)	30
Airkix UK	10
SkyVenture Montreal	15
iFly Seattle	10
SkyVenture (VP Sales)	5
iFly Singapore	15
Telsyte view	15

## **ABOUT TELSYTE**

Telsyte delivers strategic insights and advisory services to businesses that are producing, or are impacted by, disruptive technologies. Through deep insights and local engagement, we partner with clients to make informed decisions and achieve business objectives. Telsyte publishes studies into emerging consumer and business markets and provides custom research and advisory services.

Telsyte is a wholly-owned business unit of UXC Limited. UXC is an ASX-listed Australian IT services company and the largest Australian-owned ICT consultancy firm with over 2,500 customer organisations in the private and public sectors across Australasia.

## **REPORT LICENSE**

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## **DISCLAIMER**

All surveys, forecasts, projections and recommendations made in this report are made in good faith on the basis of information available to Telsyte at the time; and Telsyte disclaims any liability for any loss or damage caused by errors or omissions, whether such errors or omissions resulted from negligence, accident or other causes.

Neither Telsyte nor its agents will be liable for any loss or other consequences (whether or not due to the negligence of Telsyte or their agents) arising out of use of information in this study.

10 December 2012

The Directors  
Indoor Skydive Australia Group Limited  
Level 6  
8 Help Street  
CHATSWOOD NSW 2067

Attention: Mr John Diddams – Company Secretary

Dear Directors

### **Investigating accountant's report (IAR or the report)**

#### **1. Introduction**

This IAR has been prepared at the request of the Directors of Indoor Skydive Australia Group Limited (ISA Group or the Company) for inclusion in a second supplementary prospectus (the Prospectus) to be dated 10 December 2012.

The Prospectus relates to the proposed offer of up to 60,000,000 fully paid ordinary shares in the Company at an issue price of \$0.20 per share (the Offer) and convertible note with a face value of up to \$8.0 million (the Note), to raise a total of \$12.0 million, prior to costs of the Offer, and the subsequent listing of the shares of the Company on the Australian Securities Exchange Limited.

The minimum subscription under the Offer is \$4.0 million (20,000,000 shares) and the company reserves the right to accept oversubscriptions of up to a further \$8.0 million (40,000,000) shares.

Should the minimum subscription be reached, the Note will be issued with a face value of \$8.0 million (to raise a total of \$12.0 million from the Offer and the Note together). Should the company achieve oversubscriptions, the Note will be issued with a face value of the lower of \$8.0 million and such amount as is the difference between \$12.0 million and the actual amount raised by the Company under the Offer.

If the minimum subscription to the Offer of \$4.0 million has not been raised within 3 months after the date of the Prospectus, the Company will not issue any shares and will repay all application monies pursuant to the *Corporations Act 2001*, without interest.

This IAR replaces our report dated 1 November 2012 which was included in the prospectus issued by ISA Group on that date.

#### **2. Basis of preparation**

This IAR has been prepared in accordance with the general disclosure requirements of the *Corporations Act 2001* to assist investors make an informed assessment of the financial position of ISA Group. The information presented in this report includes an unaudited statement of financial position as at 31 October 2012 and unaudited pro-forma statements of financial position as at 31 October 2012, assuming minimum subscription and maximum oversubscription are achieved (together, the financial information). Unless notated otherwise, the financial information presented herein is unaudited.

The future prospects of ISA Group, other than the preparation of the financial information, assuming completion of the proposed transactions set out at Section 7 of this report, are not addressed in this IAR.

This report does not address the rights attaching to the shares to be issued pursuant to the Prospectus, nor the risk associated with an investment pursuant to the Offer, and has been prepared based on the Offer being achieved in full.

Neither RSM Bird Cameron Corporate Pty Ltd nor its related entities (RSM Bird Cameron and RSM Bird Cameron Partners) have been requested to consider the prospects of the Company, the shares to be issued under the Offer, nor the merits and risks associated with becoming a shareholder of the Company and accordingly have not done so, and do not purport to do so. RSM Bird Cameron Corporate Pty Limited takes no responsibility for these matters or for any matter or omission in the Prospectus, other than responsibility for this IAR.

All terms used in this report have the same meaning as those used in the Prospectus. Unless otherwise noted all amounts in this report are in Australian dollars.

### **3. Background**

ISA Group is planning to construct and a 16.4 foot (5 metre) air conditioned vertical wind tunnel (VWT) in the Panthers entertainment precinct in western Sydney, NSW, for use as an indoor skydive facility. Once constructed, this facility will be amongst the largest VWTs available in the world and can be used by consumers and corporate team building groups, together with professional military and civilian skydivers and enthusiasts for safe and cost effective training.

The VWT to be constructed is the largest and most advanced system available and, developed by the most experienced manufacturer of vertical wind tunnels in the world, SkyVenture, LLC (SkyVenture), will trade under the 'iFly' banner.

Any funds raised under the Prospectus are intended to be used in the construction of the facility at Penrith, acquisition, installation and commissioning of the VWT and to provide the Company with additional working capital.

Further information in relation to the Company, the proposed indoor skydive facility, the Offer and the intended uses of funds raised is contained in the Prospectus.

### **4. Scope of examination**

You have requested RSM Bird Cameron Corporate Pty Ltd to prepare this IAR for inclusion in the Prospectus covering the following financial information:

- unaudited statement of financial position of ISA Group as at 31 October 2012;
- unaudited pro-forma statement of financial position of IAS Group as at 31 October 2012, assuming the completion of transactions summarised in Section 7 of this IAR and assuming minimum subscription and maximum oversubscription are achieved ; and
- notes to the pro-forma financial information.

The financial information has been prepared and presented in accordance with the accounting policies set out in Note 1 to the pro-forma financial information.

Our review has been conducted in accordance with the Australian Auditing Standard on review engagements: ASRE 2405 – 'Review of historical financial information other than in a financial report'. We made such enquiries and performed such procedures as we, in our professional judgment, considered reasonable in the circumstances including:

- an analytical review of all the financial information presented, including a review of the reasonableness of the adjustments used to compile the unaudited pro-forma statement of financial position as at 31 October 2012;
- a comparison of consistency in the application of the recognition and measurement principles in Australian Accounting Standards (including Australian Accounting Interpretations) (AAS) and the accounting policies adopted by the Company and disclosed at Appendix A;
- inspection of financial records; and
- enquiries of directors and management.

These procedures were substantially less in scope than that which would be required in an audit examination conducted in accordance with AAS, thus the level of assurance provided is less than that given in an audit. We have not performed an audit and accordingly, we do not express an audit opinion.

**5. Responsibility**

The Directors of the Company are responsible for the preparation of the historical and pro-forma financial information.

It is our responsibility to review the historical and pro-forma financial information and report thereon. We disclaim any responsibility for any reliance on this IAR or the financial information to which it relates for any other purpose other than for which it is prepared. This IAR should be read in conjunction with the balance of the Prospectus.

**6. Subsequent events**

Apart from the matters dealt with in this report, having regard to the scope of our work, to the best of our knowledge and belief, no material transactions or events outside the ordinary business of the Company have come to our attention that are not otherwise disclosed in the Prospectus, which require further comment upon or adjustment to, the information referred to in this report, or which would cause the information in this IAR to be misleading.

**7. Assumptions adopted in compiling the pro-forma financial information**

The pro-forma statements of financial position as at 31 October 2012 have been prepared by adjusting the unaudited statement of financial position as at that date to reflect the financial effects of the following transactions, as if they had occurred at 31 October 2012:

- issue of up to 60,000,000 shares at \$0.20 per share to retail and other investors to raise up to \$12.0 million in the initial public offer of shares in the Company. The minimum subscription for the Offer is 20,000,000 shares to raise \$4.0 million and the Company may accept oversubscriptions of up to \$8.0 million. For the purposes of this IAR we have assumed the minimum subscription of \$4.0 million or maximum oversubscription of \$8.0 million will be achieved and have reviewed the pro forma financial information on that basis;
- issue of the Note to Birkdale Holdings (Qld) Pty Limited with a face value of up to \$8.0 million on the terms set out in the Prospectus (the Note). Should oversubscriptions under the Offer be achieved, the Note will be issued with a face value such that total of funds raised under the Offer and the Note is equal to \$12.0 million. For the purposes of this IAR we have assumed the note will have a face value on issue of \$8.0 million should the minimum subscription be achieved, or \$nil should maximum oversubscriptions be achieved.

Based on the terms of the Note as set out in the Convertible Note Deed (as summarised in the Prospectus), the number of shares issued to the holder of the Note on conversion will vary on the basis of the 30 day volume weighted average price as at the conversion date, and conversion cannot occur prior to the date which is 18 months from the issue date. As such, any debt will convert to a variable number of shares at an indeterminable future date (but not less than 18 months from the issue date) and, accordingly, is classified as a non-current liability;

- lapse of the option acquired to hedge the USD exposure against adverse movement in the exchange rate below parity related to the purchase of the VWT. The option is marked to market daily the value used in the unaudited financial statements as at 31 October 2012 of \$40,638 represents the value ascribed by Macquarie Equities Limited on 30 October 2012;
- reclassification of the prepayment made to SkyVentures of \$216,000 (USD 225,000) from receivables to plant & equipment to reflect the acquisition of the VWT;
- payment of the remaining consideration for the VWT and estimated associated duties, delivery, installation and commissioning costs of \$4.215 million. Included in this amount is:
  - \$2.971 million (USD 3.075 million) payment for the balance of consideration outstanding for the VWT. The Directors have assumed an exchange rate of USD1:AUD1.0349 (based on the AUD buy rate for USD published by OANDA Corporation on 31 October 2012); and
  - \$1.244 million of estimated additional VWT related costs for duties, delivery, installation, (chillers, fixtures etc.) consultants, and sundry items such as spare parts;
- payment for construction of the Indoor skydive facility and related infrastructure at Penrith for total estimated cost of \$5.548 million; and
- payment of costs of the Offer which are estimated to be \$525,000 under the minimum subscription and \$400,000 should maximum oversubscription be achieved. The costs of the Offer are to be offset against contributed equity.

Further information relating to the material contracts for purchase of the VWT and the construction of the Penrith facility are included in the Prospectus. The pro-forma statements of financial position of ISA Group have been included in the Prospectus for illustrative purposes only.

**8. Review statement on historical and pro-forma financial information**

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the financial information set out in Appendix A to this IAR does not present fairly:

- The unaudited statement of financial position of ISA Group as at 31 October 2012; and
- The unaudited pro-forma statements of financial position of ISA Group as at 31 October 2012 adjusted to include the effects of the capital raising proposed (assuming minimum subscription and maximum oversubscription) in the Prospectus and the completion of the other transactions summarised in Section 7 of this report,

in accordance with the measurement and recognition requirements (but not all of the presentation and disclosure requirements) of applicable AAS and other mandatory professional reporting requirements in Australia.

RSM Bird Cameron Corporate Pty Ltd is a licensed investment adviser under the Corporations Act 2001 and is beneficially owned by the directors of RSM Bird Cameron, a national firm of chartered accountants.

Mr Ian Douglas is a director of RSM Bird Cameron Corporate Pty Ltd and a director of RSM Bird Cameron. He has professional qualifications and experience appropriate to the advice offered.

RSM Bird Cameron Corporate Pty Ltd has acted as Investigating Accountant for the Company but has not been involved in the preparation of any other part of the Prospectus. Accordingly, we make no representations as to the completeness and accuracy of the information in any other part of the Prospectus. RSM Bird Cameron Corporate Pty Ltd has not made, and will not make, any recommendation, through the issue of this report, to potential investors in the Company as to the merits of the Offer.

RSM Bird Cameron Corporate Pty Ltd will receive a fee for the preparation of this report based on actual hours spent on the assignment at normal professional rates. RSM Bird Cameron Partners are the appointed auditors of the Company and will receive a fee for the audit service in line with standard professional rates.

With the exception of the above fees, neither Mr Ian Douglas nor RSM Bird Cameron Corporate Pty Ltd will receive any other benefits, either directly or indirectly, from the preparation of this report and have no pecuniary or other interest which could be regarded as affecting the ability to provide an unbiased opinion in relation to the proposed transaction.

RSM Bird Cameron Corporate Pty Ltd has consented to the inclusion of this report in the Prospectus in the form and context in which it appears. At the date of this report, this consent has not been withdrawn.

Yours faithfully



Ian Douglas  
Director

RSM Bird Cameron Corporate Pty Limited

**Appendix A – Historical and pro-forma financial information**
**Indoor Skydive Australia Group Limited  
Statements of financial position  
as at 31 October 2012**

	Notes	Unaudited consolidated 31 Oct 2012 \$	Pro-forma adjustments minimum subscription \$	ISA Group pro-forma 31 Oct 2012 minimum subscription \$	Pro-forma adjustments maximum subscription \$	ISA Group pro-forma 31 Oct 2012 maximum subscription \$
<b>Current assets</b>						
Cash	2	521,710	1,711,927	2,233,637	1,836,927	2,358,564
Trade and other receivables		28,246	-	28,246	-	28,246
Financial assets	3	(40,368)	(40,368)		(40,368)	
Other current assets	4	(216,000)	(216,000)		(216,000)	
<b>Total current assets</b>		<b>303,588</b>	<b>1,455,559</b>	<b>2,261,929</b>	<b>1,580,559</b>	<b>2,386,816</b>
<b>Non-current assets</b>						
Property, plant & equipment	5	10,432,715	9,979,073	10,432,715	9,979,073	10,432,715
<b>Total non-current assets</b>		<b>10,432,715</b>	<b>9,979,073</b>	<b>10,432,715</b>	<b>9,979,073</b>	<b>10,432,715</b>
<b>Total assets</b>		<b>10,736,303</b>	<b>11,434,632</b>	<b>12,694,644</b>	<b>11,559,632</b>	<b>12,819,531</b>
<b>Current liabilities</b>						
Trade & other payables		639	-	639	-	639
<b>Total current liabilities</b>		<b>639</b>	<b>-</b>	<b>639</b>	<b>-</b>	<b>639</b>
<b>Non-current liabilities</b>						
Borrowings - convertible note	6		8,000,000	8,000,000	-	
<b>Total non-current liabilities</b>			<b>8,000,000</b>	<b>8,000,000</b>	<b>-</b>	
<b>Total liabilities</b>		<b>639</b>	<b>8,000,000</b>	<b>8,000,639</b>	<b>-</b>	<b>639</b>
<b>Net assets</b>		<b>959,327</b>	<b>3,434,632</b>	<b>4,693,959</b>	<b>11,559,632</b>	<b>12,518,959</b>
<b>Equity</b>						
Issued capital & reserves	7	1,295,000	3,475,000	4,770,000	11,600,000	12,895,000
Accumulated profit / (loss)	8	(335,673)	(40,638)	(376,041)	(40,638)	(376,041)
<b>Total capital and reserves</b>		<b>959,327</b>	<b>3,434,632</b>	<b>4,393,959</b>	<b>11,559,632</b>	<b>12,518,959</b>

The unaudited pro-forma statements of financial position represents the unaudited statement of financial position as at 31 October 2012, as adjusted for the pro-forma transactions outlined in Section 7 relating to the issue of shares pursuant to the Prospectus and other transactions. The statements of financial position should be read in conjunction with the notes to the financial information.

**Appendix A – Historical and pro-forma financial information****Indoor Skydive Australia Group Limited  
Notes to the financial information  
as at 31 October 2012****1. Summary of significant accounting policies**

The significant accounting policies that have been adopted in the preparation of financial information are:

**a. Basis of preparation**

The financial information has been prepared in accordance with the recognition and measurement, but not all the disclosure requirements of Australian Accounting Standards (including Australian Accounting Interpretations) (AAS), and the *Corporations Act 2001*.

**Historical cost convention**

The financial information has been prepared under the historical cost convention, as modified by the revaluation of certain assets, where appropriate.

**Critical accounting estimates and judgements**

The preparation of financial information in conformity with AAS 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.

**b. Principles of consolidation**

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by ISA Group at the date of the financial information (the Group). A controlled entity is any entity over which ISA Group has the ability and right to govern the financial and operating policies so as to obtain benefits from the entity's activities.

Where controlled entities have entered or left the Group prior to the date of the financial information, the financial performance of those entities is included only for the period that they were controlled.

In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated in full on consolidation.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are reported separately within the equity section of the consolidated statement of financial position and statement of comprehensive income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

**c. Income taxes**

Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority. Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year and unused tax losses.

Current and deferred income tax expense is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled, based on tax rates enacted or substantively enacted at reporting date.

Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.



**Appendix A – Historical and pro-forma financial information****Indoor Skydive Australia Group Limited  
Notes to the financial information  
as at 31 October 2012**

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability where there is no effect on accounting or taxable profit or loss.

Deferred tax assets relating to temporary differences and unusual tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

**d. Property, plant & equipment**

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

**Plant and equipment**

Plant and equipment are measured on the cost basis less depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets' employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the consolidated group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

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

**Depreciation**

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the entity commencing from the time the asset is held ready for use. The expected useful lives are as follows:

<b>Class of fixed asset</b>	<b>Useful life</b>
• Buildings and capital improvements	10-20 years
• Furniture, fixtures and fittings	3-5 years
• Computer Equipment	3 years
• Computer Software	3 years

**Appendix A – Historical and pro-forma financial information****Indoor Skydive Australia Group Limited  
Notes to the financial information  
as at 31 October 2012**

The assets' residual value and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the statement of comprehensive income.

When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

**e. Leases**

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the entity are classified as finance leases.

Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over their estimated useful lives where it is likely that the entity will obtain ownership of the asset.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses on a straight-line basis over the lease term.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

**f. Financial instruments****Recognition and initial measurement**

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

**Classification and subsequent measurement**

Finance instruments are subsequently measured at fair value, amortised cost using the effective interest rate method, or cost.

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

**Appendix A – Historical and pro-forma financial information****Indoor Skydive Australia Group Limited  
Notes to the financial information  
as at 31 October 2012**

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense item in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of AAS specifically applicable to financial instruments.

*Financial assets at fair value through profit or loss*

Financial assets are classified at “fair value through profit or loss” when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a Group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy.

Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, where they are expected to mature within 12 months after the end of the reporting period.

*Held-to-maturity investments*

Held-to-maturity investments are included in non-current assets where they are expected to mature within 12 months after the end of the reporting period. All other investments are classified as current assets.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with changes in such fair value (i.e. gains or losses) recognised in other comprehensive income (except for impairment losses and foreign exchange gains and losses). When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are included in non-current assets where they are expected to be sold within 12 months after the end of the period. Other financial assets are included in current assets.

*Financial liabilities*

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

**Appendix A – Historical and pro-forma financial information****Indoor Skydive Australia Group Limited  
Notes to the financial information  
as at 31 October 2012****Convertible notes**

The component parts of compound instruments (convertible bonds) issued by the company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion options that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a liability.

**Impairment**

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in profit or loss. Any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

**Derecognition**

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

**g. Impairment of assets**

At each reporting date, the Company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement. Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen.

**h. Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 3 months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial performance.

**i. Revenue recognition**

Interest revenue is recognised using the effective interest method and includes the amortisation of any discount or premium.

**j. Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST. Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

**Appendix A – Historical and pro-forma financial information**
**Indoor Skydive Australia Group Limited  
Notes to the financial information  
as at 31 October 2012**
**k. Significant judgements and key assumptions**

The Directors evaluate estimates and judgements incorporated into the financial reports based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

*Key estimates – impairment*

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

*Key judgements – deferred tax assets*

The directors have considered it prudent not to raise any deferred tax assets on estimated tax losses until such time as there is more certainty in respect of the probability of there being sufficient future taxable profits to utilise tax losses.

*Key judgements – convertible note*

The directors have decided that the convertible note is to be disclosed as a non-current liability. The convertible note has a repayment date two years (or as varied as agreed between the parties) after issue and the holder of the note is not able to convert amounts outstanding under the note to equity until a date not less than 18 months from the date of issue.

**2. Cash and cash equivalents**

	Unaudited consolidated 31 Oct 2012 \$	Pro-forma adjustments minimum subscription \$	ISA Group pro-forma 31 Oct 2012 minimum subscription \$	Pro-forma adjustments maximum subscription \$	ISA Group pro-forma 31 Oct 2012 maximum subscription \$
Cash and cash equivalents	521,710	1,711,927	2,233,637	1,836,927	2,358,637
<i>Adjustments for the preparation of the pro-forma balance are summarised as :</i>					
Proceeds from the issue of 20,000,000 fully paid ordinary shares at an issue price of \$0.20 per share – minimum		4,000,000		-	
Proceeds from the issue of 60,000,000 fully paid ordinary shares at an issue price of \$0.20 per share - maximum		-		12,000,000	
Proceeds from issue of a Convertible Note		8,000,000		-	
Balance of purchase consideration for SkyVentures vertical wind tunnel (VWT)		(2,971,302)		(2,971,302)	
Estimated additional costs for duties, delivery, installation, (chillers, fixtures etc.) consultants, and sundry items relating to the VWT		(1,243,746)		(1,243,746)	
Payment for construction of building and infrastructure to house the VWT		(5,548,025)		(5,548,025)	
Estimated costs of the Offer		(525,000)		(400,000)	
Cash and cash equivalents		1,711,927		1,836,927	

**Appendix A – Historical and pro-forma financial information**
**Indoor Skydive Australia Group Limited  
Notes to the financial information  
as at 31 October 2012**
**3. Financial assets**

	Unaudited consolidated 31 Oct 2012 \$	Pro-forma adjustments minimum subscription \$	ISA Group pro-forma 31 Oct 2012 minimum subscription \$	Pro-forma adjustments maximum subscription \$	ISA Group pro-forma 31 Oct 2012 maximum subscription \$
Financial assets	(40,368)	(40,368)		(40,368)	
<i>Adjustments for the preparation of the pro-forma balance are summarised as :</i>					
Lapse of the option to acquire USD at parity		(40,368)		(40,368)	
Financial assets		(40,368)		(40,368)	

**4. Other current assets**

	Unaudited consolidated 31 Oct 2012 \$	Pro-forma adjustments minimum subscription \$	ISA Group pro-forma 31 Oct 2012 minimum subscription \$	Pro-forma adjustments maximum subscription \$	ISA Group pro-forma 31 Oct 2012 maximum subscription \$
Other current assets	(216,000)	(216,000)		(216,000)	
<i>Adjustments for the preparation of the pro-forma balance are summarised as :</i>					
Reclassification of initial VWT payment to SkyVentures to plant & equipment		(216,000)		(216,000)	
Other current assets		(216,000)		(216,000)	

**Appendix A – Historical and pro-forma financial information**
**Indoor Skydive Australia Group Limited  
Notes to the financial information  
as at 31 October 2012**
**5. Property, plant & equipment**

	Unaudited consolidated 31 Oct 2012 \$	Pro-forma adjustments minimum subscription \$	ISA Group pro-forma 31 Oct 2012 minimum subscription \$	Pro-forma adjustments maximum subscription \$	ISA Group pro-forma 31 Oct 2012 maximum subscription \$
Property, plant & equipment	153,642	9,979,073	10,132,715	9,979,073	10,132,715
<i>Adjustments for the preparation of the pro-forma balance are summarised as :</i>					
Reclassification of initial VWT payment to SkyVentures to plant & equipment		216,000		216,000	
Balance of purchase consideration for SkyVentures VWT		2,971,302		2,971,302	
Estimated additional costs for duties, delivery, installation (chillers, fixtures etc.) consultants, and sundry items relating to the VWT		1,243,746		1,243,746	
Construction of Indoor Skydive building and infrastructure		5,548,025		5,548,025	
Property, plant & equipment		9,979,073		9,979,073	

**6. Borrowings**

	Unaudited consolidated 31 Oct 2012 \$	Pro-forma adjustments minimum subscription \$	ISA Group pro-forma 31 Oct 2012 minimum subscription \$	Pro-forma adjustments maximum subscription \$	ISA Group pro-forma 31 Oct 2012 maximum subscription \$
Borrowings		8,000,000	8,000,000	-	
<i>Adjustments for the preparation of the pro-forma balance are summarised as :</i>					
Issue of a Convertible Note		8,000,000		-	
Borrowings		8,000,000		-	

**Appendix A – Historical and pro-forma financial information**
**Indoor Skydive Australia Group Limited  
Notes to the financial information  
as at 31 October 2012**
**7. Issued capital and reserves**

	Unaudited consolidated 31 Oct 2012 \$	Pro-forma adjustments minimum subscription \$	ISA Group pro-forma 31 Oct 2012 minimum subscription \$	Pro-forma adjustments maximum subscription \$	ISA Group pro-forma 31 Oct 2012 maximum subscription \$
Issued capital and reserves	12,295,000	3,475,000	4,770,000	11,600,000	12,295,000
<i>Adjustments for the preparation of the pro-forma balance are summarised as :</i>					
Issue of 20,000,000 fully paid ordinary shares at an issue price of \$0.20 per share – minimum subscription		4,000,000		-	
Issue of 60,000,000 fully paid ordinary shares at an issue price of \$0.20 per share – maximum oversubscription		-		12,000,000	
Estimated costs of the Offer		(525,000)		(400,000)	
Issued capital and reserves		3,475,000		11,600,000	

**8. Accumulated profit / (loss)**

	Unaudited consolidated 31 Oct 2012 \$	Pro-forma adjustments minimum subscription \$	ISA Group pro-forma 31 Oct 2012 minimum subscription \$	Pro-forma adjustments maximum subscription \$	ISA Group pro-forma 31 Oct 2012 maximum subscription \$
Accumulated profit / (loss)	(325,673)	(40,368)	(376,041)	(40,368)	(376,041)
<i>Adjustments for the preparation of the pro-forma balance are summarised as :</i>					
Lapse of the option to acquire USD at parity		(40,368)		(40,368)	
Accumulated profit / (loss)		(40,368)		(40,368)	

**9. Related party disclosure**

The Directors of ISA Group at the date of this IAR are Mr Ken Gillespie, Mr Wayne Jones, Mr Daniel Hogan, Mr John Diddams and Mr Stephen Baxter. The interests of the Directors in the ISA Group and the transactions considered in this IAR are set out in the Prospectus.

Birkdale Holdings (Qld) Pty Limited is a company associated with Mr Stephen Baxter.

**10. Commitments and contingent liabilities**

Other than referred to in the Prospectus, we are advised the Group has no additional commitments or contingent liabilities.