

Indoor Skydive Australia Group Limited

ACN 154 103 607

RESULTS FOR ANNOUNCEMENT TO THE MARKET

For the year ended 30 June 2021

Reported	30 June 2021 \$000's	30 June 2020 \$000's	Change \$000's	Change %
Revenue from ordinary activities	7,265	5,002	2,263	45%
Profit/(loss) from ordinary activities after tax attributable to members	4,062	(5,440)	9,502	-
Profit/(loss) attributable to members	4,062	(5,440)	9,502	-
Dividends	Nil	Nil		n/a

Dividends

No dividends have been declared or are payable for the year ended 30 June 2021.

Net Tangible Asset Information

	30 June 2021 (cents)	30 June 2020 (cents)	Change %
Net tangible assets per share	4.5c	3.3c	37%

Derived by dividing the net tangible assets less intangible assets attributable to equity holders of the Company by the total ordinary shares at 30 June 2021 (336,700,099) and 30 June 2020 (336,700,099) respectively.

Commentary and results for the year

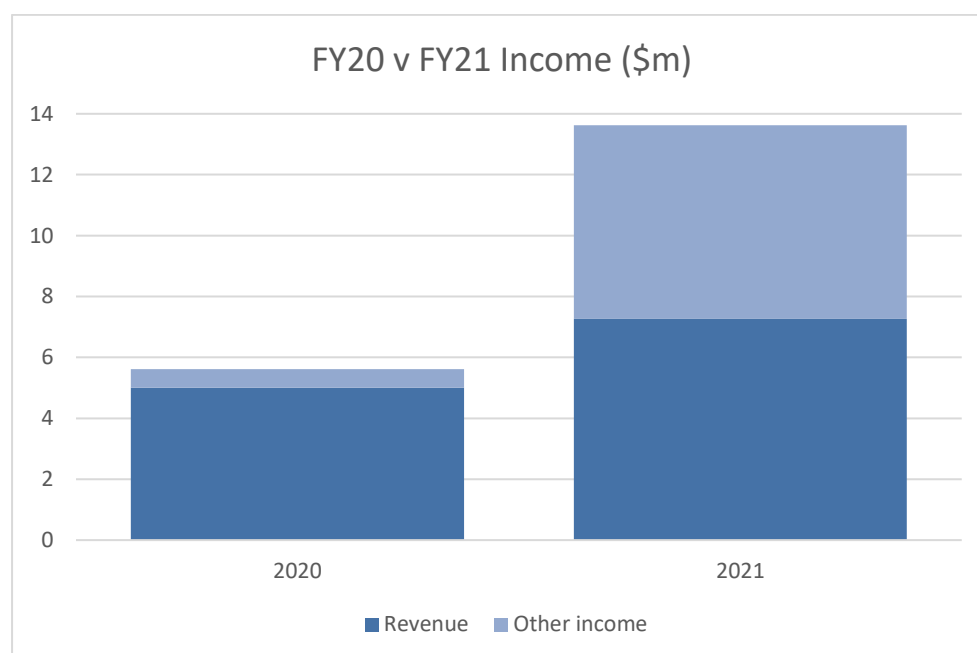
FY2021 was a transformational year for ISA Group with a number of successful initiatives significantly improving the company's financial position and operational performance.

The key financial highlights include:

- Operating Revenue of \$7.27m up 45% on last year
- Total Sales \$8.03m up 28% on last year
- Underlying EBITDA and non-cash expenses \$1.23m
- NTA increase up 37% on last year
- Cash at 30 June \$1.76m
- Net Assets per Share 4.5c up 37% on last year

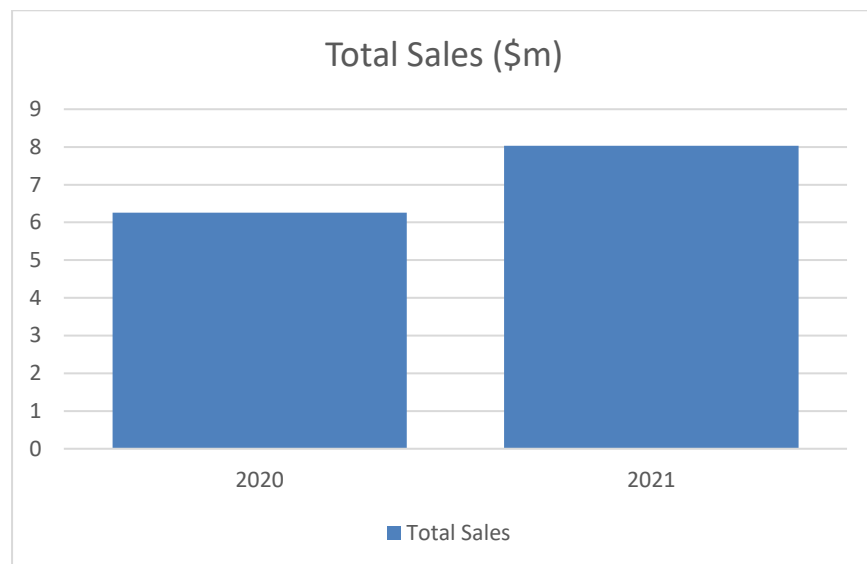
Operating Revenue and Other Income

Operating revenue of \$7.27m increased by 45%, generated through a strong COVID recovery and the opening of 2 additional FREAK venues. Other income of \$6.36m included \$5.86m benefit from the balance sheet consolidation resulting from a debt restructure and \$491k in grant income.



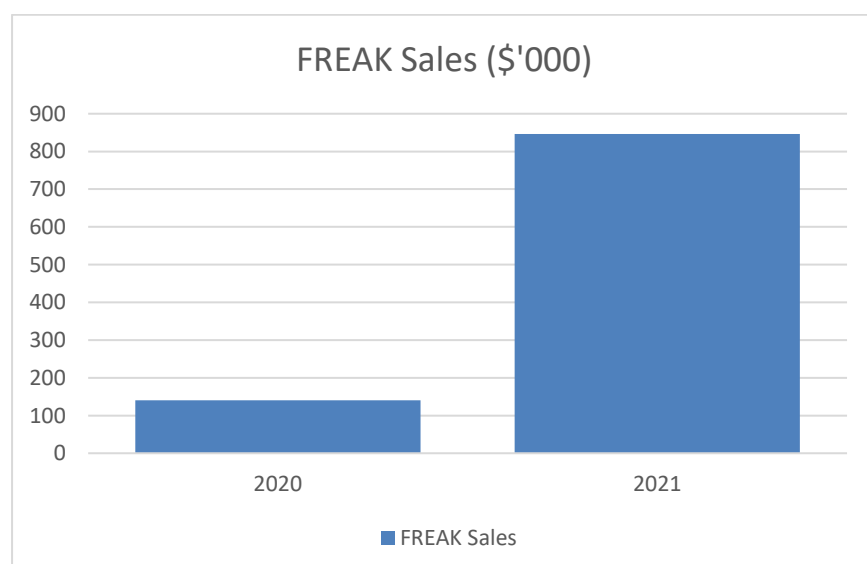
Total Sales

Total sales for the year increased by 28% due to strong existing business performance and the additional FREAK Entertainment sales.



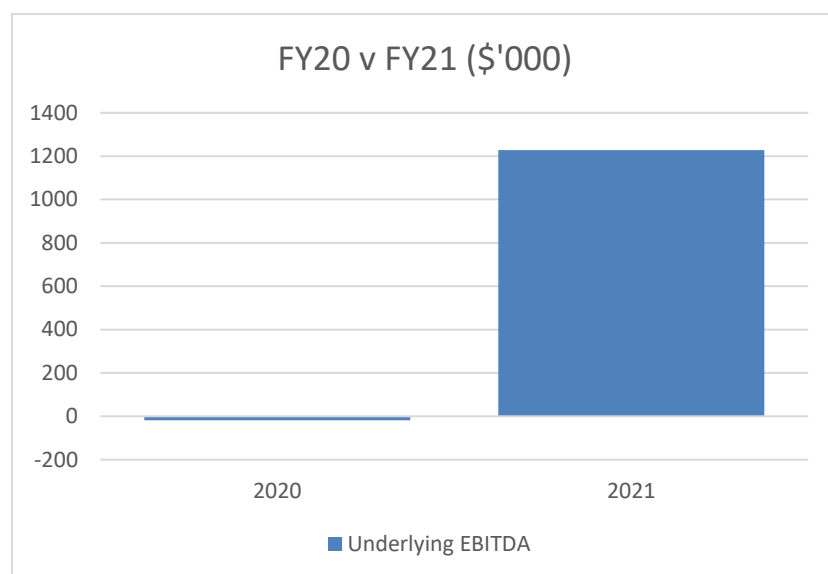
Growth of FREAK Entertainment

Despite the challenges of COVID, the company opened two new FREAK virtual reality facilities, in ISA Group's iFLY facility at Surfers Paradise in September, and at Westfield Bondi Junction in November, while also building a roadmap of additional sites throughout NSW and QLD planned to open in FY22 and beyond.



Underlying EBITDA and non-cash expenses

Reported EBITDA for the period was \$6.21m with an underlying EBITDA of \$1.23m. The adjustments include excluding \$5.86m in debt restructure adding back non-cash amortisation of pre-paid royalties of \$564k, non-cash accounting treatments of \$263k and \$50k adjustment of Perth sale price.



Debt Restructure & NTA Improvement

On 17 March 2021 the company achieved a debt restructure which significantly reduced borrowings and increased the company's cash position resulting in an increase in net assets of \$4.1m at year end.

Impact of COVID-19

The effects of COVID closures and restrictions were felt throughout the year particularly in the Gold Coast due to the lack of international flights. Borders were closed to most states and territories across Australia for large portions of the year. FREAK Bondi was affected through the Christmas period and sporadically throughout the year. Previous COVID restricted periods have had strong and immediate recoveries.

Subsequent Events

Acquisition of Virtual Reality Production Studio

On the 11th of August 2021 the company announced the acquisition of Red Cartel, virtual reality production studio and content developers. Completion of the acquisition occurred on the 24th of August 2021.

Red Cartel are one of Australia's leading experts in VR, AR, XR, location-based entertainment and premium animated content for Games, Venues and Enterprise. The company has over 20 years of experience servicing a large number of industries including Entertainment, Oil and Gas, Mining, Healthcare and Government. Previous clients include Shell, Red Bull, eBay, Qantas, Cadbury, KPMG and TAFE.

The total consideration for the acquisition is \$609k comprising an up front payment of \$12,191 with the remaining consideration being paid by the issue of ISA Group ordinary shares to the seller over the next 3 years. The total amount of shares to be issued for each payment is calculated based off the greater of a set share value or the 15 day VWAP at the anniversary of the completion of the acquisition. There are 3 separate

tranches of shares to be issued with the majority of the payments being deferred until the second and third anniversaries of completion.

ISA Group acquired all of the assets of Red Cartel including the brand, all intellectual property, working files and hardware. As part of the transaction, key employees, including Red Cartel's founder, became employees of ISA Group.

The incremental value to ISA Group shareholders includes;

- Creation of games for FREAK Entertainment
- Continued development of Defence and Industry capabilities
- Ability to broaden business models and revenue streams through IP ownership

Creation of games for FREAK

Red Cartel has previously built a world class Virtual Reality free roam game and will design and create new free roam and arcade style content to suit current and future FREAK venues. FREAK is currently looking at multiple high through-put shorter experiences to suit theme parks, festivals and other high foot traffic areas. The ability to design, build and operate these experiences will increase the current offering under the FREAK brand.

Defence and Industry Capabilities

The acquisition also includes a cutting-edge military Virtual Reality training tool which has been custom built by Red Cartel over the past 12 months. The tactical trainer has been developed with current defence requirements in mind and is scheduled for live trials within 6 months of the acquisition. The ability to provide turnkey solutions and support to global Defence markets forms part of the simulation training strategy that ISA Group put into motion last year.

IP ownership and additional revenue streams

Acquiring inhouse Intellectual Property removes upstream limitations to the FREAK Entertainment rollout, and enables the delivery of Franchise and "Turn Key" system business models. Outside of FREAK, Red Cartel's in-house development capability greatly increases ISA Group's ability to add additional revenue streams such as licencing, support and partnerships with Enterprise markets.

Launch of Operator Tactical Solutions

On the 18th of August the company announced the launch of its new business unit, Operator Tactical Solutions (Operator).

Operator builds training and simulation products for global defence and law enforcement agencies, using Virtual Reality and Augmented Reality technologies.

Operator was created to solve the problem of integrating training with technology, increasing soldier's performance and complementing existing training systems. Operator, a wholly owned subsidiary of ISA Group, has been established to capture Defence and related projects within the company.

Operator's first product is a "free roam" Virtual Reality based tactical training solution, that allows tactical teams to train drills without the need for specialised facilities. The product prototype is complete and a minimum viable product is planned for completion in November 2021. Pilots are being targeted towards Australian and US Special Forces in late 2021. Red Cartel, ISA Group's in-house Virtual Reality production company is developing the system.

ISA Group to become x Reality Group

On the 18th of August the Company announced the release of its new name, branding and ASX code.



In line with the growth strategy and the broadening of the target market, Indoor Skydive Australia Group will be changing its name to XReality Group Ltd.

XR stands for eXtended Reality, and is a catch-all term for Virtual Reality, Augmented Reality, and Mixed Reality. Extended Reality combines physical and digital simulation for both consumer and enterprise market segments.

Pending shareholder approval, to be obtained at the upcoming AGM, the new name will be in effect and the ASX code will be changed to ASX:XRG.

The change in name and ASX code is a significant milestone for the company and marks the beginning of an exciting journey for the company and its shareholders.

Dividend reinvestment plan

ISA Group does not operate a dividends or distribution reinvestment plan.

Control gained or lost over entities having a material effect

There were no transactions during the year ended 30 June 2021 having a material effect.

Accounting standards

The financial information contained in this Appendix 4E has been prepared in accordance with Australian Accounting Standards

Audit of the Financial Report

This report is based on the consolidated financial statements for the year ended 30 June 2021 which is being audited by Felsers, Chartered Accountants.



Wayne Jones
Chief Executive Officer & Director

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2021

		Consolidated Group	
		2021	2020
	Note	\$	\$
Revenues	2(a)	7,265,175	5,002,087
Cost of Sales		(1,664,555)	(1,283,817)
Gross Profit		<u>5,600,620</u>	<u>3,718,270</u>
Other income	2(a)	6,356,168	612,123
Selling and marketing expenses	2(b)	(3,231,105)	(2,671,050)
Administration expenses	2(b)	(2,489,351)	(3,089,346)
Legal expenses		(15,410)	(159,213)
Other expenses		(881,945)	(523,562)
Profit/Loss Before Interest and Tax		<u>5,338,976</u>	<u>(2,112,778)</u>
Finance expense		(1,227,470)	(1,155,903)
Share of loss of a joint venture entity		-	(153,298)
Profit/Loss before tax from continuing operations		<u>4,111,506</u>	<u>(3,421,979)</u>
Loss before tax from discontinuing operations		<u>(50,000)</u>	<u>(1,079,929)</u>
Total Profit/Loss from operations		<u>4,061,506</u>	<u>(4,501,908)</u>
Income tax benefit		-	(938,339)
Profit/Loss After Tax		<u>4,061,506</u>	<u>(5,440,247)</u>
Other comprehensive income			
Exchange differences on translation of foreign operations		-	-
Other comprehensive income for the period		-	-
Total comprehensive income for the period		<u>4,061,506</u>	<u>(5,440,247)</u>
Earnings per share			
From continuing operations:			
- Basic earnings per share (cents)		1.22	(1.76)
- Diluted earnings per share (cents)		1.19	(1.75)

The Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the Notes to the Financial Statements.

Consolidated Statement of Financial Position

As at 30 June 2021

	Consolidated Group	
	2021	2020
	\$	\$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	1,761,186	234,150
Trade and other receivables	551,363	472,542
Inventories	18,225	13,200
Other financial asset	566,184	611,808
TOTAL CURRENT ASSETS	2,896,958	1,331,700
NON-CURRENT ASSETS		
Property, plant and equipment	24,068,127	24,667,346
Right-of-use asset	9,543,523	9,698,767
Other financial asset	667,981	1,258,368
TOTAL NON-CURRENT ASSETS	34,279,631	35,624,481
TOTAL ASSETS	37,176,589	36,956,181
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	1,548,650	3,432,258
Lease Liability	178,627	59,743
Deferred revenue	1,051,843	860,458
Borrowings	150,000	1,129,500
Provisions	200,475	136,693
TOTAL CURRENT LIABILITIES	3,129,595	5,618,652
NON-CURRENT LIABILITIES		
Trade and other payables	1,312,542	801,508
Lease Liability	9,903,327	9,914,040
Borrowings	7,391,708	9,320,457
Provisions	150,037	107,980
TOTAL NON-CURRENT LIABILITIES	18,757,614	20,143,985
TOTAL LIABILITIES	21,887,211	25,762,637
NET ASSETS	15,289,378	11,193,544
EQUITY		
Share capital	42,513,283	42,513,283
Reserves	43,794	9,467
Accumulated losses	(27,267,699)	(31,329,206)
TOTAL EQUITY	15,289,378	11,193,544

The Consolidated Statement of Financial Position should be read in conjunction with the Notes to the Financial Statements.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2021

	Issued Capital	Reserves	Retained Earnings	Total
	\$	\$	\$	\$
Balance at 1 July 2020	42,513,283	9,467	(31,329,207)	11,193,544
Employee share based payment	-	34,327	-	34,327
Comprehensive income				
Profit for the year	-	-	4,061,506	4,061,506
Other comprehensive income	-	-	-	-
Total comprehensive loss for the year	-	-	4,061,506	4,061,506
Balance at 30 June 2021	42,513,283	43,794	(27,267,699)	15,289,378
Balance at 1 July 2019	40,810,939	9,467	(25,888,959)	14,931,447
Shares issued during the year	1,702,344	-	-	1,702,344
Comprehensive income				
Loss for the year	-	-	(5,440,248)	(5,440,248)
Other comprehensive income	-	-	-	-
Total comprehensive loss for the half year	-	-	(5,440,248)	(5,440,248)
Balance at 30 June 2020	42,513,283	9,467	(31,329,207)	11,193,544

The Consolidated Statement of Changes in Equity should be read in conjunction with the Notes to the Financial Statements.

Consolidated Statement of Cash Flows

For the year ended 30 June 2021

	Consolidated Group	
	2021	2020
	\$	\$
Cash Flows from Operating Activities		
Receipts from customers	8,033,643	5,245,008
Payments to suppliers and employees	(6,576,793)	(5,049,618)
Grant income received	491,493	612,123
Finance costs	(677,726)	(1,190,942)
Net cash inflows from operating activities	1,270,617	(383,429)
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(681,724)	(506,707)
Sale of property, plant and equipment	-	430,000
Net cash outflows from investing activities	(681,724)	(76,707)
Cash Flows from Financing Activities		
Proceeds from issue of securities	-	2,000,036
Proceeds from borrowings	4,000,000	-
Repayment of borrowings	(2,414,392)	(655,737)
Share issue costs	-	(297,692)
AASB leases repayment	(647,466)	(492,986)
Net cash inflows from financing activities	938,142	553,621
Net increase in cash held	1,527,036	93,485
Cash and cash equivalents at beginning of year	234,150	140,665
Cash and cash equivalents at end of year	1,761,186	234,150

The Consolidated Statement of Cash Flows should be read in conjunction with the Notes to the Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR YEAR ENDING 30 JUNE 2021

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*. Indoor Skydive Australia Group Ltd is the Group's ultimate parent company. Indoor Skydive Australia Group Ltd is a public company listed on the Australian Stock Exchange and domiciled in Australia. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the Australian Accounting Standards Board has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Basis of Accounting

The Group incurred a profit for the year after tax of \$4,061,506 (2020: loss of \$5,440,247) and has a net current deficiency in assets of \$232,637 (2020: \$4,286,952). Included within current liabilities are deferred revenue of \$1,051,843 that will be realised as revenue once the service has been delivered to the customer. Therefore, excluding this balance, the Group has an adjusted current asset position of \$819,205 at 30 June 2021 (2020: net current deficiency of \$3,426,494).

A cash flow forecast for the next 12 months prepared by management has indicated that the consolidated entity will have sufficient cash assets to be able to meet its debts as and when they fall due. The directors are satisfied that the consolidated entity is able to meet its working capital liabilities through the normal cyclical nature of receipts and payments.

As a result, the financial report has been prepared on a going concern basis.

Critical Accounting Estimates and Judgements

i. *Useful lives, Residual Values and Classification of Property, Plant and Equipment*

There is a degree of judgement required in estimating the residual values and useful lives of the Property, Plant and Equipment. There is also a degree of judgement required in terms of the classification of such Property, Plant and Equipment. The Group's main assets at present comprise the Vertical Wind Tunnel (VWT) Equipment and its related Building Infrastructure. The construction of these assets are typically foreseen in the lease agreements, however the Board has exercised their judgement in determining that the nature of these assets are that of buildings and equipment, rather than leasehold improvements. To this extent, the Board has confirmed the useful life of the Buildings to be 40 years and VWT equipment to be 20 years and the residual values of both these classes of assets to be nil.

ii. *Gift Card Revenue*

Gift card revenue from the sale of gift cards is recognised when the card is redeemed for the purchase of flight time (Flight Revenue), or when the gift card is no longer expected to be redeemed (Gift Card Revenue). At 30 June 2021, \$313,003 of Gift Card Revenue is recognised (2020: \$411,273). The key assumption in measuring the liability

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for gift cards and vouchers is the expected redemption rates by customers with a portion recognised upfront, which are reviewed based on historical information. Any reassessment of expected redemption rates in a particular period impacts the revenue recognised from expiry of gift cards and vouchers (either increasing or decreasing). Any foreseeable change in the estimate is unlikely to have a material impact on the financial statements.

iii. Site Restoration

Provisions for site restoration obligations are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

In the current year, the Group has recognised a provision for site restoration for its three tunnels. To this extent, an estimate of the costs to remove the VWT's and its related Building Infrastructure has been determined based on current costs using existing technology at current prices. Management used the services of an expert and determined the cost to restore the sites. These costs were projected forward at a 2.5% inflationary escalation and then discounted back at 11.59% (2020: 12.84%), which is a change in estimate from the prior year, after consideration of the associated risks. The discount rate has been amended to reflect the time value of money and risks specific to the operation of the tunnels. The site restoration asset is depreciated over the remainder of each extended lease period being 40 years in the case of each of iFLY Downunder (Penrith), iFLY Gold Coast and iFLY Perth. The unwinding of the effect of discounting on the site restoration provision is included within finance costs in the statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2: REVENUE AND EXPENSES

	Consolidated Group	
	2021	2020
	\$	\$
a)Revenue		
VWT revenue - rendering of services	6,159,023	4,538,728
Freak revenue	710,935	99,727
Other sales	395,216	363,632
	7,265,175	5,002,087
Other Income		
Grant Income	491,493	320,693
Other	5,864,675	291,430
	6,356,168	612,123
b)Selling and Marketing Expenses		
Marketing Expenses	464,070	403,799
Employment Expenses	2,767,035	2,267,251
	3,231,105	2,671,050
Administration Expenses		
Depreciation and Amortisation Expenses	1,376,367	1,149,948
Depreciation – AASB16	464,860	307,964
Occupancy Expenses	126,424	567,841
Employment Expenses	569,276	1,015,373
Directors' fees	(47,576)	48,220
	2,489,351	3,089,346

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3: INTEREST IN SUBSIDIARIES

Set out below are the Group's subsidiaries at 30 June 2021. The subsidiaries listed below have share capital consisting solely of ordinary shares, which are held directly by the Group and the proportion of ownership interests held equals the voting rights held by the Group. Each subsidiary's country of incorporation or registration is also its principal country of business.

Subsidiaries	Country of Incorporation	2021 %	2020 %
Indoor Skydiving Penrith Holdings Pty Ltd	Australia	100	100
Indoor Skydiving Penrith Pty Ltd	Australia	100	100
Indoor Skydiving Gold Coast Pty Ltd	Australia	100	100
ISA FLIGHT Club Pty Ltd	Australia	100	100
Indoor Skydiving Perth Pty Ltd	Australia	100	100
ISAG Holdings D Pty Ltd	Australia	100	100
ISAG Café Pty Ltd	Australia	100	100
ISA Asia Holdings Pty Ltd	Australia	100	100
ISA Asia Operations Pty Ltd	Australia	100	100
Freak Entertainment Pty Ltd	Australia	100	100
Operator TS Pty Ltd	Australia	100	N/A

NOTE 4: SEGMENT INFORMATION

GENERAL INFORMATION

Identification of reportable segments

The Group's operations are in the consumer leisure segment of which include the operation of indoor skydiving facilities and virtual reality entertainment venues. The Group operates in one geographic segment being Australia. All subsidiaries in the Group operate within the same segment. All three tunnels have been aggregated to one operating segment.

Types of Products and Services by Segment

The products and services include two indoor skydiving facilities in Australia and a joint venture in Malaysia, allowing human flight within a safe environment used by tourists, enthusiasts and military. They also include a Virtual reality business trading under the name FREAK Entertainment with venues in Penrith, the Gold Coast and a home delivery service.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5: EARNINGS PER SHARE

	2021 Cents	2020 Cents
Earnings per share (cents per share)		
From continuing operations:		
- basic earnings per share	1.22	(1.76)
- diluted earnings per share	1.19	(1.75)
 a. Reconciliation of earnings to profit or loss:		
 Earnings used to calculate basic EPS - continuing operations	4,111,506	(4,359,057)
Earnings used in the calculation of dilutive EPS - continuing operations	4,111,506	(4,359,057)
 b.	No.	No.
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	336,700,099	308,754,393
Average number of dilutive performance rights outstanding	9,500,000	2,200,000.00
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	346,200,099	310,954,393