



29 October 2021

Dear Shareholder,

Notice of 2021 Annual General Meeting

On behalf of the Directors of Indoor Skydive Australia Group Limited ABN 39 154 103 607 (ASX:IDZ) I am pleased to invite you to attend the Annual General Meeting (**AGM**) at 10.00am on 30 November 2021.

As a result of the potential health risks and Government restrictions in response to the Covid-19 pandemic, the meeting will be held as a virtual online meeting. If you would like to attend online, please email info@indoorskydive.com.au and a Zoom link will be forwarded to you.

The Notice of Meeting for the AGM is now available on our website at www.indoorskydive.com.au/investors. It details the formal business to be dealt with at the Meeting. The documents accompanying the Notice of Meeting for the AGM, including the proxy form, and the Independent Experts Report in relation to resolutions 5, 6 and 8 concerning changes to the Birkdale Loan Agreement and related issue of options, as well as the proposed issue of options to the Chief Executive Officer. These are also available for download at www.indoorskydive.com.au/investors.

A printed copy of the Notice of Meeting including the accompanying documents will not be sent to you unless you request a copy by contacting enquiries@boardroomlimited.com.au.

We strongly encourage you to read the Notice of Meeting (including the accompanying documents) and to participate in the meeting. You should also consider directing your proxy to vote by on each resolution by marking either the "for" box, the "against" box or the "abstain" box on the proxy form.

The Notice of Meeting includes instructions on how to vote and we encourage you to do so ahead of the meeting by using the proxy form. We are also happy to receive any questions for the meeting, by submitting them to info@indoorskydive.com.au by 10:00am on 26 November 2021.

Receiving your communications from us by email is the best way to stay informed and keep in touch about your shareholding, so we encourage you to take this opportunity to switch to paperless communications. If you have already provided an email address, you will now receive all your security communications electronically. We recommend that you visit www.InvestorServe.com.au to check that your preferences are up to date.

Thank you for your continued support of Indoor Skydive Australia Group Limited, soon to be renamed xReality Group Limited.

Yours faithfully

A handwritten signature in black ink, appearing to read "Steve Baxter".

Steve Baxter
Chairman



INDOOR SKYDIVE AUSTRALIA GROUP LTD
ABN 39 154 103 607

NOTICE OF ANNUAL GENERAL MEETING

**The Annual General Meeting of the Company will be held online via Zoom, on
30 November 2021 at 10:00am (AEDT).**

This Notice should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their accountant, solicitor or other professional adviser prior to voting.

Shareholders are urged to attend or vote by lodging the proxy form attached to this Notice.

**INDOOR SKYDIVE AUSTRALIA GROUP LTD
ABN 39 154 103 607**

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of shareholders of Indoor Skydive Australia Group Ltd ABN 39 154 103 607 ("**Company**") will be held online via Zoom, on 30 November 2021 at 10:00am (AEDT) ("**Meeting**").

The Explanatory Memorandum provides additional information on matters to be considered at the Meeting. The Explanatory Memorandum and the Proxy Form form part of this Notice.

The Directors have determined pursuant to regulation 7.11.37 of the *Corporations Regulations 2001* (Cth) that the persons eligible to vote at the Meeting are those who are registered as Shareholders at 7:00pm (AEDT) on 26 November 2021.

Terms and abbreviations used in this Notice (including the Explanatory Memorandum) are defined in Schedule 1.

AGENDA

1. ANNUAL REPORT

To consider the Annual Report of the Company and its controlled entities for the year ended 30 June 2021, which includes the Financial Report, the Directors' Report and the Auditor's Report.

2. RESOLUTION 1 - ADOPTION OF REMUNERATION REPORT

To consider and, if thought fit, to pass the following resolution as a non-binding resolution:

"That, for the purposes of section 250R(2) of the Corporations Act and for all other purposes, approval is given by the Shareholders for the adoption of the Remuneration Report as contained in the Company's Annual Report for the year ended 30 June 2021."

Note: The vote on this resolution is advisory only and does not bind the Directors or the Company.

Note: This resolution is subject to voting exclusions as set out at the end of this Notice of Meeting.

3. RESOLUTION 2 – ELECTION OF KIM HOPWOOD AS DIRECTOR

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That, Kim Hopwood, who retires in accordance with clause 11.4(b) of the Company's Constitution and ASX Listing Rule 14.4, and having offered himself for election and being eligible, be elected as a Director of the Company."

4. RESOLUTION 3 - APPROVAL OF 10% PLACEMENT FACILITY

To consider and, if thought fit, to pass with or without amendment, the following resolution as a special resolution:

"That, for the purposes of Listing Rule 7.1A and for all other purposes, Shareholders approve the issue of Equity Securities of up to 10% of the issued capital of the Company (at the time of the issue) calculated in accordance with the formula prescribed in Listing Rule 7.1A.2 and on the terms and conditions in the Explanatory Memorandum."

Note: This resolution is subject to voting exclusions as set out at the end of this Notice of Meeting.

5. RESOLUTION 4 – CHANGE OF COMPANY NAME

To consider and, if thought fit, to pass the following resolution as a special resolution:

“That the name of the company be changed to xReality Group Ltd, the ASX ticker be changed to XRG and the ASX abbreviation name be changed to xReality.”

6. RESOLUTION 5 – CHANGES TO BIRKDALE LOAN AGREEMENT

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That, for the purposes of section 208 of the Corporations Act and for all other purposes, the agreement between the Company and Birkdale Holdings (QLD) Pty Ltd as trustee for the Baxter Family Trust dated 19 June 2018 as amended, varied or extended from time to time (Birkdale Loan Agreement), be further amended to:

- extend the term of the loan to 1 September 2024;*
- to capitalise all interest on the loan for the term of the loan;*
- to issue 45,000,000 options to Birkdale with an exercise price of \$0.02 and an expiry of 1 July 2024 including the acquisition of a relevant interest in 45,000,000 shares on the exercise of the options which would result in Birkdale Holdings (QLD) Pty Ltd as trustee for the Baxter Family Trust having Voting Power in the Company of up to 26.10% (assuming no other Options on issue are exercised).”*

Note: This resolution is subject to voting exclusions as set out at the end of this Notice of Meeting.

7. RESOLUTION 6 - ISSUE OF OPTIONS TO BIRKDALE HOLDINGS (QLD) PTY LTD AND INCREASE IN VOTING POWER IN THE COMPANY OF UP TO 26.10%

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That, for the purposes of Listing Rule 10.11, section 208 of the Corporations Act, Item 7 of section 611 of the Corporations Act and for all other purposes, approval is given for:

- the issue of 45,000,000 Options to Birkdale Holdings (QLD) Pty Ltd as trustee for the Baxter Family Trust,*
- An acquisition of a relevant interest in 45,000,000 shares by Birkdale Holdings (QLD) Pty Ltd as trustee for the Baxter Family Trust on exercise of the options; and*
- Birkdale Holdings (QLD) Pty Ltd as trustee for the Baxter Family Trust and its associates to increase their Voting Power in the company from 16.23% (or such lesser extent of Voting Power in the Company any of them may have at the time of any such issue and allotment) up to a maximum of 26.10% (assuming no other Options on issue are exercised),*

in each case on the on the terms and conditions set out in the Explanatory Memorandum.”

Note: This resolution is subject to voting exclusions as set out at the end of this Notice of Meeting.

8. RESOLUTION 7 - RATIFICATION OF ISSUE OF INCENTIVE OPTIONS TO ELIGIBLE EMPLOYEES

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

“That, for the purposes of Listing Rule 7.4 and for all other purposes, approval is given for the issue of 8,400,000 Incentive Options to Eligible Employees under the Indoor Skydive Australia Group Limited Employee Option Plan approved by shareholders on 27 November 2020, on the on the terms and conditions set out in the Explanatory Memorandum.”

Note: This resolution is subject to voting exclusions as set out at the end of this Notice of Meeting.

9. RESOLUTION 8 – ISSUE OF INCENTIVE OPTIONS TO CHIEF EXECUTIVE OFFICER

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That, for the purposes of section 208 of the Corporations Act and Listing 10.14, and for all other purposes, approval is given for the issue of 8,435,005 Incentive Options to Wayne Jones or his nominee under the Indoor Skydive Australia Group Limited Employee Option Plan approved by shareholders on 27 November 2020, as set out in the Explanatory Memorandum."

Note: This resolution is subject to voting exclusions as set out at the end of this Notice of Meeting.

Dated: 21 October 2021

By order of the Board

A handwritten signature in dark ink, appearing to be 'Stephen Tofler', written over a light blue horizontal line.

Stephen Tofler
Company Secretary

IMPORTANT VOTING INFORMATION

VOTING EXCLUSIONS

Voting exclusion for Resolution 1 - Adoption of Remuneration Report

A vote on this Resolution must not be cast:

- (a) by or on behalf of a member of the Key Management Personnel whose remuneration details are included in the Remuneration Report, or a Closely Related Party of such member, regardless of the capacity in which the vote is cast; or
- (b) by a person appointed as a proxy, where that person is either a member of the Key Management Personnel or a Closely Related Party of such member.

However, a vote may be cast by such persons if the vote is not cast on behalf of a person who is excluded from voting on this resolution, and:

- (c) the person is appointed as a proxy that specifies the way the proxy is to vote on this resolution; or
- (d) the person is the Chairman and the appointment of the Chairman as proxy does not specify the way the proxy is to vote on this resolution, but expressly authorises the Chairman to exercise the proxy even if this resolution is connected with the remuneration of a member of the Key Management Personnel.

Voting exclusion for Resolution 2 – Election of Kim Hopwood

The Company will disregard any votes cast in favour of Resolution 2 by or on behalf of:

- (a) Kim Hopwood; and
- (b) any associates of Kim Hopwood.

However, this does not apply to a vote cast in favour of the resolution by:

- a person as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with directions given to the proxy or attorney to vote on the resolution in that way; or
- the chair of the meeting as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with a direction given to the chair to vote on the resolution as the chair decides; or
- a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting on the resolution; and
 - the holder votes on the resolution in accordance with the directions given by the beneficiary to the holder to vote in that way.

Voting exclusion for Resolution 3 - Approval of 10% Placement Facility

The Company will disregard any votes cast in favour of this resolution by or on behalf of:

- (a) any person who is expected to participate in, or who will obtain a material benefit as a result of the proposed issue (except a benefit solely by reason of being a holder of ordinary securities in the Company); and
- (b) an associate of that person or those persons in (a) above.

However this does not apply to a vote cast in favour of a resolution by:

- a person as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with directions given to the proxy or attorney to vote on the resolution in that way; or
- if the Chair of the meeting as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with a direction given to the Chair on the resolution as the Chair decides; or
- a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the resolution; and
 - the holder votes on the resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

As at the date of this Notice, the Company has no specific plans to issue securities under the placement facility under ASX Listing Rule 7.1A and therefore it is not known who (if any) may participate in a potential issue of securities under the placement facility (if any) under ASX Listing Rule 7.1A. Accordingly, as at the date of this Notice, the Company is not aware of any person who would be excluded from voting on this resolution.

Voting exclusion for Resolution 5 – Changes to Birkdale Loan Agreement

The Company will disregard any votes cast in favour of Resolution 5 by or on behalf of:

- (a) Birkdale Holdings (QLD) Pty Ltd (**Birkdale**), being a person who is expected to participate in the proposed issue and a related party of the Company to whom this resolution would permit a financial benefit to be given;
- (b) any associates of a related party referred to in paragraph (a), including Steve Baxter (the Chairman of the Company) and Emily Baxter.

However, this does not apply to a vote cast in favour of the resolution by:

- a person as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with directions given to the proxy or attorney to vote on the resolution in that way; or
- the chair of the meeting as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with a direction given to the chair to vote on the resolution as the chair decides; or
- a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting on the resolution; and
 - the holder votes on the resolution in accordance with the directions given by the beneficiary to the holder to vote in that way.

Voting exclusion for Resolution 6 – Issue of Options to Birkdale and increase in Voting Power in the Company up to 26.10%

The Company will disregard any votes cast in favour of Resolution 6 by or on behalf of:

- (a) Birkdale, being a person who is expected to participate in the proposed issue and a related party of the Company to whom this resolution would permit a financial benefit to be given;
- (b) any associates of a related party referred to in paragraph (a), including Steve Baxter (the Chairman of the Company) and Emily Baxter.

However, this does not apply to a vote cast in favour of the resolution by:

- a person as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with directions given to the proxy or attorney to vote on the resolution in that way; or
- the chair of the meeting as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with a direction given to the chair to vote on the resolution as the chair decides; or
- a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting on the resolution; and
 - the holder votes on the resolution in accordance with the directions given by the beneficiary to the holder to vote in that way.

Voting exclusion for Resolution 7 – Ratification of Issue of Incentive Options to Eligible Employees

The Company will disregard any votes cast in favour of Resolution 6 by or on behalf of:

- (a) Kim Hopwood, Stephen Tofler, Stevie Zakhour, Cheryl Dawson, Holly Jaadla and Chris McKinley being the people who participated in the issue the subject of this Resolution; and
- (b) any associates of a party referred to in paragraph (a).

However, this does not apply to a vote cast in favour of the resolution by:

- a person as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with directions given to the proxy or attorney to vote on the resolution in that way; or
- the chair of the meeting as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with a direction given to the chair to vote on the resolution as the chair decides; or
- a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting on the resolution; and
 - the holder votes on the resolution in accordance with the directions given by the beneficiary to the holder to vote in that way.

Voting exclusion for Resolution 8 – Issue of Incentive Options to Chief Executive Officer

The Company will disregard any votes cast in favour of Resolution 7 by or on behalf of:

- (a) Wayne Jones being a person who is expected to participate in the proposed issue; and
- (b) any associates of a related party referred to in paragraph (a).

However, this does not apply to a vote cast in favour of the resolution by:

- a person as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with directions given to the proxy or attorney to vote on the resolution in that way; or
- the chair of the meeting as proxy or attorney for a person who is entitled to vote on the resolution, in accordance with a direction given to the chair to vote on the resolution as the chair decides; or
- a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting on the resolution; and
 - the holder votes on the resolution in accordance with the directions given by the beneficiary to the holder to vote in that way.

INDOOR SKYDIVE AUSTRALIA GROUP LTD
ABN 39 154 103 607

EXPLANATORY MEMORANDUM

1. INTRODUCTION

This Explanatory Memorandum has been prepared for the information of Shareholders in connection with the business to be conducted at the Meeting to be held online via Zoom on 30 November 2021 at 10:00am (AEDT).

This Explanatory Memorandum forms part of the Notice which should be read in its entirety. This Explanatory Memorandum contains the terms and conditions on which the Resolutions will be voted.

A Proxy Form is located at the end of this Explanatory Memorandum.

2. ACTION TO BE TAKEN BY SHAREHOLDERS

Shareholders should read the Notice including this Explanatory Memorandum carefully before deciding how to vote on the Resolutions.

Proxies

A Proxy Form is attached to the Notice. This is to be used by Shareholders if they wish to appoint a representative (a 'proxy') to vote in their place. All Shareholders are invited and encouraged to attend the Meeting or, if they are unable to attend in person, sign and return the Proxy Form to the Company in accordance with the instructions thereon. Returning the Proxy Form will not preclude a Shareholder from attending and voting at the Meeting in person.

Please note that:

- (a) a member of the Company entitled to attend and vote at the Meeting is entitled to appoint a proxy;
- (b) a proxy need not be a member of the Company; and
- (c) a member of the Company entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. Where the proportion or number is not specified, each proxy may exercise half of the votes.

Proxy Forms must be received by the Company no later than 10:00am (AEDT) on 26 November 2021, being at least 48 hours before the Meeting.

The Proxy Form provides further details on appointing proxies and lodging Proxy Forms.

3. ANNUAL REPORT

In accordance with section 317(1) of the Corporations Act, the Annual Report must be laid before the Annual General Meeting. There is no requirement for Shareholders to approve the Annual Report.

At the Meeting, Shareholders will be offered the opportunity to:

- (a) discuss the Annual Report which is available online at [**http://www.indoorskydiveaustralia.com.au/investors/annual-reports/**](http://www.indoorskydiveaustralia.com.au/investors/annual-reports/);

- (b) ask questions about, or comment on, the management of the Company; and
- (c) ask the auditor questions about the conduct of the audit and the preparation and content of the Auditor's Report, the accounting policies adopted by the Company in relation to the preparation of the financial statements in the Annual Report and the independence of the auditor in relation to the conduct of the audit, and
- (d) ask questions about, or make comments on, the remuneration report.

In addition to taking questions at the Meeting, written questions to the Chairman about the management of the Company, or to the Company's auditor about:

- (a) the content of the Auditor's Report;
- (b) the conduct of the audit;

may be submitted no later than five business days before the Meeting to the Company Secretary at the Company's registered office.

4. RESOLUTION 1 – REMUNERATION REPORT

In accordance with section 250R(2) of the Corporations Act, the Company must put the adoption of the Remuneration Report to the vote of Shareholders. The Directors' Report contains the Remuneration Report which sets out the remuneration policy for the Company and the remuneration arrangements in place for the executive Directors, specified executives and non-executive Directors.

In accordance with section 250R(3) of the Corporations Act, Resolution 1 is advisory only and does not bind the Directors of the Company. If Resolution 1 is not passed, the Directors will not be required to alter any of the arrangements in the Remuneration Report.

However, if the Remuneration Report receives a 'no' vote of 25% or more ("**Strike**") at two consecutive annual general meetings, Shareholders will have the opportunity to remove the whole Board (except a managing director). Where a resolution on the Remuneration Report receives a Strike at two consecutive annual general meetings, the Company will be required to put to Shareholders at the second annual general meeting a resolution on whether another meeting should be held (within 90 days) at which all Directors (other than a managing director) who were in office at the date of approval of the applicable Directors' Report must stand for re-election.

The Company's Remuneration Report for the year ended 30 June 2020 was adopted by shareholders at the 2020 Annual General Meeting without a Strike. Accordingly, if Resolution 1 receives a Strike, there will not be any further resolution put to shareholders at the Meeting.

A voting exclusion statement for Resolution 1 is included in the Voting Exclusions.

5. RESOLUTION 2 – ELECTION OF KIM HOPWOOD AS DIRECTOR

Resolution 2 seeks approval for the election of Kim Hopwood as a Director with effect from the end of the Meeting.

The Company's Constitution provides that any director who is appointed during the year must retire at the next AGM after their appointment. Directors required to retire under this rule are eligible to stand for election at the AGM. Kim Hopwood was originally appointed on 26 May 2021 and accordingly retires from office in accordance with the above requirements and submits himself for re-election.

Kim has an extensive background of digital marketing, proven business acumen and a digital/IT skillset and has over 20 years of experience across technology, media, management and operations.

Kim was the co-founder and CEO of digital agency Pusher from 2004, which sold to global communications group Publicis in 2014. Kim remained as Managing Director of Digital until late 2017.

Directors recommendation

The Board (with Kim Hopwood abstaining) unanimously supports the re-election of Kim Hopwood and recommends that Shareholders vote in favour of this resolution.

The Chairman intends to exercise all available proxies in favour of this resolution.

6. RESOLUTION 3 - APPROVAL OF 10% PLACEMENT FACILITY

Background

Listing Rule 7.1A enables eligible entities to issue Equity Securities up to 10% of its issued share capital through placements over a 12 month period after the annual general meeting ("**10% Placement Facility**"). The 10% Placement Facility is in addition to the Company's 15% placement capacity under Listing Rule 7.1.

An eligible entity for the purposes of Listing Rule 7.1A is an entity that is not included in the S&P/ASX 300 Index and has a market capitalisation of \$300 million or less. The Company is an eligible entity.

The Company is seeking Shareholder approval by way of a special resolution to have the ability to issue Equity Securities under the 10% Placement Facility. The number of Equity Securities to be issued under the 10% Placement Facility will be determined in accordance with the formula prescribed in Listing Rule 7.1A.2.

This resolution is a special resolution and therefore requires approval of 75% of the votes cast by Shareholders present and eligible to vote (in person, by proxy, by attorney or, in the case of a corporate Shareholder, by a corporate representative) on the resolution.

The purpose of this resolution is to provide the Company with flexibility to meet future business and financial needs. The Board believes that it is advantageous to have the ability to act promptly with respect to potential opportunities and that approval of the 10% Placement Facility is desirable in order to have the securities available, as needed, for possible future financing transactions, strategic transactions, or other general corporate purposes that are determined to be in the Company's best interests.

Approval of this resolution would enable the Company to issue Shares without the expense and delay of holding a general meeting, except as may be required by applicable law or regulations. The cost, prior notice requirements, and delay involved in obtaining shareholder approval at the time a corporate action may become necessary could eliminate the opportunity to effect the action or could reduce the expected benefits.

If approved, subject to the limitations described below with respect to the 10% Placement Facility, the Company will generally be permitted to issue up to 25% of its issued capital without any further shareholder approval, unless such shareholder approval is required by applicable law or the ASX Listing Rules. Currently, the Company has no definitive plans, understandings, agreements, or arrangements to issue securities for any purpose, other than equity awards under the Company's long term incentive plan which was adopted by the Company following the approval of Shareholders given at the 2020 Annual General Meeting. The Directors believe

that the approval of this resolution will enable the Company to promptly and appropriately respond to business opportunities or to raise additional equity capital.

Listing Rule 7.1A

(a) **Shareholder approval**

The ability to issue Equity Securities under the 10% Placement Facility is subject to Shareholder approval by way of a special resolution at an annual general meeting.

(b) **Equity Securities**

Any Equity Securities issued under the 10% Placement Facility must be in the same class as an existing quoted class of Equity Securities of the company i.e., currently only ordinary shares of the Company may be issued using this facility.

(c) **Formula for calculating 10% Placement Facility**

Listing Rule 7.1A.2 provides that eligible entities which have obtained Shareholder approval at an annual general meeting may issue or agree to issue, during the 12 month period after the date of the annual general meeting, a number of Equity Securities calculated in accordance with the following formula:

(A x D) – E

A is the number of fully paid ordinary shares on issue 12 months before the date of issue or date of agreement to issue:

plus the number of Shares issued in the 12 months under an exception in Listing Rule 7.2;

plus the number of partly paid shares that became fully paid in the 12 months;

plus the number of Shares issued in the 12 months with Shareholder approval under Listing Rule 7.1 or 7.4. This does not include an issue of Shares under the entity's 15% placement capacity without Shareholder approval;

less the number of fully paid Shares cancelled in the 12 months.

Note that A is has the same meaning in Listing Rule 7.1 when calculating an entity's 15% placement capacity.

D is 10%

E is the number of Equity Securities issued or agreed to be issued under Listing Rule 7.1A.2 in the 12 months before the date of the issue or agreement to issue that are not issued with Shareholder approval under Listing Rule 7.1 or 7.4.

(d) **Listing Rule 7.1 and Listing Rule 7.1A**

The ability of an entity to issue Equity Securities under Listing Rule 7.1A is in addition to the entity's 15% placement capacity under Listing Rule 7.1.

At the date of the Notice, the Company has on issue 336,700,099 Shares and currently has the capacity to issue:

- 50,505,015 Equity Securities under Listing Rule 7.1; and
- subject to Shareholder approval being sought under this resolution, 33,670,010 Equity Securities under Listing Rule 7.1A.

The actual number of Equity Securities that the Company will have capacity to issue under Listing Rule 7.1A will be calculated at the date of issue of the Equity Securities in accordance with the formula prescribed in Listing Rule 7.1A.2 above.

(e) **Minimum Issue Price**

The issue price of Equity Securities issued under Listing Rule 7.1A must be not less than 75% of the VWAP of Equity Securities in the same class calculated over the 15 Trading Days on which trades in that class were recorded immediately before:

- the date on which the price at which the Equity Securities are to be issued is agreed; or
- if the Equity Securities are not issued within 5 Trading Days of the date in paragraph (i) above, the date on which the Equity Securities are issued.

(f) **10% Placement Period**

Shareholder approval of the 10% Placement Facility under Listing Rule 7.1A is valid from the date of the annual general meeting at which the approval is obtained and expires on the earlier to occur of:

- the date that is 12 months after the date of the annual general meeting at which the approval is obtained; or
- the date of Shareholder approval of a transaction under Listing Rules 11.1.2 (a significant change to the nature or scale of activities) or 11.2 (disposal of main undertaking),

(the “10% Placement Period”).

Listing Rule 7.1A

The effect of this resolution will be to allow the Directors to issue the Equity Securities under Listing Rule 7.1A during the 10% Placement Period without using the Company's 15% placement capacity under Listing Rule 7.1.

Specific information required by Listing Rule 7.3A

In accordance with Listing Rule 7.3A, information is provided as follows:

- (a) The Equity Securities will be issued at an issue price of not less than 75% of the VWAP for the Company's Equity Securities in the same class calculated over the 15 Trading Days on which trades in that class were recorded immediately before:
- the date on which the price at which the Equity Securities are to be issued is agreed; or
 - if the Equity Securities are not issued within 5 Trading Days of the date in paragraph (i) above, the date on which the Equity Securities are issued.
- (b) If this resolution is approved by Shareholders and the Company issues Equity Securities under the 10% Placement Facility, the existing Shareholders' economic and voting power in the Company will be diluted as shown in the below table. There is a risk that:
- the market price for the Company's Equity Securities may be significantly lower on the date of the issue of the Equity Securities than on the date of the Meeting; and
 - the Equity Securities may be issued at a price that is at a discount to the market price for the Company's Equity Securities on the issue date or the Equity Securities are issued as part of consideration for the acquisition of a new asset,

which may have an effect on the amount of funds raised by the issue of the Equity Securities.

The below table shows the dilution of existing Shareholders on the basis of the current market price of Shares and the current number of Shares for variable 'A' calculated in accordance with the formula in Listing Rule 7.1A.2 as at the date of the Notice.

The table also shows:

- two examples where variable 'A' has increased by 50% and 100%. Variable 'A' is based on the number of Shares the Company has on issue. The number of Shares on issue may increase as a result of issues of Shares that do not require Shareholder approval (for example, a pro rata entitlements issue or exercise of options or future specific placements under Listing Rule 7.1 that are approved at a future Shareholders' meeting); and
- two examples of where the issue price of Shares has decreased by 50% and increased by 50% as against the current market price.

Variable 'A' in Listing Rule 7.1A.2		Dilution		
		A\$0.005 50% decrease in Issue Price	A\$0.010 Issue Price	A\$0.015 50% increase in Issue Price
Current Variable A 336,700,099 Shares	10% Voting Dilution	33,670,009 Shares	33,670,009 Shares	33,670,009 Shares
	Funds raised	\$319,865.09	\$639,730.17	\$959,595.26

50% increase in current Variable A	10% Voting Dilution	50,505,014 Shares	50,505,014 Shares	50,505,014 Shares
(505,050,149 Shares)	Funds raised	\$479,797.63	\$959,595.26	\$1,439,392.88
100% increase in current Variable A	10% Voting Dilution	67,340,019 Shares	67,340,019 Shares	67,340,019 Shares
(673,400,198 Shares)	Funds raised	\$639,730.17	\$1,279,460.34	\$1,919,190.51

The table has been prepared on the following assumptions:

- (i) The Company issues the maximum number of Equity Securities available under the 10% Placement Facility.
- (ii) No Options (including any Options issued under the 10% Placement Facility) are exercised into Shares before the date of the issue of the Equity Securities.
- (iii) The 10% voting dilution reflects the aggregate percentage dilution against the issued share capital at the time of issue. This is why the voting dilution is shown in each example as 10%.
- (iv) The table does not show an example of dilution that may be caused to a particular Shareholder by reason of placements under the 10% Placement Facility, based on that Shareholder's holding at the date of the Meeting.
- (v) The table shows only the effect of issues of Equity Securities under Listing Rule 7.1A, not under the 15% placement capacity under Listing Rule 7.1.
- (vi) The issue of Equity Securities under the 10% Placement Facility consists only of Shares. If the issue of Equity Securities includes Listed Options, it is assumed that those Listed Options are exercised into Shares for the purpose of calculating the voting dilution effect on existing Shareholders.
- (vii) The issue price is \$0.019, being the closing price of the Shares on ASX on 01 September 2021.

The Company will only issue the Equity Securities during the 10% Placement Period. The approval under this resolution for the issue of the Equity Securities will cease to be valid in the event that Shareholders approve a transaction under Listing Rule 11.1.2 (a significant change to the nature or scale of activities or Listing Rule 11.2 (disposal of main undertaking).

The Company may seek to issue the Equity Securities for cash consideration for the following purposes:

- to fund the acquisition of new assets and investments where permitted under the Listing Rules; or
- to use the funds raised towards general corporate purposes, including investment in growth and

diversification initiatives, reduction of interest bearing debt and funding enhanced marketing efforts to drive revenue.

The Company will comply with the disclosure obligations under the Listing Rules (including Listing Rules 7.1A.4 and 3.10.5A) upon issue of any Equity Securities.

The Company's allocation policy will be dependent on the prevailing market conditions at the time of any proposed issue pursuant to the 10% Placement Facility. The identity of the subscribers of Equity Securities will be determined on a case-by-case basis having regard to the factors including but not limited to the following:

- the methods of raising funds that are available to the Company, including but not limited to, rights issues or other issues in which existing security holders can participate;
- the effect of the issue of the Equity Securities on the control of the Company;
- the financial situation and solvency of the Company; and
- advice from corporate, financial and broking advisers (if applicable).

The subscribers under the 10% Placement Facility have not been determined as at the date of the Notice but may include existing substantial Shareholders and/or new Shareholders who are not a related party or an associate of a related party of the Company.

Further, if the Company is successful in acquiring new assets or investments, it is likely that the subscribers under the 10% Placement Facility will be the vendors of the new assets or investments.

As of the date of this Notice, the Company has not formed an intention as to the parties which it may approach to participate in an issue of securities under ASX Listing Rule 7.1A including whether such an issue would be made to existing Shareholders or to new investors.

The Company has previously obtained Shareholder approval under Listing Rule 7.1A with the last approval being at its 2020 Annual General Meeting held on 27 November 2020.

In the twelve months preceding the date of this Meeting, the Company has not issued any Shares or Options under the approval obtained at its 2020 Annual General Meeting in respect of Listing Rule 7.1A, nor any other security which is convertible into Shares.

In accordance with Listing Rules 7.3A.6(a) and 7.3A.6(b) the Company makes the following disclosure:

- Equity Securities on issue as at 01 September 2021 totalled 336,700,099 securities; and
- No Equity Securities were issued in the 12 months preceding the.

At the date of the Notice, the Company has not approached any particular existing Shareholder or security holder or an identifiable class of existing security holder to participate in the issue of the Equity Securities. No existing Shareholder's votes will therefore be excluded under the voting exclusion in the Notice.

Directors recommendation

The Board unanimously recommends that Shareholders vote in favour of this resolution.

The Chairman intends to exercise all available proxies in favour of this resolution.

A voting exclusion statement for this Resolution is included in the Voting Exclusions.

7. RESOLUTION 4 – CHANGE OF COMPANY NAME

With the company expanding from its original purpose of the creation and operation of Vertical Wind Tunnels, through to the creation of the FREAK virtual reality business and the ongoing push of Virtual Reality into areas like education, commercial training and military applications, the Directors believe that a new branding is appropriate. After extensive research and testing, the name of xReality Group Ltd stands out as reflecting the future direction of the business.

This resolution is a special resolution and therefore requires approval of 75% of the votes cast by Shareholders present and eligible to vote (in person, by proxy, by attorney or, in the case of a corporate Shareholder, by a corporate representative) on the resolution.

Directors recommendation

The Board unanimously recommends that Shareholders vote in favour of this resolution.

The Chairman intends to exercise all available proxies in favour of this resolution.

8. RESOLUTION 5 – CHANGES TO BIRKDALE LOAN AGREEMENT AND RESOLUTION 6 - ISSUE OF OPTIONS TO BIRKDALE HOLDINGS (QLD) PTY LTD AND INCREASE IN VOTING POWER IN THE COMPANY UP TO 26.10%

Chairman for Resolution 5

As Steve Baxter has an interest in the outcome of this resolution as an associate of Birkdale (as more fully described below), Wayne Jones will perform the role of Chairman for the purposes of this resolution.

Background

On 19 June 2018, Birkdale agreed to make available to the Company a loan facility of \$3,000,000, secured over the assets of the Company, in order to provide short-term working capital to cover liquidity shortfalls caused by the impact of the dispute with SkyVenture International Limited and associated legal fees.

Birkdale is an existing Shareholder of the Company, and is currently the holder of 54,638,163 Shares.

Birkdale is owned by Steve Baxter (the Chairman of the Company) and Emily Baxter, who are also the sole directors of Birkdale.

Impact of approval of Resolutions 5 and 6

Subject to this Resolution 5 and 6 being passed, the Company and Birkdale have agreed to:

- (a) remove the conversion of \$1.2m of the Birkdale Loan to 120,000,000 Ordinary Shares;
- (b) for interest to accrue on the Birkdale Loan and be capitalised each calendar month from the 6th August 2021;
- (c) remove interest repayment dates on all accrued interest;
- (d) remove any reference to conversion of the Birkdale Loan; and
- (e) amend the repayment date of the Birkdale Loan to 1 September 2024.

In consideration of this, the Company has agreed, subject to Shareholder approval, to:

- (f) issue Birkdale with 45,000,000 Options as detailed below;
- (g) each Option entitles the Holder to subscribe for one Share at the Exercise Price;
- (h) the Exercise Price is \$0.02 per Share; and
- (i) Options are exercisable on or before 1 September 2024;

The Company has negotiated this agreement in place of the agreement outlined in the Prospectus issued by the Company on 15 July 2019. The Directors (Steve Baxter excluded) consider this a better outcome for shareholders following the debt restructure undertaken in March 2021.

The Independent Expert's Report dated 19 October 2021 available with this Notice of Meeting assesses the adoption of this resolution to be not fair but reasonable. The following table summarises the voting position of Birkdale following the exercise of the Options:

Item	Current position	Position following the exercise of Options
Number of Shares on issue	336,700,099	381,700,099
Number of Shares held by Birkdale	54,638,163	99,638,163
Voting power of Birkdale and its associates	16.23%	26.10%

¹Assumes the Birkdale Options are exercised in full but no other Options are exercised.

Implications if Resolution 5 and 6 are not passed

If the Company does not give effect to the issue of the Options and amendment of the Birkdale Loan, then the Birkdale Loan will remain in place and the total loan amount of \$3,000,000 will continue to accrue interest at the rate of 7.5% per annum. Such interest will capitalise monthly until 17 March 2023, and then be cash payable on a monthly basis thereafter, together with principal repayments in equal instalments also beginning 17 March 2023 and payable monthly until the loan is fully repaid on 17 September 2026.

If the Company is not able to capitalise any interest payments and is required to repay the full amount of \$3,000,000 to Birkdale by 17 September 2026, this will reduce the amount of free cash that could otherwise be used by the Company to execute its growth and diversification initiatives as outlined in the Prospectus.

Section 208 of Corporations Act

In accordance with section 208 of the Corporations Act, to give a financial benefit to a related party, the Company must obtain Shareholder approval unless the giving of the financial benefit falls within an exception in sections 210 to 216 of the Corporations Act.

The Board is of the view that Shareholder approval under section 208 of the Corporations Act is not strictly required for the proposed amendment to the Birkdale Loan as the exception in section 210 of the Corporations Act applies (that is, the amendment is being carried out on terms that would be reasonable in the circumstances if the Company and Birkdale were dealing at arm's length, which is an exception to section 208 of the Corporations Act). While the Board is of this view, the Company is seeking Shareholder approval of the of the amendment to the

Birkdale Loan and issue of Options to Birkdale for all purposes, including under section 208 of the Corporations Act.

Birkdale is considered to be a related party of the Company, as it is controlled by the Company's Chairman, Steve Baxter, and his wife.

The other information required to be given to Shareholders under section 219 of the Corporations Act is set out above and in the Independent Expert's Report, which concludes that the value of the financial benefit is \$648,000 and that the amendment to the Birkdale Loan is not fair but reasonable to unassociated Shareholders.

Section 611 (item 7) of the Corporations Act

Under Section 606 of the Corporations Act, a person must not acquire a relevant interest in issued voting shares in a company if, as a result of the acquisition, that persons' or someone else's voting power in the company increases:

- (a) from 20% or below to more than 20%; or
- (b) from a starting point that is above 20% and below 90%.

Under Section 611 (item 7) of the Corporation Act, Section 606 does not apply in relation to any acquisition of shares in a company approved by resolution passed at a general meeting at which no votes were cast in favour of the resolution by the acquirer (or the disposer, where applicable) or their respective associates. An independent expert is required to report on the fairness and reasonableness of the transactions being put to shareholders for approval for the purpose of section 611 (item 7) of the Corporations Act.

Shareholder approval is sought in accordance with section 611 (item 7) of the Corporations Act because if Birkdale exercised all of the Options and no other options were exercised this would have the effect of increasing Birkdale's voting power from 16.23% to 26.10% as illustrated above. Further details are set out in the Independent Expert's Report.

In accordance with section 611 (item 7) of the Corporations Act and ASIC Regulatory Guide 74, the following additional information is provided to Shareholders for the purposes of obtaining Shareholder approval:

- (j) Birkdale has confirmed to the Company that it:
 - (i) has no present intention of making any changes to the business of the Company;
 - (ii) has no present intention to inject further capital into the Company;
 - (iii) does not propose to take any action in respect of the present employees of the Company (that is, the employment of the present employees will not be affected in any way by the acquisition of Shares pursuant to the Partial Conversion);
 - (iv) does not propose that any property be transferred between the Company and Birkdale or any person associated with Birkdale (however, it is noted that the Birkdale Loan is secured over the assets of the Company and, as such, if the Company were to default under the Birkdale Loan, Birkdale may be entitled to take action to enforce that security);
 - (v) has no intention to otherwise re-deploy fixed assets of the Company; and
 - (vi) has no intention to significantly change the financial or dividend distribution policies of the Company;

- (k) Steve Baxter, a Director, has an interest in the acquisition of Shares by Birkdale pursuant to the Options because he is an associate of Birkdale;
- (l) no person is intended to become a Director if Shareholders approve the amendment to the Birkdale Loan and issue of the Options to Birkdale.

Shareholders should also review the Independent Expert's Report which contains an analysis of the proposed acquisition of Shares by Birkdale and concludes that the proposed acquisition of Shares is **not fair but reasonable** to Shareholders not associated with Birkdale.

Listing Rule 10.11

In accordance with Listing Rule 10.11, the Company must not issue securities to a related party of the Company (including a Director of the Company or an associate of a Director) unless it obtains Shareholder approval. As Birkdale is considered a related party of the Company as noted above, approval is being sought for the issue of Shares pursuant to the Partial Conversion.

Pursuant to Listing Rule 7.2, exception 8 and exception 14, the effect of passing this resolution will also be to allow the Company to issue 45,000,000 Options to Birkdale on the terms outlined above and in the Independent Expert's Report, without using the Company's 15% placement capacity under Listing Rule 7.1 or Listing Rule 7.1A. If Shareholder approval is given for the issue of the Shares purposes of Listing Rule 10.11, Shareholder approval will not be required for the purposes of Listing Rule 7.1 or Listing Rule 7.1A.

Specific information required by Listing Rule 10.11

In accordance with Listing Rule 10.11, the following additional information is provided to Shareholders for the purposes of obtaining Shareholder approval:

- (m) The Options will be issued to Birkdale Holdings (Qld) Pty Ltd ACN 120 407 981 as trustee of the Baxter Family Trust.
- (n) Birkdale is a related party of the Company under Listing Rule 10.11.1. The associates of Birkdale are Steve Baxter, the Chairman of the Company, and Emily Baxter, each being shareholders and directors of Birkdale;
- (o) the number of securities that will be issued to Birkdale is 45,000,000 Options;
- (p) The material terms of the Options are:
 - (i) each Option will entitle Birkdale to exercise the option for the issue of one fully paid ordinary share in the Company;
 - (ii) the exercise price is \$0.02 per Option;
 - (iii) each Option is able to be exercised on or before 1 September 2024. If the Option is not exercised by the time the Option will lapse;
 - (iv) each share issues on the exercise of an Option will rank pari passu with the fully paid ordinary shares of the Company;
- (q) Listing Rule 10.13.5 requires the Options to be issued no later than 1 month after the date of the meeting however the Company intends to issue the Options within 5 business days of the date of the Meeting if resolutions 5 and 6 are passed;
- (r) the exercise price will be \$0.02 per Option, issued to Birkdale in consideration for the amendments to the Birkdale Loan as more fully described above;
- (s) the Options if exercised, will entitle the option holder to one ordinary share for each Option, which will rank equally in all respects with the Company's existing issued shares; and

- (t) no funds will be raised by the issue of Options to Birkdale, however \$0.02 per Option will be raised if they are exercised.

Directors recommendation

The Board (with Steve Baxter abstaining) unanimously recommends that Shareholders vote in favour of resolutions 5 and 6, as the amendments to the Birkdale Loan and the Option issue will further reduce the Company's interest bearing debt in line with the Board's strategy to repair the Company's financial position. It also frees up cashflow that may be used by the Company to execute its growth and diversification initiatives as outlined in the Prospectus.

The Company is not aware of any information that is material to the decision on how to vote on this resolution which is not included in this Explanatory Memorandum.

It is noted that Steve Baxter has abstained from making a recommendation to Shareholders due to his interest in the outcome of resolutions 5 and 6. Steve Baxter's interest in the outcome of these resolutions is considered a material personal interest, and as such Steve Baxter did not vote on the transaction at the relevant board meeting.

The Chairman intends to exercise all available proxies in favour of this resolution. It is noted that Wayne Jones will act as Chairman for the purposes of this resolution.

A voting exclusion statement for this resolution is included in the Voting Exclusions.

9. RESOLUTION 7 – RATIFICATION OF ISSUE OF OPTIONS TO ELIGIBLE EMPLOYEES

Resolution 7 seeks approval for the ratification of a total of 8,400,000 Employee Options which were issued under the Plan to Eligible Employees on 31 January 2021.

Listing Rule 7.1 provides that (subject to certain exceptions) prior approval of shareholder is required to for an issue of securities by a company if the securities will, when aggregated with the securities issued by the company during the previous 12 months exceed 15% of the number of the ordinary securities on issues at the commencement of that 12-month period.

Listing Rule 7.4 sets out the procedure and effect of Shareholder approval of a prior issue of securities and provides that where shareholders in general meeting ratify the previous issue of securities made without approval under Listing Rule 7.1, provided that the previous issue of securities did not breach Listing Rule 7.1, those securities shall be deemed to have been made with shareholder approval for the purposes of Listing Rule 7.1.

By ratifying this issue, the Company will retain the flexibility to issue equity securities on the future up to the 15% placement capacity set out in Listing Rule 7.1 without the requirement to obtain prior shareholder approval.

Listing Rule 7.5 requires that the following information be provided to shareholders in relation to obtaining approval of Resolution 7 for the purposes of Listing Rule 7.4:

- (a) 8,400,000 Employee Options have been issued pursuant to the terms of the Plan.
- (b) The Employee Options have been issued for nil cash consideration.
- (c) Full terms of the Employee Options are set out in Schedule 2.
- (d) The Employee Options have been issued as an incentive and reward for eligible employees of the Company and in recognition of their contribution to the Company to date. Please refer to Schedule 2 for the terms of the agreement with the employees,
- (e) No funds will be raised from the issue of the Employee Options.

The Directors unanimously recommend you vote in favour of Resolution 7.

10. RESOLUTION 8 – ISSUE OF INCENTIVE OPTIONS TO THE CHIEF EXECUTIVE OFFICER

General

On 21 January 2021 the Company agreed, subject to obtaining Shareholder approval, to issue a total of 8,435,005 Options (**Incentive Options**) to Wayne Jones pursuant to the Plan and on the terms and conditions set out below. Approval is being sought pursuant to section 208 of the Corporations Act and Listing Rule 10.14

Wayne Jones is entitled to participate in the Plan. The terms and conditions of the Incentive Options are identical to the terms and conditions of the Employee Options the key terms of which are summarised in Schedule 2.

Background

The Incentive Options contemplated by Resolution 8 will be issued to Wayne Jones to align his long term goals with that of shareholders and to establish an incentive for ongoing dedicated services to the Company. These Incentive Options are intended to provide remuneration to the CEO that is linked to the performance of the Company. The benefit would only be received from the Incentive Options upon the Share price exceeding the exercise price of the Incentive Options and thereby warranting their exercise. The exercise price of the Incentive Options is \$0.021, being a premium of 145% to the 5 day VWAP to 28 January 2021, resulting in a nil consideration at issue date, when the share price was \$0.013. With the share price subsequently increasing to \$0.026 at 13 October 2021, the Company sought an Independents Expert's valuation which valued the Options at \$159,422 on that date.

Under the Company's current circumstances, the Directors (Wayne Jones abstaining) consider that the incentive noted above, represented by the issue of Incentive Options, is a cost effective and efficient reward and incentive to provide, as opposed to alternative forms of incentive such as the payment of cash compensation only.

Section 208 of the Corporations Act

Section 208 of the Corporations Act states that a public company cannot give a "financial benefit" (including an issue of shares and options) to a "related party" of the Company unless one of the exceptions set out in section 210 to 216 of the Corporations Act apply, or the holders of ordinary securities have approved the giving of the financial benefit to the related party in a general meeting.

Wayne Jones is a related party of the Company within the meaning specified under section 228 of the Corporations Act. Further, the provision of the Incentive Options constitutes a financial benefit within the meaning of section 229 of the Corporations Act. Accordingly, Shareholder approval is sought under section 208 of the Corporations Act to permit the issue of the Incentive Options on the terms set out in Resolution 8 to Wayne Jones (or his nominee) as a related party of the Company.

As required by section 219 of the Corporations Act, the following information is provided in relation to Resolution 8:

- (a) the related party is Wayne Jones who is a related party by virtue of being a director of the Company;
- (b) the maximum number of Incentive Options (being the nature of the financial benefit being provided) to be granted to Wayne is 8,435,005 Incentive Options;
- (c) The financial benefit (being the Incentive Options) has been valued in the Independent Expert's Report at \$159,422, as at 13 October 2021.

- (d) Details of Wayne Jones' annualised remuneration as set out in the 2021 Remuneration Report is as follows:

Salary	\$197,187
Non-Monetary	\$6,015
Superannuation	\$18,733
Total:	\$221,936

- (e) The terms and conditions of the Incentive Options are identical to the terms and conditions of the Employee Options the key terms of which are summarised in Schedule 2.
- (f) If all of the Incentive Options under Resolution 8 were exercised, and no other shares were issued by the Company, the shareholding of existing shareholders would, based on the current issued capital of the Company and prior to the exercise of any Options issued to Birkdale in accordance with Resolutions 5 and 6, be diluted by approximately 2.4%.
- (g) The Directors do not consider that there are any opportunity costs to the Company or benefits foregone by the Company in granting the Incentive Options.
- (h) No funds will be raised from the issue of the Incentive Options. Funds raised in the event of exercise of the Incentive Options will be applied towards working capital requirements or in any other manner that the Board considers appropriate at the relevant time. However, there is no guarantee that any of the Incentive Options will be exercised at any future time.
- (i) Wayne Jones, as a recipient of the Incentive Options, has a material personal interest in the outcome of the Resolution. No other Director has a material personal interest in the outcome of Resolution 8.

See below for the Directors' Recommendation.

Listing Rule 10.14

Listing Rule 10.14 provides that a company must not issue equity securities to a director or an associate of a director of the company under an employee incentive scheme without the approval of holders of ordinary securities. Further, Listing Rule 7.2 (Exception 14) states that approval pursuant to Listing Rule 7.1 is not required if shareholder approval is obtained under Listing Rule 10.14.

Accordingly, Shareholder approval is sought under Listing Rule 10.14 to permit the issue of 8,435,005 Incentive Options to Wayne Jones (and/or his nominees) as related parties of the Company on the terms set out in this Explanatory Statement and Schedule 2.

The issue of the Incentive Options under Resolution 8 will not affect the capacity of the Company to issue securities in the next 12 months under Listing Rule 7.1 or Listing Rule 7.1A, as those Incentive Options (once issued) will be excluded from the calculations under those Listing Rules.

For the purposes of Listing Rule 10.14, the following information is provided to shareholders in relation to Resolution 3:

- (aa) the Incentive Options will be issued to Wayne Jones or his Nominee.
- (bb) Wayne is an executive director of the Company and as such falls within Listing Rule 10.14.1.
- (cc) the maximum number of Incentive Options to be granted to Wayne Jones is 8,435,005.
- (dd) Details of Wayne's remuneration are set out above.

- (ee) Wayne has previously been issued with 1,100,000 options with an exercise price of \$0.35 which expired 23 August 2021 under the employee incentive scheme for no cash consideration.
- (ff) The Incentive Options are issued for no cash consideration. The terms of the Incentive Options are identical to the Employee Options the key terms of which are set out in Schedule 2.
- (gg) No persons referred to in Listing Rule 10.14 have received any securities under the Plan.
- (hh) Wayne Jones is the only person referred to in Listing Rule 10.14 entitled to participate in the Incentive Options under the Plan.
- (ii) No loan has been provided to Wayne Jones with respect to the Incentive Options.
- (jj) The Incentive Options will be issued as soon as possible after approval of this resolution and in any event, no later than 12 months after the date of approval (or such later date to the extent permitted by any ASX waiver of the ASX Listing Rules)
- (kk) Details of any securities issued under this employee incentive scheme will be published in the Company's annual report relating to the period they are issued in, along with a statement that approval for the issued was obtained under Listing Rule 10.14. Any additional persons covered by Listing Rule 10.14 who become entitled to participate in an issue of securities under the employee incentive scheme after this resolution is approved and who are not named in the notice of meeting will not participate until approval is obtained under that rule.

Directors Recommendations

The primary purpose of the grant of the Incentive Options is to provide a performance linked incentive component in the remuneration package motivate and reward the performance of Wayne Jones in his role as an executive of the Company.

Wayne, as a recipient of the Incentive Options, has a material personal interest in the outcome of the Resolution that applies specifically to him. No other Director has a material personal interest in the outcome of Resolution 8.

Wayne Jones expresses no opinion and makes no recommendation in respect of the issue of the Incentive Options to him (and/or his nominee) as he has a material personal interest in the outcome of Resolution 8.

Each of the other Directors recommend that shareholders vote in favour of the issue of the Incentive Options to Wayne Jones (and/or his nominee) for the reasons set out in this Explanatory Statement and on the basis that, in their opinion, the proposed issue of Incentive Options:

- (mm) provides a long-term incentive to Wayne Jones linked to the future success of the Company;
- (nn) is a fair and reasonable alternative to additional cash payment for performance;
- (oo) recognises the contribution Wayne Jones has and will continue to make to the Company; and
- (pp) is in line with the remuneration benefits paid to other executive directors of other companies operating in the Company's industry and business environment.

SCHEDULE 1: DEFINITIONS

In the Notice and this Explanatory Memorandum, words importing the singular include the plural and vice versa.

\$ or A\$ means Australian Dollars.

Annual Report means the Directors' Report, the Financial Report and the Auditor's Report in respect to the financial year ended 30 June 2019.

ASX means ASX Limited (ACN 008 624 691) and, where the context permits, the Australian Securities Exchange operated by ASX.

Auditor's Report means the auditor's report on the Financial Report.

Birkdale means Birkdale Holdings (Qld) Pty Ltd ACN 120 407 981 including where applicable in its capacity as trustee of the Baxter Family Trust.

Birkdale Loan means the loan facility of \$3,000,000 provided to the Company by Birkdale and which remains outstanding, which is secured by the assets of the Company.

Board means the board of Directors.

Chairman means the person appointed to chair the Meeting convened by the Notice.

Closely Related Party means:

- (a) a spouse or child of the member; or
- has the meaning given in section 9 of the Corporations Act.

Company means Indoor Skydive Australia Group Ltd ABN 39 154 103 607.

Constitution means the constitution of the Company.

Corporations Act means the *Corporations Act 2001* (Cth).

Director means a director of the Company.

Directors' Report means the annual directors' report prepared under chapter 2M of the Corporations Act for the Company and its controlled entities.

Entitlement Offer means the 2.5 for 1 renounceable entitlement offer of new Shares by the Company made under the Prospectus and completed on 21 August 2019.

Equity Security has the same meaning as in the Listing Rules.

Explanatory Memorandum means the explanatory memorandum which forms part of the Notice.

Financial Report means the annual financial report prepared under chapter 2M of the Corporations Act of the Company and its controlled entities.

Group means the Company and its controlled entities.

Independent Expert Report means the report of Pendragon Capital Limited dated 19 October 2021 which is attached to this Notice.

Key Management Personnel means persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Director (whether executive or otherwise) of the Company.

Listing Rules means the listing rules of ASX.

Meeting has the meaning in the introductory paragraph of the Notice.

Notice means this notice of meeting dated 21 October 2021 which comprises of the notice, Explanatory Memorandum and Proxy Form.

Option means an option which entitles the holder to subscribe for one Share.

Prospectus means the prospectus issued by the Company in accordance with the Corporations Act dated 15 July 2019 with respect to the 2.5 for 1 renounceable entitlement offer.

Proxy Form means the proxy form attached to the Notice.

Remuneration Report means the remuneration report of the Company contained in the Directors' Report.

Resolution means a resolution contained in the Notice.

Schedule means a schedule to this Explanatory Memorandum.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means a shareholder of the Company.

Trading Day means a day determined by ASX to be a trading day in accordance with the Listing Rules.

Voting Power has the meaning given to that term in section 610 of the Corporations Act.

VWAP means the volume weighted average price of the Shares as defined in the Listing Rules.

SCHEDULE 2: TERMS AND CONDITIONS OF EMPLOYEE OPTIONS AND INCENTIVE OPTIONS

1. each Option shall entitle the holder the right to subscribe for one (1) fully paid ordinary share in the capital of the company (**Share**).
2. Each Option is exercisable at a 145% premium to the volume weighted average price of shares traded on the ASX during the 7 day period up to and including the day on which an agreement is reached for the issue of the Options (**Exercise Price**).
3. Each Option will expire on 31 January 2024 (**Option Expiry Date**). Each Option may be exercised at any time prior to 5.00pm AEST on the Option Expiry Date and any Option not so exercised shall automatically expire on the Option Expiry Date.
4. The Options are exercisable at any time on and from the date the relevant Option vests in accordance with Plan.
5. The Options will vest on 31 January 2022 if the employee remains employed by the Company.
6. Subdivision 83A-C of the Income Tax Assessment Act 1997 applies to the Options except to the extent an offer provides otherwise.
7. Each Share allotted as a result of the exercise of an Option will, subject to the constitution of the Company, rank in all aspects pari passu with the existing ordinary fully paid shares in the capital of the Company on issue at the date of allotment.
8. A registered owner of an Option (**Option Holder**) will be entitled to receive and will be sent all reports, accounts and notices required to be given to members of the company but will not be entitled to attend or vote at any meetings of the members of the Company unless they are members of the Company.
9. A certificate or holding statement will be issued by the Company with respect to Options held by an Option Holder. Attached or endorsed on the reversed side of each certificate or holding statement will be, a notice that is to be completed when exercising the Options the subject of the certificate or holding statement (**Notice of Exercise of Options**). Options may be exercised by the Option Holder completing the Notice of Exercise of Options and forwarding the same to the secretary of the Company. The Notice of Exercise of Options must state the number of Options exercised and the consequent number of ordinary shares in the capital of the Company to be allotted.
10. The Notice of Exercise of Options by an Option Holder must be accompanied by payment in full of the relevant number of shares being subscribed, being the Exercise Price per Share unless the Option Holder elects to exercise the cashless exercise facility.
11. On exercise of Options, the Option Holder must surrender to the Company the Option Holder's Option certificate or holding statement with respect to those Options being exercised.
 - a. Within 14 days from the date the Option Holder properly exercises Options held by the Option Holder, the Company shall issue and allot to the Option Holder that number of fully paid ordinary shares in the capital of the Company so subscribed for by the Option Holder.
12. If at the Option Holder's sole discretion they elect to utilise the cashless exercise facility, they will receive, without payment of cash or other consideration, the number of shares determined in accordance with the following formula:

$$A = \frac{B \times (C - D)}{C}$$

C

Where:

- A = the number of shares to be issued to the holder of the Options;
- B = the number of Options exercised by using the cashless exercise facility;
- C = the volume weighted average price of shares traded on the ASX during the 7 day period up to and including the date of delivery of the Notice of Exercise; and
- D = the Exercise Price

13. In the event of a reconstruction (including a consolidation, sub-division, reduction, return or pro- rata cancellation) of the issued capital of the company, the number of Options or the Exercise Price of the Options or both shall be reconstructed in such a manner that it will not result in any benefits being conferred on the Option Holders which are not conferred on shareholders (subject to the provision with respect to rounding of entitlements sanctioned by the meeting of shareholders approving the reconstruction of capital) but in all other respects the terms of the exercise of Options shall remain unchanged.
14. There are no participating rights or entitlements inherent in the Options to participate in any new issues of capital which may be made or offered by the Company to its shareholders from time to time prior to the Option Expiry Date unless and until Options are exercised. The Company will ensure that during the Exercise Period of the Options, the record date for the purposes of determining entitlement to any new such issue, will be at least 9 business days after such new issues are announced in order to afford the Option Holder an opportunity to exercise the Options held by the Option Holder.
15. The Company will not apply for quotation of the Options on ASX. Options can only be transferred with the prior written consent of the Company (which consent may be withheld in the Company's sole discretion).
16. If the Company is listed on ASX and makes a pro rata issue (except a bonus issue) to the holders of ordinary shares, the Exercise Price of each Option shall be amended in accordance with the ASX Listing Rules.
17. If the Company makes a bonus issue or issues other securities convertible into ordinary shares on a pro rata basis to holders of ordinary shares the number of shares issued on exercise of each Option will include the number of bonus shares that would have been issued if the Option had been exercised by the Option Holder prior to the books closing date for bonus shares. No change will be made in such circumstances to the exercise price of each Option.

All Correspondence to:

✉ **By Mail** Boardroom Pty Limited
GPO Box 3993
Sydney NSW 2001 Australia

📠 **By Fax:** +61 2 9290 9655

💻 **Online:** www.boardroomlimited.com.au

☎ **By Phone:** (within Australia) 1300 737 760
(outside Australia) +61 2 9290 9600

YOUR VOTE IS IMPORTANT

For your vote to be effective it must be recorded **before XX:XXam/pm on Day Date November 2021.**

📱 TO VOTE ONLINE

STEP 1: VISIT <https://www.votingonline.com.au/isaagm2021>

STEP 2: Enter your Postcode OR Country of Residence (if outside Australia)

STEP 3: Enter your Voting Access Code (VAC):

using smartphone

📱 BY SMARTPHONE



Scan QR Code

QR Reader App

TO VOTE BY COMPLETING THE PROXY FORM

STEP 1 APPOINTMENT OF PROXY

Indicate who you want to appoint as your Proxy.

If you wish to appoint the Chair of the Meeting as your proxy, mark the box. If you wish to appoint someone other than the Chair of the Meeting as your proxy please write the full name of that individual or body corporate. If you leave this section blank, or your named proxy does not attend the meeting, the Chair of the Meeting will be your proxy. A proxy need not be a securityholder of the company. Do not write the name of the issuer company or the registered securityholder in the space.

Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the meeting and vote. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by contacting the company's securities registry or you may copy this form.

To appoint a second proxy you must:

- (a) complete two Proxy Forms. On each Proxy Form state the percentage of your voting rights or the number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- (b) return both forms together in the same envelope.

STEP 2 VOTING DIRECTIONS TO YOUR PROXY

To direct your proxy how to vote, mark one of the boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of securities are to be voted on any item by inserting the percentage or number that you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses. If you mark more than one box on an item for all your securities your vote on that item will be invalid.

Proxy which is a Body Corporate

Where a body corporate is appointed as your proxy, the representative of that body corporate attending the meeting must have provided an "Appointment of Corporate Representative" prior to admission. An Appointment of Corporate Representative form can be obtained from the company's securities registry.

STEP 3 SIGN THE FORM

The form **must** be signed as follows:

Individual: This form is to be signed by the securityholder.

Joint Holding: where the holding is in more than one name, all the securityholders should sign.

Power of Attorney: to sign under a Power of Attorney, you must have already lodged it with the registry. Alternatively, attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: this form must be signed by a Director jointly with either another Director or a Company Secretary. Where the company has a Sole Director who is also the Sole Company Secretary, this form should be signed by that person. **Please indicate the office held by signing in the appropriate place.**

STEP 4 LODGEMENT

Proxy forms (and any Power of Attorney under which it is signed) must be received no later than 48 hours before the commencement of the meeting, therefore by **xxtime am/pm on xxday, date xx October 2021**. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxy forms may be lodged using the enclosed Reply Paid Envelope or:

💻 **Online** <https://www.votingonline.com.au/isaagm2021>

📠 **By Fax** + 61 2 9290 9655

✉ **By Mail** Boardroom Pty Limited
GPO Box 3993,
Sydney NSW 2001 Australia

👤 **In Person** Boardroom Pty Limited
Level 12, 225 George Street,
Sydney NSW 2000 Australia

☐

Your Address

This is your address as it appears on the company's share register. If this is incorrect, please mark the box with an "X" and make the correction in the space to the left. Securityholders sponsored by a broker should advise their broker of any changes.

Please note, you cannot change ownership of your securities using this form.

PROXY FORM

STEP 1 APPOINT A PROXY

I/We being a member/s of **Indoor Skydive Australia Group Limited** and entitled to attend and vote hereby appoint:

☐

the **Chair of the Meeting (mark box)**

OR if you are **NOT** appointing the Chair of the Meeting as your proxy, please write the name of the person or body corporate (excluding the registered securityholder) you are appointing as your proxy below

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chair of the Meeting as my/our proxy at the Annual General Meeting of the Company to be held virtually **on DAY, DATE October, 2021 at TIMEam/pm** and at any adjournment of that meeting, to act on my/our behalf and to vote in accordance with the following directions or if no directions have been given, as the proxy sees fit.

Chair of the Meeting authorised to exercise undirected proxies on remuneration related matters: If I/we have appointed the Chair of the Meeting as my/our proxy or the Chair of the Meeting becomes my/our proxy by default and I/we have not directed my/our proxy how to vote in respect of Resolutions 1,6,7 & 8, I/we expressly authorise the Chair of the Meeting to exercise my/our proxy in respect of these Resolutions even though Resolutions 1,6,7 & 8 are connected with the remuneration of a member of the key management personnel for the Company.

The Chair of the Meeting will vote all undirected proxies in favour of all Items of business (including Resolutions 1,6,7 & 8). If you wish to appoint the Chair of the Meeting as your proxy with a direction to vote against, or to abstain from voting on an item, you must provide a direction by marking the 'Against' or 'Abstain' box opposite that resolution..

STEP 2 VOTING DIRECTIONS

* If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your vote will not be counted in calculating the required majority if a poll is called.

		For	Against	Abstain*
Resolution 1	Adoption of the Remuneration Report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	Election of Director – Kim Hopwood	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	Approval of 10% Placement Facility	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4	Change of Company Name	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5	Changes to Birkdale Loan Agreement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6	Issue of Options to Birkdale Holdings (QLD) Pty Ltd and increase in Voting Power in the Company up to 26.10%	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 7	Ratification of Issue of Incentive Options to Eligible Employees	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 8	Approval of Issue of Incentive Options to Chief Executive Officer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

STEP 3 SIGNATURE OF SECURITYHOLDERS

This form must be signed to enable your directions to be implemented.

Individual or Securityholder 1

Sole Director and Sole Company Secretary

Securityholder 2

Director

Securityholder 3

Director / Company Secretary

Contact Name.....

Contact Daytime Telephone.....

Date / / 2021

Independent Expert's Report

Indoor Skydive Australia Group Limited

ACN 154 103 607

19 October 2021

Prepared by Pendragon Capital Limited
Australian Financial Services Licence 237549



FINANCIAL SERVICES GUIDE

Date Prepared: 19 October 2021

Pendragon Capital Limited (ABN 17 008 963 755) ("Pendragon" or "we," "us" or "our") has been engaged by Indoor Skydive Australia Group Limited to provide an Independent Expert's Report on the proposed issue of 45,000,000 Options (and potential issue of 45,000,000 Shares upon exercise of the Options) in Indoor Skydive Australia Group Limited ('ISA' or 'the Company') as consideration for agreeing to amend the terms of the loan from Birkdale Holdings (QLD) Pty Ltd. A copy of our report is being provided because you are a shareholder of ISA.

Financial Services Guide

This Financial Services Guide ("FSG") has been prepared to assist retail investors:

- to decide whether the general financial product advice in our Report is appropriate to them; and
- to provide important information about us, the financial services we offer, how we are remunerated and our dispute resolution process.

Financial services we offer

Pendragon Capital Limited is the holder of Australian Financial Services Licence ("AFSL") number 237549. The current AFSL conditions authorise Pendragon Capital Limited to, amongst other things, provide general financial product advice relating to securities to retail and wholesale investors.

General Financial Product Advice

In our Report, we only provide general financial product advice and do not take into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the Report with respect to your own objectives, financial situation and needs before you act on the advice in the Report. Accordingly, it is up to you to determine whether you require any additional financial advice to satisfy your objectives, financial situation or needs.

We are engaged to provide a report in connection with a financial product of another person. Our report will include who has engaged us and a description of the nature of our engagement. Although you have not engaged us, you will be provided with a copy of our report as a retail investor because of your connection to the matters on which we have been engaged to report.

Remuneration and other benefits for our services

You have the right to be told of any remuneration, benefits or other interests Pendragon Capital Limited and your Adviser will receive which may influence the financial services provided.

We charge fees for providing reports. These fees have been agreed with, and will be paid by, the person who engages us to provide the report. Our fees are agreed and charged on an hourly basis or fixed fee basis depending on the engagement. Our fee has been fixed at \$27,500 (exclusive of GST) for this Report. This fee is not related in any way to the opinion we express in our Report.

Except for the fee disclosed above, Pendragon, including any of its directors, employees or associated entities will not receive any other fees or benefits, directly or indirectly, for or in connection with the provision of this Report.

Complaints process

As the holder of an AFSL, we are required to have a system for handling complaints from persons to whom we provide financial services.

If you have any complaints about the service provided to you, you should take the following steps:

- a. Contact your Adviser to discuss your complaint.
- b. If your complaint is not satisfactorily resolved within 3 days, please contact the Compliance Manager of Pendragon Capital Limited, on (08) 9426 0666 or put your complaint in writing and send it to PO Box 1288, Subiaco, WA 6904. The Compliance Manager will try to resolve your complaint quickly and fairly.
- c. If, within 28 days of notifying the Compliance Manager, you are not satisfied with the outcome, then you have the right to refer the matter to:

Australian Financial Complaints Authority Limited
GPO Box 3
MELBOURNE VIC 3001

Telephone: 1800 931 678
Fax: (03) 9613 6399
Email: info@afca.org.au

Table of Contents

1.	Introduction	6
2.	Summary and Opinion	8
2.1	Opinion	8
2.2	Fairness	8
2.3	Reasonableness	8
3.	Scope of the Report	9
3.1	Scope	9
3.2	Purpose of the Report	10
3.2.1	Financial benefit to related party	10
3.2.2	Increase in ownership interest	10
3.3	Regulatory guidance	11
3.4	Fair and Reasonable	11
4.	Proposed Transaction	11
4.1	Loan agreement	11
4.2	Loan Agreement Amendment Deed	11
4.3	Loan Variation – Extension	12
4.4	Further extension	12
4.5	Amendment Side Letter	12
4.6	Issue of Options	12
4.7	Capital Structure	13
5.	Profile of ISA	13
5.1	Background	13
5.2	Board of Directors	14
5.2.1	Wayne Jones – Director & Chief Executive Officer	14
5.2.2	Daniel Hogan – Director & Chief Operations Officer	14
5.2.3	Stephen Baxter – Non-Executive Director and Chairman	14
5.2.4	Kim Hopwood – Non-executive Director (appointed 26 May 2021)	14
5.3	Major corporate events	14
5.4	Statement of Financial Position and Unaudited Pro-Forma prior to and following the Proposed Transaction	16
5.5	Historical Statement of Comprehensive Income	17
5.5.1	Commentary on Interim Financial Report and Pro-Forma balance sheet	18
5.6	Capital Structure	18
5.7	Share Market Performance of ISA	19
6.	Valuation methodology	20
6.1	Discounted Cash Flow Method	20
6.2	Market Based Methods	20
6.2.1	Capitalisation of Maintainable Earnings	20
6.2.2	Industry Specific Methods	20
6.2.3	Availability of Alternative Offers	20
6.2.4	Quoted Market Price Basis (Market Value)	21
6.3	Asset Based Methods	21
6.3.1	Liquidation of Assets Method	21
6.3.2	Orderly Realisation of Assets Method	21
6.3.3	Net Tangible Asset Value on a Going Concern Basis (“NTA”)	21
6.4	Selection of Valuation Methodologies	21
7.	Valuation of an ISA Share prior to the Proposed Transaction	22
7.1	Quoted Market Basis	22
7.1.1	ISA Share Price	22
7.1.2	Control Premium	22
7.1.3	Liquidity of Shares	23
7.1.4	Valuation of ISA Share on a non-control minority basis	23
7.1.5	Valuation of ISA Share on a control basis	23
7.2	Net assets valuation of ISA (secondary method)	24
7.3	Conclusion as to the value of ISA Shares – prior to the Proposed Transaction	25
8.	Valuation of Company Share after the proposed transaction	26
8.1	Valuation – Diluted	26
9.	Assessment of Fairness	27
9.1	Valuation Price	27

10.	Assessment of Reasonableness	28
10.1	Level of control	28
10.2	Other considerations	28
10.3	Advantages of approving the Proposed Transaction	28
10.4	Disadvantages of approving the Proposed Transaction.....	29
10.5	Assessment of Reasonableness	29
11.	Value of consideration per Option of the Proposed Transaction	29
11.1	Assumptions	29
11.2	Valuation Calculation	29
11.3	Total value of Consideration Options	30
12.	Financial Benefit to related parties	30
12.1	Birkdale	30
12.2	Employee Incentive Options issued to Executive Director	30
	12.2.1 Assumptions	30
	12.2.2 Valuation Calculation.....	31
13.	Conclusion	31
14.	Sources of information	31
15.	Independence	32
16.	Indemnity	32
17.	Qualifications	32
18.	Disclaimers and consents	33
	APPENDIX 1 – GLOSSARY OF TERMS	34

19 October 2021

The Directors
Indoor Skydive Australia Group Limited
123 Mulgoa Road
PENRITH NSW 2750

Dear Directors

INDEPENDENT EXPERT'S REPORT TO SHAREHOLDERS OF INDOOR SKYDIVE AUSTRALIA GROUP LIMITED

1. INTRODUCTION

You have requested Pendragon Capital Limited ("Pendragon") to prepare an Independent Expert's Report ("Report") to advise the Shareholders of Indoor Skydive Australia Group Limited ("ISA", or "the Company") whether, for the purposes of Section 208 of the Corporations Act and Section 611 (item 7) of the Corporations Act, the proposed issue of 45,000,000 Consideration Options (and potential issue of 45,000,000 Shares upon exercise of the Consideration Options) to Birkdale Holdings (QLD) Pty Ltd ("Birkdale") as consideration for Birkdale agreeing to amend the terms of the existing \$3 million loan from Birkdale ("Proposed Transaction") (outlined in section 4.5) is fair and reasonable to Shareholders who are not associated with Birkdale ("Non-associated Shareholders").

Our Report was prepared and forwarded on 16 August 2021. We were subsequently requested to provide a valuation, to be included in our Report, of the employee incentive Options to be issued to Wayne Jones (subject to approval by Shareholders). These Options have been valued as at 13 October 2021. The remainder of the report has a valuation and opinion date of 9 August 2021.

ISA is a public company listed on the Australian Securities Exchange ('ASX').

On 19 June 2018, a secured loan agreement was executed between the Company and Birkdale to provide up to \$3 million to meet the Company's working capital requirements and finance costs payable under the agreement ("Birkdale Loan").

On 2 July 2019, a Loan Agreement Amendment Deed ("Deed") was executed in relation to the Birkdale Loan which specified the terms of the conversion (see Section 4.2 Loan Agreement Amendment Deed. In short, the Proposed Transaction was conditional upon:

- a minimum subscription of \$2m being raised under an entitlement offer; and
- the Company obtaining the Shareholder Approval.

On 15 July 2019, ISA announced a 2.5 for 1 renounceable entitlement offer of new fully paid ordinary shares ("Shares") in the Company at a price of \$0.01 per new Share ("New Shares") ("Entitlement Offer") to raise a minimum subscription of \$2 million and maximum subscription of \$3.4 million. The board reserved its right to place the shortfall under the Entitlement Offer with third party investors at not less than \$0.01 per Share within 3 months of the closing date (8 August 2019) of the Entitlement Offer.

The results of the Entitlement Offer were announced on 13 August 2019 with applications for 144,624,460 shares being received from existing Shareholders raising \$1,446,245.

On 21 August 2019, ISA issued 200,003,585 Shares under its Entitlement Offer and shortfall placement to raise gross proceeds of \$2,000,036.

The Prospectus disclosed that the Company had conditionally agreed with Birkdale:

- a partial conversion of \$1.2 million of the \$3 million loan from Birkdale at the same price of \$0.01 per share as Shareholders were offered Shares under the Prospectus;
- the repayment date for the outstanding principal of \$1.8 million to be extended to 26 June 2021; and
- interest on the \$1.8 million outstanding principal to be capitalised until 30 June 2020.

On 29 September 2020, a further loan extension to was executed with Birkdale to extend the repayment date for the outstanding principal of \$1.8 million to 26 July 2021.

On 17 March 2021, the Company executed an Amendment and Restatement Agreement ("ARA") with Birkdale intended to give effect to the following terms in relation to the partial conversion of the Birkdale Loan:

- at the date of the Proposed Transaction, the accrued interest due on the Birkdale loan to date would be capitalised and added to the remaining \$1.8 million principal;
- for the period of 24 months from the date of the conversion, interest would continue to accrue on the outstanding loan at the rate of 7.5% pa; and
- at the expiry of the 24 month period, all principal and interest would be repaid by regular monthly payments over a 42 month period. Over this 42 month repayment period, interest would continue to accrue on the outstanding amount of the loan at 7.5% pa;

On 6 August 2021, the Company executed an Amendment Side Letter with Birkdale to give effect to the following terms in relation to the Birkdale Loan:

- remove the conversion of \$1.2m of the Birkdale Loan to 120,000,000 Ordinary Shares;
- interest to accrue on the Birkdale Loan and be capitalised each calendar month from the effective date of the executed Amendment Side Letter;
- remove interest repayment dates on all accrued interest;
- remove any reference to conversion of the Birkdale Loan; and
- amend repayment date of the Birkdale Loan to 1 September 2024.

Birkdale also has the conditional right (but not the obligation), if ISA requests or requires a material amendment to the terms of the ARA, to convert the balance of the Birkdale Loan at that time into fully paid ordinary Shares at a conversion rate that is a 45% discount to the volume weighted average price of ordinary Shares in ISA at the conversion date, subject to any Shareholder Approvals that may apply.

Birkdale is an entity controlled by Stephen Baxter who is a director of the Company.

The result of the Proposed Transaction will be to increase Birkdale's holding from 16.23% as at the date of this Report to a maximum 24.86% on a fully diluted basis.

The issue of Consideration Options pursuant to the Proposed Transaction is subject to Shareholder approval. Shareholder approval is to be sought as required under Sections 208 and 611 (item 7) of the Corporations Act and ASX Listing Rule 10.11. The Company has requested an Independent Expert's Report to inform shareholders of ISA whether, in the Expert's opinion, the Proposed Transaction is fair and reasonable for Non-associated Shareholders in accordance with Regulatory Guide 74 ("RG 74") and Regulatory Guide 111 ("RG 111"), and also to assess the value of the Proposed Transaction in accordance with

Regulatory Guide 76 ("RG 76").

Terms used in this Report that are not defined in this Report have the same meaning as corresponding terms in the Notice of Meeting.

2. SUMMARY AND OPINION

2.1 Opinion

Based on our analysis, as outlined further in this Report, we have concluded that the Proposed Transaction is **not fair but is reasonable** to Non-associated Shareholders of ISA.

This section is a summary of our opinion and does not substitute for a complete reading of this Report.

We recommend that Shareholders carefully read all relevant documentation including any explanatory notes, contact their own professional advisors and consider their own specific circumstances before voting for or against the Proposed Transaction.

There are benefits and risks associated with implementing or not implementing the Proposed Transaction, the outcomes of which may not suit all Shareholders.

2.2 Fairness

In section 9 of this Report, we determined the value of an ISA Share prior to the Proposed Transaction on a control basis compared to the value of consideration per share for the Proposed Transaction, as detailed below:

	Low Value \$	Preferred Value \$	High Value \$
Value per Share prior to the Proposed Transaction (control basis)	0.0279	0.0302	0.0326
Value per Share following the Proposed Transaction (minority basis)	0.0191	0.0221	0.0255

In the absence of any other relevant information, we have assessed the terms of the Proposed Transaction in accordance with RG 111 and have determined that it is **not fair** to the Non-associated Shareholders.

2.3 Reasonableness

A transaction that is not considered fair may still be considered reasonable if there are sufficient reasons for security holders to approve the Proposed Transaction.

In our analysis outlined in section 10 of this Report, we detail the advantages and disadvantages of the Proposed Transaction and other considerations relevant to the Proposed Transaction.

In our opinion, the position of Shareholders if the Proposed Transaction is approved is more advantageous than the position if the Proposed Transaction is not approved. Accordingly, we believe that the Proposed Transaction is **reasonable** to the Non-associated Shareholders.

A summary of our advantages and disadvantages considered are as follows:

Advantages	Disadvantages
<ul style="list-style-type: none"> • Birkdale has agreed to: <ul style="list-style-type: none"> ○ waive cash payments at the end of each interest payment date for accrued interest; ○ capitalise interest on the outstanding amount of the loan at 7.5% p.a from 15 March 2021, being the effective date of the Causeway facility; ○ accrued interest due on the Birkdale Loan at the date of the Proposed Transaction is to be capitalised and added to the \$3,000,000 principal; ○ extend the repayment date of the Birkdale loan to 1 September 2024;and ○ waive any event of default which has or may have occurred under the original Birkdale Loan; which will assist the Company's continuation as a going concern • No dilution of existing Shareholders interests unless the Consideration Options are exercised; • The Proposed Transaction does not result in a change of control; and • If exercised, the Consideration Options will provide additional funds to be used directly on activities of ISA. 	<ul style="list-style-type: none"> • Dilution of existing Shareholders interests on a fully diluted basis. • Interest shall continue to accrue on the outstanding amount of the loan at 7.5% pa.

3. SCOPE OF THE REPORT

3.1 Scope

An independent expert must, in certain circumstances, be appointed to meet the requirements of the Corporations Act 2001 ("the Act"), the ASX Listing Rules and the regulatory guides published by the Australian Securities and Investments Commission ("ASIC").

The matters to be considered at the annual general meeting and additional information regarding those matters are set out in details in the Notice of Meeting. These documents are important and should be read in conjunction with this Report and any other information provided to the Shareholders by ISA regarding the Proposed Transaction.

This Report is general financial product advice only and has been prepared without taking into account the objectives, risk profile, financial situation or needs of each individual Shareholder. Before acting in relation to their investment, Shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs.

Approval or rejection of the Proposed Transaction is a matter for individual Shareholders. Shareholders who are in doubt as to the action they should take in relation to the Proposed Transaction should consult their own professional advisor.

3.2 Purpose of the Report

The sole purpose of this Report is to express Pendragon's opinion as to whether, for the purpose of Section 208 of the Corporations Act and Section 611 (item 7) of the Corporations Act, the Proposed Transaction, where Birkdale is a related party of ISA, is fair and reasonable to the Non-associated Shareholders and to assess the value of the financial benefit to be given to Birkdale under the Proposed Transaction for the purpose of Section 208 of the Corporations Act. This Report cannot be used by any other person for any other reason or for any other purpose. A copy of this Report will accompany the Notice of Meeting to be sent to Shareholders.

The Directors of the Company have engaged Pendragon to prepare an Independent Expert's Report to assess whether the Proposed Transaction is fair and reasonable to Non-associated Shareholders of the Company.

3.2.1 Financial benefit to related party

Under Section 208 of the Corporations Act, the Company must obtain shareholder approval for a financial benefit provided to a related party of the Company unless an exemption applies. A related party of an entity includes, amongst other persons, a director of that entity, their spouse, and entities controlled by them.

Stephen Baxter is currently a director of ISA. Birkdale currently holds 54,638,163 shares in ISA being 16.23%. Stephen Baxter and his spouse hold 100% of the shares in Birkdale and Birkdale is therefore a related party of the Company.

3.2.2 Increase in ownership interest

Under section 606(1) of the Act, a person must not acquire a relevant interest in issued voting shares in a listed company if as a result of the transaction, that person's or someone else's voting power in the company increases:

- i. from below 20% to more than 20%
- ii. from a starting point that is above 20% and below 90%

However, the relevant interest can be acquired under the exceptions set out in Section 611 of the Act.

An exception set out in Section 611 (Item 7) of the Act permits an allotment or purchase of shares approved by a resolution of shareholders. It recognises that the shareholders of a company may choose to give up one of their basic rights, namely an equal opportunity to participate in any benefits accruing to other shareholders, where the acquisition or allotment may change the control of the company.

Under ASIC RG 74 and RG 76, a company is required to commission an expert report (or a directors' report to the same standard) to discharge the requirement to disclose all material information on how to vote on the resolution.

Accordingly, the Directors of ISA believe that it is appropriate to provide an independent expert's report to Shareholders and to seek Shareholder approval for the Proposed Transaction.

3.3 Regulatory guidance

In determining whether the transaction is “fair and reasonable”, we have considered ASIC RG 111 – Content of Expert Reports, which sets out how experts should analyse a proposed transaction, the different valuation methodologies used by experts and the treatment of assumptions.

3.4 Fair and Reasonable

The term fair and reasonable does not have a legal definition. However, ASIC RG 111 establishes certain guidelines in respect of the preparation of experts’ reports.

What is fair and reasonable for Non-associated Shareholders should be judged in all circumstances of the proposal. The report must compare the likely advantages and disadvantages for Non-associated Shareholders if the Proposed Transaction is agreed to and if it is not.

An offer is fair if the post-transaction value of a share on a minority basis is equal to or greater than the value of a share prior to the transaction on a control basis.

By definition, an offer is reasonable if it is fair. However, where an offer is not fair, it can be reasonable if, after considering other significant factors, the interests of the Shareholders are reasonably balanced.

4. PROPOSED TRANSACTION

4.1 Loan agreement

On 19 June 2018, a secured loan agreement was executed between the Company and Birkdale to provide up to \$3 million to meet the Company’s working capital requirements and finance costs payable under the agreement (“Birkdale Loan”).

4.2 Loan Agreement Amendment Deed

On 2 July 2019, a Loan Agreement Amendment Deed (“Deed”) containing the following provisions was executed:

- a. the conversion of \$1.2 million of the Birkdale Loan to Shares;
- b. the number of Shares to be issued by the Company to Birkdale on conversion is 120,000,000 shares at a conversion price of \$0.01 per Share (“Conversion Shares”);
- c. all accrued interest in relation to the Birkdale Loan up to the date of conversion (“Conversion Date”) will be paid in cash by the Company within 6 months of the Conversion Date;
- d. an extension of the repayment date for the balance of the Birkdale Loan (\$1.8 million) to 26 June 2021;
- e. capitalisation of interest on the balance of the Birkdale Loan (\$1.8 million) from the Conversion Date to 30 June 2020;
- f. the issue of the Conversion Shares to Birkdale to occur within 5 business days after the Company has obtained all necessary Shareholder approvals;
- g. the conversion is conditional on the following:
 - i. minimum subscription of \$2m being raised under the Prospectus (which has been met); and
 - ii. the Company obtaining Shareholder approval; and
- h. if the conversion does not occur, Birkdale and ISA agree to extend the repayment date of the Birkdale Loan to 26 June 2021.

4.3 Loan Variation – Extension

On 29 September 2020, a further loan extension in relation to the Deed was executed and the following terms were agreed:

- a. extending the Extended Repayment under the Deed to the 26 July 2021 for the remaining \$1.8 million if conversion occurs prior to the Sunset Date;
- b. extending the Repayment Date of the Loan if Conversion does not occur to 26 July 2021;
- c. varying the Sunset Date under the Deed to 31 December 2020.

4.4 Further extension

As outlined earlier in the Report, on 17 March 2021 the Company executed the ARA with Birkdale to give effect to the following terms in relation to the partial conversion of the Birkdale Loan:

- at the date of the conversion, the accrued interest due on the Birkdale loan to date would be capitalised and added to the remaining \$1.8 million principal;
- for the period of 24 months from the date of the conversion, interest would continue to accrue and capitalise on the outstanding loan at the rate of 7.5% pa; and
- at the expiry of the 24 month period, all principal and interest would be repaid by regular monthly payments over a 42 month period. Over this 42 month repayment period, interest would continue to accrue on the outstanding amount of the loan at 7.5% pa.

4.5 Amendment Side Letter

On 6 August 2021, the Company executed an Amendment Side Letter with Birkdale to give effect to the following terms in relation to the Birkdale Loan:

- remove the conversion of \$1.2m of the Birkdale Loan to 120,000,000 Ordinary Shares;
- interest to accrue on the Birkdale Loan and be capitalised each calendar month from the effective date of the executed Amendment Side Letter;
- remove interest repayment dates on all accrued interest;
- remove any reference to conversion of the Birkdale Loan; and
- amend repayment date of the Birkdale Loan to 1 September 2024.

As consideration for entering into the Amendment Side Letter, the Company will issue 45,000,000 Options to Birkdale at an exercise price of \$0.02 per option, exercisable on or before 1 July 2024.

4.6 Issue of Options

Subject to the Company obtaining Shareholder approval, the number of Options to be issued to Birkdale is 45,000,000.

4.7 Capital Structure

Following the Proposed Transaction, the potential changes in shareholding are summarised in the table below.

Shares on issue following the Proposed Transaction	Existing Shareholders (excluding Birkdale)	Birkdale	Total
Shares on issue as at date of this Report	282,061,936	54,638,163	336,700,099
% shareholding held	83.77%	16.23%	100.00%
Shares on issue following the Proposed Transaction (undiluted)	282,061,936	54,638,163	336,700,099
% shareholding after Proposed Transaction (undiluted)	83.77%	16.23%	100.00%
Options on issue as at the date of this report	19,035,005 ¹	-	19,035,005
Consideration Options	-	45,000,000 ²	45,000,000
Shares on issue following the Proposed Transaction (fully diluted)	301,096,941	99,638,163	400,735,104
% shareholding after Proposed Transaction (fully diluted)	75.14%	24.86%	100.00%

¹ 2,200,000 Options - 50% held by Wayne Jones and 50% held Daniel Hogan with an exercise price of \$0.35 each, subject to vesting conditions being met, and an expiry date of 23 August 2021. The exercise price per option was adjusted to \$0.347 following the completion of the Entitlement Offer per the Prospectus.

16,835,005 employee incentive Options – 8,400,000 issued to employees and 8,435,005 issued to executive directors with an exercise price of \$0.021, subject to vesting conditions being met, and an expiry date of 31 January 2024.

²45,000,000 Consideration Options to Birkdale with an exercise price of \$0.02 each with an expiry date of 1 July 2024 consideration for executing the Amendment Side Letter.

Following the issue of Shares to Birkdale if Birkdale exercises the Consideration Options, existing Non-associated Shareholders will be diluted from 83.77% to 75.14% on a fully diluted basis.

Birkdale will increase from 16.23% to 24.86% of the Company's issued capital on a fully diluted basis.

5. PROFILE OF ISA

5.1 Background

ISA was incorporated on 4 November 2011 and listed on the ASX on 18 January 2013.

The Company is a company that specialises in the experiential leisure industry. Providing experiences through indoor entertainment and realistic simulation, targeting a wide market that includes families, tourists, thrill seekers and military. In FY2019 Company owned three indoor skydiving operations in Australia located in, Sydney, Gold Coast and Perth. Subsequent to 30 June 2019, the Company signed an Asset Sale Agreement for the sale of the assets of iFLY Perth to a subsidiary of SkyVenture International Limited.

5.2 Board of Directors

5.2.1 Wayne Jones – Director & Chief Executive Officer

Wayne served for 21 years in the Australian Defence Force and was part of the highly acclaimed Special Air Service Regiment for the last 14 years of his career. Wayne holds various senior instructor qualifications and has been at the forefront of Australian Military Freefall development and training over the past 10 years. He is still involved in the training of special forces troops and continues to participate in the sport of skydiving at the highest levels. Wayne is a member of the Australian Institute of Company Directors.

Wayne served as Interim Chairman between 6 August 2018 and 24 September 2018 while the process of selecting a Chairman and appointing additional non-executive directors was conducted.

5.2.2 Daniel Hogan – Director & Chief Operations Officer

Daniel enlisted in the Australian Regular Army in 1991, and in 1997 was selected for further service within the Special Air Service Regiment. He has been recognised and awarded for his actions and leadership during his 21 year military career including receiving the Medal for Gallantry. He was selected and completed a two year military exchange in the USA with two of the USA's elite Special Forces Commands. While in the USA he gained his freefall parachuting qualifications and developed a very strong background in the use of vertical wind tunnel simulation training. Daniel was a highly qualified senior dive instructor within the Special Air Service Regiment. Daniel is a member of the Australian Institute of Company Directors.

5.2.3 Stephen Baxter – Non-Executive Director and Chairman

Former Australian Regular Army electronics technician turned successful entrepreneur, Stephen is the founder of early internet provider SE Net and co-founder of telecommunications infrastructure company, Pipe Networks Ltd. In 2008 he moved to the USA and joined Google Inc deploying high speed telecommunication infrastructure, before returning to Australia.

Stephen is known for his entrepreneurial skills and appears on the popular TV show "Shark Tank". He is the founder of Brisbane based not-for-profit River City Labs - an early stage and start-up co- working space for tech and creative companies. Stephen is a former director of Other Levels Limited and Vocus Communications Limited.

5.2.4 Kim Hopwood – Non-executive Director (appointed 26 May 2021)

Kim has an extensive background of digital marketing, proven business acumen and a digital/IT skillset and has over 20 years of experience across technology, media, management and operations.

Kim was the co-founder and CEO of digital agency Pusher from 2004, which sold to global communications group Publicis in 2014. Kim remained as Managing Director of Digital until late 2017.

5.3 Major corporate events

In September 2017, the Company announced that it was involved in a legal dispute with SkyVenture International Limited ("SkyVenture") for an alleged breach of provisions of the Purchase and License Agreements between SkyVenture and ISA Group subsidiaries ("PLAs").

On 19 June 2018, the Company executed the Birkdale Loan. As part of the loan agreement, ISA issued to Birkdale 6 million Options to acquire a Share, each with an exercise price of \$0.25 and an expiry date of 26 June 2020.

On 23 July 2018, ISA was suspended from quotation under Listing Rule 17.2, pending the release of an announcement regarding a dispute with SkyVenture.

On 25 September 2018, the Company announced a resolution of the dispute with SkyVenture, where settlement included agreement by ISA to pay SkyVenture US\$3,789,933 and to confirm that all intellectual property and know-how it possessed regarding the installation, set-up, use, operation, and commercialisation of vertical wind tunnels remained the exclusive property of SkyVenture. ISA further confirmed its commitment to SkyVenture as its worldwide exclusive supplier of wind tunnelled equipment on a continuing basis.

On 25 September 2018, ISA entered into agreements for a US\$3,789,933 loan facility from SkyVenture to fund the full settlement of the dispute. It comprised of promissory notes for US\$3,789,933 supported by second ranking general security agreement, approved by ISA's existing financiers. The loan had a 2 year term with the first year comprising interest payments only. The loan provided for the conversion of up to US\$1,619,219.99 into a maximum of 20,496,455 Shares at a conversion price of US\$0.079 per Share.

ISA was reinstated to Official Quotation on 26 September 2018.

On 28 June 2019, ISA entered into a preliminary agreement with SkyVenture for the sale of the assets of its Perth skydiving facility ("iFLY Perth") to meet full satisfaction of amounts payable to SkyVenture per the settlement of the legal dispute, including repayment of the promissory notes of US\$3,789,933. According to the announcement dated 28 June 2019, the unaudited valuation of the transaction is approximately \$9.3 million.

On 15 July 2019, ISA announced a capital raising to raise a minimum of \$2 million and maximum of \$3.4 million by way of 2.5 for 1 renounceable entitlement offer of new fully paid ordinary Shares at a price of \$0.01 per New Share.

On 21 August 2019, the Company announced it had completed the Entitlement Offer and issued 200,003,585 Shares to raise gross proceeds of \$2,000,036. ISA also announced that it had signed an Asset Sale Agreement for the sale of the iFLY Perth to a subsidiary of SkyVenture.

On 29 November 2019, approval to issue an additional 10% of the issued capital of the Company was passed during the Annual General Meeting, pursuant to Listing Rule 7.1A.

On 21 February 2020, ISA Group announced the completion of the sale of its Perth Indoor Skydiving facility to iFly Australia Pty Ltd (a subsidiary of SkyVenture International Limited). The valuation of the transaction is approximately \$9.2 million which will significantly reduce the Company's liabilities and increase cashflows through the royalty free period over the following 4 years.

On 23 March 2020, ISA Group released a COVID-19 Update announcing the temporary closure of its Indoor Skydiving and Virtual Reality Business, in accordance with Stage 1 restrictions of social gatherings. ISA Group implemented contingency plans including a temporary standing down of the majority of staff.

On 30 April 2020, ISA Group released a preliminary COVID-19 Response as a part of the Quarterly Activities Report, which included qualifying for and pursuing multiple government relief measures. The JobKeeper relief program has enabled the Company to maintain all staff at reduced hours, allowing for maintenance, training and planning for the post COVID financial period.

On 9 June 2020, ISA Group released a COVID-19 Update, announcing the recommencement of its Australian operations in accordance with government regulations.

On 27 November 2020, approval to issue an additional 10% of the issued capital of the Company was passed during the Annual General Meeting, pursuant to Listing Rule 7.1A.

On 1 February 2021, ISA Group announced it has issued 16,835,000 employee incentive Options to eligible employees, including the executive director.

On 18 March 2021, ISA Group announced it has entered into agreements with Westpac Banking Corporation, Birkdale and incoming lender Causeway Financial to facilitate a debt restructure.

On 26 May 2021, ISA Group announced it had appointed Kim Hopwood as a director of the Company.

5.4 Statement of Financial Position and Unaudited Pro-Forma prior to and following the Proposed Transaction

Statement of Financial Position	Reviewed 31/12/2020 Interim Financial Report \$	Pro-Forma prior to Proposed Transaction ¹ \$	Pro-Forma following the Proposed Transaction \$
Current Assets			
Cash and cash equivalents	820,246	2,217,246	3,117,246
Trade and other receivables	619,535	619,535	619,535
Inventories	16,469	16,469	16,469
Other financial assets	581,984	581,984	581,984
Total Current Assets	2,038,234	3,435,234	4,335,234
Non-Current Assets			
Property, plant and equipment	24,329,247	24,329,247	24,329,247
Right-of-use assets	9,835,540	9,835,540	9,835,540
Other financial assets	1,023,250	1,023,250	1,023,250
Total Non-Current Assets	35,188,037	35,188,037	35,188,037
Total Assets	37,226,271	38,623,271	39,523,271
Current Liabilities			
Trade and other payables	4,629,291	3,687,291	3,687,291
Lease liability	250,093	250,093	250,093
Deferred revenue	992,140	992,140	992,140
Borrowings	1,433,656	-	-
Provisions	177,783	177,783	177,7783
Total Current Liabilities	7,482,963	5,107,307	5,107,307
Non-Current Liabilities			
Lease liability	9,992,473	9,992,473	9,992,473
Borrowings	9,069,457	7,000,000	7,000,000
Provisions	113,410	113,410	113,410

Statement of Financial Position	Reviewed 31/12/2020 Interim Financial Report \$	Pro-Forma prior to Proposed Transaction ¹ \$	Pro-Forma following the Proposed Transaction \$
Total Non-Current Liabilities	19,175,340	17,105,883	17,105,883
Total Liabilities	26,658,303	22,213,190	22,213,190
Net Assets/(Liabilities)	10,567,968	16,410,081	17,310,081
Equity			
Share capital	42,513,283	42,513,283	44,061,283
Reserves	9,467	175,271	175,271
Accumulated losses	(31,954,782)	(26,278,473)	(26,926,473)
Total Equity	10,567,968	16,410,081	17,310,081

Source: ISA reviewed interim financial report for the period ended 31 December 2020

Note 1

There have been material transactions that have occurred since the reviewed interim financial report for the period ended 31 December 2020. We have therefore prepared a pro-forma to restate the balance sheet immediately prior to the Proposed Transaction that takes into account the following:

- Agreed full and final settlement of the Westpac bank loan liability for \$2,603,000 (30 June 2020 liability \$7,449,957)
- Agreed creditor write downs of \$942,000
- Issue of 16,835,005 employee incentive Options
- \$4m secured financing facility with Causeway Financial and repayment of Westpac bank loan liability for \$2,603,000
- 45,000,000 Consideration Options issued to Birkdale exercisable at \$0.02 each with an expiry date of 1 July 2024 and expensed as a Share Based Payment valued at \$648,000 (refer to section 11 for details of calculation)

5.5 Historical Statement of Comprehensive Income

Statement of Comprehensive Income	Reviewed 31/12/2020 Interim Financial Report \$	Reviewed 31/12/2019 Interim Financial Report \$
Revenue	3,500,137	3,397,569
Cost of goods sold	(830,306)	(889,155)
Gross profit	2,669,831	2,508,414
Other income	465,500	8,915
Selling and marketing expenses	(1,525,021)	(1,416,379)
Administration expenses	(3,089,346)	(2,056,789)
Other expenses	(523,562)	(364,513)
Loss before interest and tax	(2,112,778)	(1,320,352)
Finance expense	(605,054)	(513,646)
Net finance costs	(605,054)	(513,646)
Share of loss of a joint venture entity	-	(152,628)
Loss before tax from continuing operations	(625,576)	(1,986,626)
Loss before tax from discontinuing operations	-	(920,819)
Total loss from operations	(625,576)	(2,907,445)
Income tax benefit	-	(468,498)

Statement of Comprehensive Income	Reviewed 31/12/2020 Interim Financial Report \$	Reviewed 31/12/2019 Interim Financial Report \$
Loss after tax	(625,576)	(2,907,445)
Other comprehensive income		
Exchange differences on translation of foreign operations	-	-
Other comprehensive income for the period	-	-
Total comprehensive income for the period	(625,576)	(2,907,445)
Earnings per share		
From continuing operations		
- Basic earnings per share (cents)	(0.18)	(1.76)
- Diluted earnings per share (cents)	(0.19)	(1.75)

Source: ISA reviewed interim financial report for the period ended 31 December 2020

5.5.1 Commentary on Interim Financial Report and Pro-Forma balance sheet

5.5.1.1 Going Concern

Note 1 of the 31 December 2020 Interim Financial Report and the Auditor's review, advise that material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern.

5.5.1.2 Financial Covenants

At 31 December 2020, ISA had current borrowings of \$1,433,656 and non-current borrowings of \$9,069,457. Included in these borrowings is the Birkdale Loan and the debt facility with Westpac. In accordance with the business finance agreements, ISA was required to meet two financial covenants on a quarterly basis being interest cover and equity ratio. As at 31 December 2020, both the interest cover and equity ratio financial covenants were not met by the Company.

The Company has entered into a Deed of Settlement with Westpac in respect of its outstanding loans \$7,449,957 which will be settled in full by the payment of \$2,603,000. The Birkdale Deed contains a provision that the Company will not be in breach of any Birkdale Loan covenant caused by breaches of the Westpac covenants.

5.6 Capital Structure

The ordinary Shares held by the top 20 shareholders as at 8 August 2021 are detailed below:

Rank	Name	Ordinary Shares	Percentage of shares held (%)
1	BIRKDALE HOLDINGS (QLD) PTY LTD	54,638,163	16.228
2	MR KIM HOPWOOD	28,956,983	8.600
3	EXCALIB-AIR PTY LTD	16,060,000	4.770
4	MR ALEXANDER DAMIEN BEARD & MRS PASCALE MARIE BEARD <AD & MP BEARD SUPERFUND A/C>	15,228,274	4.523
5	BNP PARIBAS NOMS (NZ) LTD <DRP>	13,787,704	4.095
6	QUAD INVESTMENTS PTY LTD	11,916,667	3.539
7	PROJECT GRAVITY PTY LTD <THE JONES FAMILY A/C>	11,044,258	3.280
8	HOWARD-WILLIS LIMITED	7,593,759	2.226
9	PROJECT FLIGHT PTY LTD <WAYNE JONES SUPER FUND A/C>	5,825,000	1.730
10	DRILL INVESTMENTS PTY LTD	5,000,000	1.485

Rank	Name	Ordinary Shares	Percentage of shares held (%)
11	818 CORPORATE PTY LTD <818 A/C>	4,750,000	1.411
12	WYNDLEY PTY LTD <WYNDLEY SMSF A/C>	4,714,800	1.400
13	RICKTARR PTY LTD <SG & F SUPER FUND A/C>	4,000,000	1.188
14	MR MARK JASON BAINTON	3,743,000	1.112
15	MR ALEXANDER DAMIEN BEARD & MRS PASCALE MARIE BEARD <AD & MP BEARD SUPER FUND A/C>	3,435,000	1.020
16	MR BOBBY VINCENT LI	2,978,975	0.885
17	MR DAVID LEYLAND	2,800,000	0.831
18	MR MAHDI SHAHMORADI	2,796,600	0.831
19	SUPERHERO NOMINEES PTY LTD	2,702,094	0.803
20	GALDARN PTY LTD	2,570,000	0.763
Total ordinary shares held by significant shareholders		204,541,277	59.972

Source: Share registry information

5.7 Share Market Performance of ISA

ISA Shares are listed on the ASX. The charts below show share price movements and share trading volumes for ISA for the past 12 months.



Table 5.7.1 ISA Share Price Movement

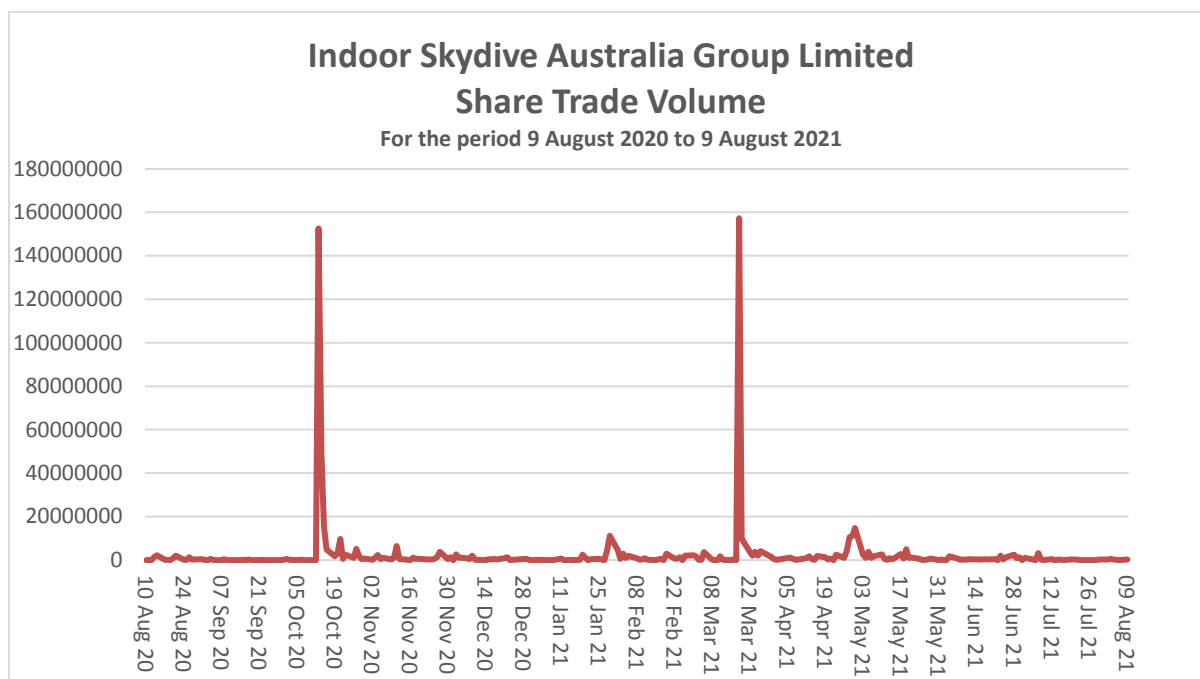


Table 5.7.2 ISA Trade Volume

6. VALUATION METHODOLOGY

To estimate the fair market value of ISA before the Proposed Transaction we have considered common market practice and the valuation methodologies recommended in Regulatory Guide 111. There is a number of methods that can be used to value an entity including those described below.

6.1 Discounted Cash Flow Method

This method values an entity by discounting the future net cash flows to their present day value using an appropriate discount rate. The discount rate is representative of the opportunity cost of capital being the expected rate of return that could be obtained by investing in equivalent risk investments. This method is generally appropriate where future cash flows can be projected with a reasonable degree of confidence.

6.2 Market Based Methods

6.2.1 Capitalisation of Maintainable Earnings

This method places a value on the entity by estimating the likely future maintainable earnings capitalised at a rate which reflects business outlook, business risk, investor expectations, future growth prospects and other factors specific to the entity. Use of this method relies on the availability and analysis of comparable market data and the ability to reasonably estimate future earnings and expenses.

6.2.2 Industry Specific Methods

Use industry specific assumptions and comparisons to form a valuation.

6.2.3 Availability of Alternative Offers

Where there are other similar offers, a comparison between offers can be used to determine the market value of the entity.

6.2.4 Quoted Market Price Basis (Market Value)

Where there is a ready market for securities such as the ASX through which shares are traded, recent prices at which shares are bought and sold may be taken as the market value of a security. Such market value includes all factors and influences that impact upon the ASX. The use of ASX pricing is more relevant where a share displays regular trading in a liquid market.

This method relies on the efficient market hypothesis which states in general terms that the market price at any point in time should fully reflect available information given willing buyers and willing sellers.

6.3 Asset Based Methods

6.3.1 Liquidation of Assets Method

This method values a company based on the net value of its assets should they be sold in a distressed scenario.

6.3.2 Orderly Realisation of Assets Method

This method values an entity based on the net value of its assets should the assets be put to market and held out for a fair value sale price given the market and condition of the assets.

6.3.3 Net Tangible Asset Value on a Going Concern Basis ("NTA")

NTA is appropriate where the majority of assets consist of cash or passive investments. The combined market value of the entity's assets and liabilities is used to value the entity.

Each of these methods is appropriate in certain circumstances and often more than one approach is applied. Per RG 111, an expert should, when possible, use more than one valuation methodology.

The choice of methods depends on factors such as the nature of the business being valued, the return on the assets employed in the business, the valuation methodologies usually applied to value such businesses and the availability of the required information.

6.4 Selection of Valuation Methodologies

In accordance with RG 111, use of the DCF methodology involves the use of forward looking information for a period greater than two years with full disclosure of information to assess the reasonableness.

Due to COVID-19, we believe that any future forecasts may not be reliable and consider that the DCF valuation is not an appropriate method.

In assessing the value of an ISA Share prior to the Proposed Transaction, we have selected the Quoted Market Price Basis as the primary method of valuation as there is a deep and liquid market and hence, in our opinion, is a better reflection of the fair market value of ISA.

We have also utilised the net asset valuation methodology as the secondary method of valuation. All assets and liabilities of the entity are valued at market value under this methodology and the resulting combined net market value forms the basis for the entity's valuation.

7. VALUATION OF AN ISA SHARE PRIOR TO THE PROPOSED TRANSACTION

7.1 Quoted Market Basis

The most recent share trading history can normally provide evidence of the fair market value of the shares in a company where it is publicly listed. As ISA is listed on the ASX, a possible method for valuation of ISA is the quoted market price basis of valuation.

Market value is influenced by the market's perception of many factors including the value of assets, profitability, the industry within which a company operates, managerial skills within a company and future expectations for a company. These market perceptions can change significantly over a short period of time. Share price is also influenced by the supply and demand for the shares.

To provide further analysis of the market prices for ISA Shares, we have considered the volume weighted average market price ("VWAP") for a 14, 30, 60, 90, 180 and 365 day period to 9 August 2021.

Days*	Low \$	High \$	Cumulative Volume Traded	As a % of Issued Shares	VWAP \$
14	0.017	0.020	2,187,553	0.65%	0.0181
30	0.017	0.021	3,787,170	1.12%	0.0186
60	0.017	0.021	19,074,187	5.67%	0.0194
90	0.017	0.023	41,208,469	12.24%	0.0201
180	0.013	0.033	308,724,186	91.69%	0.0233
365	0.005	0.033	638,331,878	189.58%	0.0195

**Days are based on calendar days per year not trading days*

7.1.1 ISA Share Price

Between the periods 9 August 2020 and 9 August 2021, ISA Shares traded at a high of \$0.033 and a low of \$0.005 with a VWAP of \$0.0195.

Over the last 12 months, 3.65% of the current issued Shares have been traded on average per week with 189.58% of the total Shares on issue being traded.

Furthermore, since the Company announced the launch of the Westfield Bondi Junction FREAK Entertainment on 13 October 2020, ISA has seen a significant increase in cumulative volume traded with 4.57% of the current issued Shares being traded on average per week over the last 10 months.

7.1.2 Control Premium

The quoted market value of a company's shares is reflective of a minority interest. A minority interest is an interest in a company that is not significant enough for the holder to have an individual influence in the operations and value of that company.

Per RG 111.25, when considering the value of a company's shares the expert should consider a premium for control. An acquirer could be expected to pay a premium for control due the advantages they will receive should they obtain 100% control of another company.

A control premium is an amount that a buyer is usually willing to pay over the current market price of a publicly traded company in order to acquire a controlling share in that company.

Control premium is industry specific and amounts between 10-50% may be applied. It is appropriate to consider all factors when deciding on a control premium that is to be applied.

Under the Corporations Act, control may be deemed to occur when a shareholder or group of associated shareholders control more than 20% of the issued capital of a company.

In accordance with RG 111, when assessing fairness, the expert should calculate the value of a company's shares as if 100% control were being obtained. The expert can then consider an allottee's practical level of control when considering reasonableness.

7.1.3 Liquidity of Shares

Using the information in Table 7.1 above, the trading history of ISA Shares displays characteristics of a deep and liquid market, with 5.67% of the Company's current issued capital being traded over a 60 day period between 9 July 2021 and 9 August 2021.

Per Regulatory Guide 111.69, an expert is to consider the quoted market price for listed securities, when there is a deep and liquid market.

We consider the characteristics of a deep and liquid market to be:

- an active market which always has willing buyers when sellers choose to sell;
- securities can be sold without materially affecting the market price;
- there is regular trading in a company's securities;
- a minimum of approximately 1% of the company's securities are traded on a weekly basis; and
- there are no significant but unexplained movements in the security's price.

Based on the recent trading history of ISA, we consider there to be sufficient attributes in the trading history of ISA to perform a Quoted Market Price valuation at the date of this Report.

7.1.4 Valuation of ISA Share on a non-control minority basis

As outlined in the table in 7.1, the 180 day period indicates a Quoted Market Price VWAP of an ISA Share of \$0.0233. In our opinion, this historical trading history over 180 days is reflective of the underlying pre Proposed Transaction value of an ISA share.

As the listed securities price already takes into consideration a non-controlling interest, we consider the valuation of an ISA Share on a non-control minority basis to be \$0.0233.

7.1.5 Valuation of ISA Share on a control basis

Further to 7.1.2, we have reviewed the control premiums paid by acquirers of companies listed on the ASX in 2019. In our review, the control premiums ranged from 20% to 40% (noting that in each transaction the control premium can vary due to the relevant circumstances of the transaction and company).

In determining the control premium most appropriate for ISA, there are no similar listed companies able to be compared to in our analysis. We have therefore reviewed a range of other control premiums paid by acquirers and taken a midpoint of 30% with a low point of 20% and a high point of 40%.

Our assessed value of an ISA share on a control basis is outlined in the table below:

Valuation prior to the Proposed Transaction	Low Value \$	Preferred Value \$	High Value \$
Quoted market price per Share (Minority basis)	0.0233	0.0233	0.0233
Control premium	20%	30%	40%
Assessed value per Share (Control basis)	0.0279	0.0302	0.0326

Our primary method of valuation of an ISA Share including a premium for control results in a value between \$0.0279 and \$0.0326 with a preferred value of \$0.0302.

7.2 Net assets valuation of ISA (secondary method)

The net asset value ("NAV") methodology estimates the market value of an entity's securities based on the realisable value of its identifiable net assets. There are three net asset value methods:

- Liquidation of assets method;
- Orderly realisation of assets method; and
- Net assets on a going concern method.

The asset based method that we believe is appropriate to value the net assets of ISA is the net asset on a going concern method. The assets and liabilities are valued at market value and the resulting value of the net assets forms the basis for the entity's valuation.

The asset based methods ignore the possibility that the entity's value could exceed the realisable value of its assets as they do not recognise any value of intangible assets. Whilst the business is currently operating at a loss, the ability to sell iFLY Perth on a going concern basis is an indication of the Company's ability to dispose of its assets on a going concern basis.

The estimated net value of ISA assets on a going concern basis prior to the Proposed Transaction is reflected below:

	Pro-Forma Prior to Proposed Transaction \$
Current assets	
Cash and cash equivalents	2,217,246
Trade and other receivables	619,535
Inventories	16,469
Other financial assets	581,984
Total current assets	3,435,234
Non-current assets	
Property, plant and equipment	24,329,247
Right-of-use assets	9,835,540
Other financial assets	1,023,250
Total non-current assets	35,188,037
Total Assets	38,623,271
Current liabilities	
Trade and other payables	3,687,291
Lease liability	250,093
Deferred revenue	992,140

	Pro-Forma Prior to Proposed Transaction \$
Provisions	177,783
Total current liabilities	5,107,307
Non-current liabilities	
Lease liability	9,992,473
Borrowings	7,000,000
Provisions	113,410
Total non-current liabilities	17,105,883
Total Liabilities	2,213,190
Net Asset Value prior to the Proposed Transaction (100% control basis)	16,410,081

Source: Section 5.4

Valuation prior to the Proposed Transaction	Undiluted Basis	Fully Diluted Basis
Net Asset Value (100% Control basis)	16,410,081	16,410,081
Shares on issue	336,700,099	355,735,104
Net Asset Value per Share prior to the Proposed Transaction	\$0.0487	\$0.0461

We have been advised that the fair market value of the assets and liabilities in the pro-forma balance sheet prior to the Proposed Transaction are equal to the current fair market values.

We have not commissioned independent valuations of the property, plant and equipment due to the highly specialised nature of the plant and equipment and associated structures. There are only 5 such venues in Australia. Hence there are no experienced independent valuers in relation to the plant and equipment in Australia. We have discussed the carrying values of the assets as at 31 December 2020 with the Company's auditors who have assessed the fair value of property, plant and equipment using a DCF method and have tested for impairment. We are satisfied that all assets and liabilities have been stated at fair value on a going concern basis.

In accordance with RG 111.31, the table above indicates that the value obtained under the net asset methodology on a control basis (*refer to 7.1.2 - control premium*) is \$0.0487 per Share on an undiluted basis and \$0.0423 on a fully diluted basis.

7.3 Conclusion as to the value of ISA Shares – prior to the Proposed Transaction

In assessing the value of an ISA Share, we have considered both the Quoted Market Price and NAV valuations. A summary of our primary and secondary methods of valuation are outlined in the tables below:

Valuation prior to the Proposed Transaction using the Primary Method	Low Value \$	Preferred Value \$	High Value \$
Quoted Market Price per Share(Minority basis)	0.0233	0.0233	0.0233
Control premium	20%	30%	40%
Assessed value per Share (Control basis)	0.0279	0.0302	0.0326

Valuation prior to the Proposed Transaction using the Secondary Method	Undiluted Basis	Fully Diluted Basis
Net Asset Value (100% Control basis)	16,410,081	16,410,081
Shares on issue	336,700,099	355,735,104
Net Asset Value per Share prior to the Proposed Transaction	\$0.0487	\$0.0461

Based on our primary method of valuation and consideration of valuation methodologies, we have determined the fair value of an ISA Share on a control basis to be between \$0.0279 and \$0.0326 with a preferred value of \$0.302.

8. VALUATION OF COMPANY SHARE AFTER THE PROPOSED TRANSACTION

The value of a Company Share following the Proposed Transaction, on a minority basis, has been determined as shown in the following table.

8.1 Valuation – Diluted

The table below indicates that the value of a fully diluted Company Share following the Proposed Transaction on a minority basis is between \$0.0191 and \$0.0255, with a preferred value of \$0.0221.

	Note	Low value \$	Preferred value \$	High value \$
Number of Shares on issue before the Proposed Transaction	1	336,700,099	336,700,099	336,700,099
Quoted Market Price (Control basis)	2	0.0279	0.0302	0.0326
Total value on a control basis before the Proposed Transaction		9,398,048	10,181,218	10,964,389
Cash raised from existing Options before the Proposed Transaction	3	-	-	-
Cash raised from existing Employee Options	4	353,535	353,535	353,535
Cash raised from exercise of Consideration Options	5	900,000	900,000	900,000
Total value on a control basis after the Proposed Transaction		10,651,583	11,434,754	12,217,924
Discount for minority interest	6	29%	23%	17%
Total value on a minority basis after the Proposed Transaction		7,608,274	8,795,964	10,181,604
Number of Shares on issue after the Proposed Transaction	7	398,535,104	398,535,104	398,535,104
Value of a Company Share following the Proposed Transaction		\$0.0191	\$0.0221	\$0.0255

¹ This figure is taken from section 4.7.

² This figure is taken from section 7.3.

³ We have not included existing options of 2,000,000 as a dilutionary factor. As the exercise price is \$0.347 with an expiry date of 23 August 2021, there is virtually no commercial prospect of them being exercised.

⁴ Cash raised from the exercise of employee Options on issue prior to the Proposed Transaction

	Number of Options	Exercise Price	Amount raised
Employee Options	16,835,005	\$0.021	\$353,535
Total cash raised from the exercise of options at the date of the Proposed Transaction			\$353,535

⁵ Cash raised from the exercise of Consideration Options issued as part of the Proposed Transaction

	Number of Options	Exercise Price	Amount raised
Consideration Options	45,000,000	\$0.02	\$900,000
Total cash raised from the exercise of options at the date of the Proposed Transaction			\$900,000

⁶ The value of a Company Share following the Proposed Transaction derived in note 2 is reflective of a controlling interest. This suggests that the acquirer obtains an interest in the Company that allows them to have individual influence in the operations and value of the Company. However, if the Proposed Transaction is approved, Non-associated Shareholders will hold minority interests in the Company, meaning that their individual holding will not be considered significant enough to have an individual influence in the operations and value of the Company.

Based on this we have adjusted value of a Company Share following the Proposed Transaction to reflect a minority interest holding.

A minority interest is the inverse of a premium for control and is calculated using the formula $1 - (1 / (1 + \text{Control Premium}))$.

We have reviewed the control premiums paid by acquirers of companies listed on the ASX in recent years. A range indicates premiums of between 20% and 40%. As such, we consider an appropriate minority discount to apply in our valuation of Company Share following the Proposed Transaction is in the range of 20% to 40%.

7 The fully diluted number of Shares on issue following the Proposed Transaction is shown below:

Number of Shares on issue following the Proposed Transaction	Number
Number of Shares on issue prior to the Proposed Transaction	336,700,099
Existing Options prior to the Proposed Transaction	-
Existing employee Options prior to the Proposed Transaction	16,835,005
Consideration Options	45,000,000
Number of Shares on issue following the Proposed Transaction	398,535,104

9. ASSESSMENT OF FAIRNESS

9.1 Valuation Price

An offer is fair if the post-transaction value of a share on a minority basis is equal to or greater than the value of a share prior to the transaction on a control basis.

We have determined the value of an ISA Share prior to the Proposed Transaction on a control basis compared to the fair value of consideration per Share after the Proposed Transaction on a minority basis, as detailed below:

Fully Diluted Basis	Ref	Low Value \$	Preferred Value \$	High Value \$
Value per Share prior to the Proposed Transaction (control basis)	7.3	0.0279	0.0302	0.0326
Value per Share following the Proposed Transaction (minority basis)	8.1	0.0191	0.0221	0.0255

The above values indicate that, in the absence of any other relevant information, we have assessed the terms of the Proposed Transaction in accordance with RG 111 and have determined that the Proposed Transaction is **not fair to the Non-associated Shareholders of the Company**, as the value of a Company Share on a control basis prior to the Proposed Transaction is greater than the fully diluted value of a Company Share on a minority basis following the Proposed Transaction.

10. ASSESSMENT OF REASONABLENESS

A transaction that is not considered fair may still be considered reasonable if there are sufficient reasons for security holders to approve the Proposed Transaction.

In assessing whether the Proposed Transaction is reasonable, we have considered the following:

10.1 Level of control

Further to 7.1.2 and in accordance with RG111, when considering the value of a company's shares the expert should consider a premium for control. An acquirer could be expected to pay a premium for control due the advantages they will receive should they obtain 100% control of another company.

Prior to the Proposed Transaction, Birkdale holds 16.23% of the Shares in the Company and does not hold a controlling interest. Issuing Options to Birkdale in the Proposed Transaction may increase Birkdale's holding to 24.86% on a fully diluted basis. Birkdale is already the largest shareholder of the Company. It is noted that the top 20 Shareholders other than Birkdale control 43.74% pre the Proposed Transaction and 37.41% post the Proposed Transaction on a fully diluted basis. Hence, while Birkdale is likely to have significant influence, it is not clear that Birkdale could exercise control on its own under normal operating conditions where ISA is meeting its obligations in relation to the Birkdale Loan conditions. It is also unlikely that the issue of Shares will result in any material change to the level of influence Birkdale may currently have.

Birkdales' control of ISA following the Transaction will be significant but not a controlling interest. Therefore, in our opinion, Birkdale should not be expected to pay a premium for control of ISA.

10.2 Other considerations

- the Entitlement Offer to all Shareholders at an issue price of \$0.01 per Share was not fully subscribed;
- Shareholders had the opportunity to subscribe for shortfall Shares;
- The 180 Day VWAP Share price indicates a value of \$0.0233 per Share;
- the Proposed Transaction allows the Company to increase the use of its available cash resources for core business activities rather than servicing debt;
- there will be a cash inflow of \$900,000 to the Company if the Consideration Options are exercised by Birkdale.

The following advantages and disadvantages should also be considered:

10.3 Advantages of approving the Proposed Transaction

We have considered the following advantages when assessing whether the Proposed Transaction is reasonable:

- Birkdale has agreed:
 - to waive cash payments at the end of each interest payment date for accrued interest;
 - interest shall continue to accrue on the outstanding amount of the loan at 7.5% pa from 15 March 2021, being effective date of the Causeway facility and will be capitalised monthly;
 - accrued interest due on the Birkdale Loan at the date of the Proposed Transaction is to be capitalised and added to the \$3,000,000 principal;
 - to extend the repayment date of the Birkdale Loan to 1 September 2024; and

- not to treat the breach of Westpac covenants or any historic event of default as a breach of the Birkdale Loan which will likely assist with the Company's continuation as a going concern;
- Birkdale will not gain effective control of ISA from the Proposed Transaction;
- the Proposed Transaction does not result in a change of control; and
- there is no dilution of existing Shareholders interests unless the Consideration Options are exercised, in which case the Company will receive \$900,000 of funds to be used directly on activities of ISA.

10.4 Disadvantages of approving the Proposed Transaction

If the Proposed Transaction is approved, the potential disadvantages to Shareholders include, in our opinion:

- the issue of Consideration Options under the Proposed Transaction will have a dilutionary effect on existing Shareholders of ISA if the Options are subsequently exercised, reducing Non-associated Shareholder interests in ISA from 83.77% to 75.14% on a fully diluted basis; and
- Interest shall continue to accrue on the outstanding amount of the loan at 7.5% pa.

10.5 Assessment of Reasonableness

After consideration of the advantages and disadvantages of the transaction, it is our opinion that the transaction is **reasonable** to the Non-associated Shareholders.

11. VALUE OF CONSIDERATION PER OPTION OF THE PROPOSED TRANSACTION

In our opinion, the value of an ISA Consideration Option for the Proposed Transaction as at 9 August 2021 is \$0.0144 using the Black Scholes option pricing model.

11.1 Assumptions

The assumptions that have been used in the Black Scholes option price calculations are detailed as follows:

- spot price of \$0.018, being the closing price on 9 August 2021;
- exercise price of \$0.02;
- assumed grant date being 9 August 2021
- expiry date being 1 July 2024;
- A volatility for IDZ shares of 155.20%. This has been calculated using Hoadley's volatility calculator for the period 8 September 2018 to 9 August 2021; and
- Risk-Free Rate is based on the Australian Government 3 year bond rate of 0.19% as at the date of valuation.

11.2 Valuation Calculation

Call or Put (C/P)	C
Spot Price (cents)	1.8
Strike Price (cents)	2.0
Time to Maturity	34.8 months
Volatility	155.20%
Risk-Free Rate	0.19%
Dividend Yield	0.00%
Value per option at grant date (cents)	1.44

11.3 Total value of Consideration Options

Entity	No. of Options	Value of Options
Birkdale Holdings (QLD) Pty Ltd	45,000,000	\$648,000
Total	45,000,000	\$648,000

12. FINANCIAL BENEFIT TO RELATED PARTIES

12.1 Birkdale

In our opinion, the appropriate value to Birkdale of the Proposed Transaction is the total value of the Consideration Options as calculated in section 11.

We outline the financial benefit attributable to Birkdale as at 9 August 2021 below:

Value to Birkdale following the Proposed Transaction	
Value per Option	\$0.0144
Consideration Options	45,000,000
Value of consideration	\$648,000

The total value of the consideration Birkdale will be receiving is \$648,000.

This represents a financial benefit equal to total value of the consideration being \$648,000.

12.2 Employee Incentive Options issued to Executive Director

On 1 February 2021, ISA Group announced it has allocated 16,835,005 employee incentive Options to eligible employees, including 8,435,005 to the Executive Director, Wayne Jones which require Shareholder approval. The Options are exercisable at \$0.021 per Option with an expiry date of 31 January 2024.

In accordance with the 2021 Annual report released on 30 September 2021, the employee incentive Options issued were valued by the Directors at nil value at the grant date, being 1 February 2021. The Share price at grant date was \$0.013.

In our opinion, the value of an ISA employee incentive Option as at 13 October 2021 is \$0.0189 using the Black Scholes option pricing model.

12.2.1 Assumptions

The assumptions that have been used in the Black Scholes option price calculations are detailed as follows:

- spot price of \$0.026, being the closing price on 13 October 2021;
- exercise price of \$0.021;
- assumed grant date being 13 October 2021;
- expiry date being 31 January 2024;
- A volatility for IDZ shares of 136.80%. This has been calculated using Hoadley's volatility calculator for the period 26 June 2019 to 13 October 2021; and
- Risk-Free Rate is based on the Australian Government 3 year bond rate of 0.49% as at the date of valuation.

12.2.2 Valuation Calculation

Call or Put (C/P)	C
Spot Price (cents)	2.6
Strike Price (cents)	2.1
Time to Maturity	27.6 months
Volatility	136.80%
Risk-Free Rate	0.49%
Dividend Yield	0.00%

Value per option at grant date (cents)	1.89
---	-------------

We outline the financial benefit attributable to Wayne Jones below:

Value to Wayne Jones following the proposed issue of employee incentive Options	
Value per Option	\$0.0189
Employee Incentive Options	8,435,005
Total value	\$159,422

Subject to Shareholder approval, this represents a financial benefit of \$159,422 as at 13 October 2021.

13. CONCLUSION

We have considered the terms of the Proposed Transaction as outlined in the body of this Report and have concluded that the Proposed Transaction is **not fair but is reasonable** to the Non-associated Shareholders of ISA.

For the purpose of Section 208 of the Corporations Act, we consider the value of the financial benefit that will be provided to Birkdale from the Proposed Transaction is \$648,000.

In addition, the financial benefit that will be provided to the Executive Director, Wayne Jones, from the proposed issue of employee incentive Options is \$159,422.

14. SOURCES OF INFORMATION

This Report has been based on the following information:

- Notice of Meeting;
- Audited Annual Report for Indoor Skydive Australia Group Limited as at 30 June 2020;
- Reviewed Interim Financial Report for Indoor Skydive Australia Group Limited as at 31 December 2020;
- Management accounts for Indoor Skydive Australia Group Limited as at 30 June 2021;
- Loan Agreement dated 19 June 2018 for the loan facility of \$3m from Birkdale Holdings (QLD) Pty Ltd;
- Loan Agreement Amendment Deed dated 2 July 2019 for the partial debt conversion of \$1.2m from Birkdale Holdings (QLD) Pty Ltd;
- Loan Variation – Extension dated 29 September 2020 for varied terms to the Loan Agreement Amendment Deed
- Loan Amendment and Restatement Agreement with Birkdale;
- Amendment Side Letter with Birkdale dated 6 August 2021;
- Option Deed Poll;
- Westpac Business Finance Agreements for Indoor Skydive Australia Group Limited, Indoor Skydiving Gold Coast Pty Ltd, Indoor Skydiving Perth Pty Ltd;

- Westpac Commercial Loan Agreement for Indoor Skydiving Perth Pty Ltd;
- Asset Sale Agreement between Indoor Skydiving Perth Pty Ltd and iFLY Australia Pty Ltd;
- Letter from Westpac regarding deed of forbearance;
- Draft Deed of Settlement and Release with Westpac;
- Draft Deed of Release with Akerman LLP;
- ASIC current company extracts;
- Information in the public domain; and
- Discussions and correspondence with the Directors of Indoor Skydive Australia Group Limited.

15. INDEPENDENCE

Pendragon Capital Limited is entitled to receive a maximum fee of \$27,500 (excluding GST) for completion of this report. The fee is a fixed fee based on the normal charge rates for the professionals involved in the preparation of this Report. The fee is not contingent on the conclusion, content or future use of this Report. Except for this fee, Pendragon Capital Limited has not received and will not receive any pecuniary or other benefit whether direct or indirect in connection with the preparation of this report.

Pendragon Capital Limited has been indemnified by ISA in respect of any claim arising from Pendragon Capital Limited's reliance on information provided by ISA, including the non-provision of material information, in relation to the preparation of this Report.

Prior to accepting this engagement Pendragon Capital Limited has considered its independence with respect to ISA and any of their respective associates with reference to ASIC Regulatory Guide 112 'Independence of Experts'. In Pendragon Capital Limited's opinion it is independent of ISA and their respective associates.

Neither the signatory to this report nor Pendragon Capital Limited have had within the past two years any professional relationship with ISA, or their associates, other than in connection with the preparation of this Report.

A draft of this Report was provided to ISA and its advisors for confirmation of the factual accuracy of its contents. No significant changes were made to this Report as a result of this review.

16. INDEMNITY

Pendragon has been provided with an indemnity from ISA in the following form:

"ISA indemnifies Pendragon and any employees or associates from any claims arising out of any omission or any misstatement in relation to any material provided (or which, being relevant, is not provided) by ISA".

17. QUALIFICATIONS

Pendragon holds Australian Financial Services Licence number 237549 issued by ASIC. Pendragon has experience in the provision of corporate finance advice. Mr Keith Platel, the director responsible for and signing this Report, is a Fellow of the Institute of Chartered Accountants and has many years' experience in preparing company valuations and reports.

18. DISCLAIMERS AND CONSENTS

This Report has been prepared at the request of ISA for inclusion in its Notice of Meeting for Shareholders to be forwarded to Shareholders in relation to the Proposed Transaction.

Pendragon hereby consents to this Report accompanying the Notice of Meeting for ISA Shareholders. Pendragon takes no responsibility for the contents of the Notice of Meeting other than this Report. This Report has been prepared for the Directors of ISA to forward to Shareholders and apart from such use, neither the whole nor any part of this Report may be used for any other purpose.

In providing our opinion, we have relied on information provided by Directors of ISA. Where financial forecasts have been provided, it should be noted that there are likely to be differences to actual results due to various and unpredictable commercial and external factors.

Pendragon has not independently verified the information supplied to us and it has not conducted anything in the nature of an audit of ISA. Pendragon has no reason to believe that any information relied on by us is incorrect or incomplete. The opinions and statements in this Report are given in good faith and in the reasonable belief they are not false, misleading or incomplete.

Yours sincerely



Keith Platel
Director

Pendragon Capital Limited

APPENDIX 1 – GLOSSARY OF TERMS

Reference	Definition
Act or the Corporations Act	The Corporations Act 2001 (Cth)
APES 225	Accounting Professional & Ethical Standards Board professional standard APES 225 'Valuation Services'
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
Birkdale Loan	Secured loan of \$3 million provided by Birkdale to the Company
Company or ISA	Indoor Skydive Australia Group Limited (ACN 154 103 607)
Consideration Options	45,000,000 Options in the Company with an exercise price of 2 cents each and an expiry date of 1 July 2024
Deed	Loan Agreement Amendment Deed dated 2 July 2019 between the Company and Birkdale regarding partial conversion of the Birkdale Loan.
Entitlement Offer	2.5 for 1 renounceable entitlement offer of new fully paid ordinary shares in the Company at a price of \$0.01 per New Share ("Prospectus") to raise a minimum subscription of \$2 million and maximum subscription of \$3.4 million.
ISA	Indoor Skydive Australia Group Limited or, where the context requires, a member of the ISA Group.
ISA Group	ISA and its controlled entities
Notice of Meeting	The notice of meeting of the Company to be held on or around 1 September 2021.
Report	This Independent Expert's Report prepared by Pendragon Capital Limited
Option	An option to acquire one Share
Prospectus	The prospectus issued by the Company in respect of the Entitlement Offer dated 15 July 2019.
RG 74	Acquisitions approved by Members (December 2011)
RG 76	Related party transactions (March 2011)
RG 111	Content of expert reports (March 2011)
RG 112	Independence of experts (March 2011)
Section 611	Section 611 of the Corporations Act
Share	A fully paid ordinary share in the capital of the Company
Shareholders	Shareholders of ISA

Other capitalised terms used in this Report are defined throughout the Report or the Notice of Meeting.