

ASX Appendix 4E

Preliminary Final Report

For the year ended 30 June 2018
Provided to the ASX under Listing Rule 4.3A
Indoor Skydive Australia Group Limited
ACN 154 103 607



Appendix 4E Preliminary Final Report

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Reporting Period: 1 July 2017 to 30 June 2018
Prior Reporting Period: 1 July 2016 to 30 June 2017

Financial Results

	30 June 2018 \$	30 June 2017 \$	Change %
Revenue from ordinary activities	13,880,529	12,271,081	Up by 13.1%
Statutory profit/(loss) from ordinary activities after tax attributable to members	(10,140,582)	(891,290)	-
Statutory net profit/(loss) for the period attributable to members	(10,140,582)	(891,290)	-
Underlying earnings before interest, tax, depreciation and amortisation ¹	2,293,178	982,510	-
Dividends	Nil	Nil	n/a

¹ Underlying earnings before interest, tax, depreciation and amortisation excludes legal fee expenses, impairment of AirRider brand and dispute settlement costs.

Dividends

No dividends have been declared or are payable for the year ended 30 June 2018.

Tangible Assets per Ordinary Share

Net tangible assets per share as at 30 June 2018	\$0.16
Net tangible assets per share as at 30 June 2017	\$0.22

Commentary

The financial year ended 30 June 2018 was a challenging year for ISA Group with lower than expected performance across the industry and difficult trading conditions in the last half of the year.

Against this backdrop, ISA Group implemented a number of efficiencies and restructures across its Australian operations to drive revenue while continuing to provide an optimal customer experience. The operations were also impacted by senior management's need to focus on an arbitration proceeding in the second half of the year which resulted in some revenue generating activities being deferred.

ISA Group's Malaysian facility opened to the public in the second half of the financial year under the AirRider brand. As part of the settlement with SkyVenture International Limited referred to below, ISA Group has committed to deliver growth projects under the iFLY or SkyVenture brands and to use SkyVenture VWT equipment on a worldwide basis. Accordingly, ISA Group has impaired all investment in the AirRider brand and will seek to transfer all management agreements and other economic benefits associated with the Malaysian facility to SkyVenture.

For the year ended 30 June 2018, ISA Group reported statutory earnings before interest, tax, depreciation and amortisation was (\$6,387,289). The underlying EBITDA (excluding legal fees, AirRider impairment and dispute settlement costs) is \$2,293,178. This compares to \$982,510 in 2017.

ISA Group's initial focus going forward is on driving the performance of our operations, establishing a stable reliable level of performance and creating efficient customer focused experiences.

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Through the revitalised partnership with SkyVenture, ISA Group will be able to access preferential pricing and bespoke fit for purpose VWT models to support our future growth. The growth focus continues to be Australia, South East Asia, China and Hong Kong over the medium to long term. In the short term, ISA Group's primary focus will be on current operations.

Subsequent Event

On 19 July 2018, ISA Group received a partial final arbitral award from the Arbitrator of the dispute with SkyVenture International Limited. The award addressed the question of liability only and did not address remedy, costs or any quantum. After receipt of the award ISA Group and SkyVenture International Limited agreed to a settlement which addressed all issues between them. The settlement provides for ISA Group to pay SkyVenture for its legal costs, to transfer all ownership in the AirRider brands and all economic benefits associated with the Malaysian facility to SkyVenture. SkyVenture has committed under the settlement to supply ISA Group with specialist vertical wind tunnel equipment at preferential prices to support ISA Group's future growth.

The settlement is funded by Promissory Notes for US\$3,789,933 from SkyVenture International Limited. The loans under the promissory notes have a 2-year term with the first year comprising interest payments only. For so long as ISA Group is listed, up to US\$1,619,219.99 of the conversion loan amount may be converted into ISA Group ordinary shares from 60 days after the effective date of the note at a conversion price of US\$0.079. The maximum number of shares that may be issued on conversion is 20,496,455 which is within ISA Group's capacity to issue under Listing Rules 7.1.

Dividend reinvestment plan

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

Control gained or lost over entities having a material effect

There were no transactions during the year ended 30 June 2018 having a material effect.

Accounting standards

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

Audit of the Financial Report

This report is based on the consolidated financial statements for the year ended 30 June 2018 which is being audited by Felsers, Chartered Accountants.



Wayne Jones
Chief Executive Officer & Director

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2018

	Note	Consolidated Group	
		2018	2017
		\$	\$
Revenue		13,880,529	12,271,081
Cost of sales		(2,575,301)	(2,464,687)
Gross Profit		<u>11,305,228</u>	<u>9,806,394</u>
Other Income		396,753	45,478
Selling and marketing expenses		(5,183,269)	(4,731,189)
Administration expenses		(4,602,987)	(4,354,932)
Impairment of AirRider brand		(2,627,648)	-
Legal expense		(2,520,068)	-
Dispute settlement costs		(3,532,751)	-
Other expenses		(1,560,123)	(1,432,046)
Loss before Interest and Tax		<u>(8,324,865)</u>	<u>(666,295)</u>
Finance Income		615	7,373
Finance expense		(558,598)	(383,317)
Net financing costs		<u>(557,983)</u>	<u>(375,944)</u>
Share of loss from joint venture entities		(339,583)	-
Loss Before Tax		<u>(9,222,431)</u>	<u>(1,042,239)</u>
Income tax (expense) / benefit		(918,151)	150,949
Loss After Tax		<u>(10,140,582)</u>	<u>(891,290)</u>
Other comprehensive income			
Exchange differences on translation of foreign operations		805	-
Total comprehensive loss for the year		<u>(10,139,777)</u>	<u>(891,290)</u>
Earnings per share			
From continuing operations:			
Basic earnings per share (cents)	5	(7.42)	(0.68)
Diluted earnings per share (cents)	5	(7.42)	(0.68)

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

Consolidated Statement of Financial Position

As at 30 June 2018

		Consolidated Group	
	Notes	2018 \$	2017 \$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		953,541	1,706,457
Trade and other receivables		105,473	917,777
Inventories		83,156	74,105
Other financial asset		130,890	42,489
TOTAL CURRENT ASSETS		1,273,060	2,740,828
NON-CURRENT ASSETS			
Property, plant and equipment		42,151,324	43,965,692
Investment in joint venture entities	6	206,329	-
Intangible asset		264,350	773,304
Deferred tax asset		1,249,487	2,167,638
Other financial asset		197,440	209,245
TOTAL NON-CURRENT ASSETS		44,068,930	47,115,879
TOTAL ASSETS		45,341,990	49,856,707
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		3,997,700	3,655,064
Deferred revenue		1,231,797	1,907,300
Borrowings		1,886,317	472,312
Provisions		425,288	276,558
TOTAL CURRENT LIABILITIES		7,541,102	6,311,234
NON-CURRENT LIABILITIES			
Borrowings		9,081,123	10,267,198
Provisions		6,338,337	818,289
TOTAL NON-CURRENT LIABILITIES		15,419,460	11,085,487
TOTAL LIABILITIES		22,960,562	17,396,721
NET ASSETS		22,381,428	32,459,986
EQUITY			
Share capital		40,810,939	40,466,917
Reserve		58,450	340,448
Accumulated losses		(18,487,961)	(8,347,379)
TOTAL EQUITY		22,381,428	32,459,986

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2018

	Issued Capital	Reserves	Accumulated losses	Total
	\$	\$	\$	\$
Balance at 1 July 2017	40,466,917	340,448	(8,347,379)	32,459,986
Share issue on exercise of performance rights	344,022	(344,022)	-	-
Employee share based payment performance rights	-	3,574	-	3,574
Issue of share options	-	57,645	-	57,645
Comprehensive income				
Loss for the year	-	-	(10,140,582)	(10,140,582)
Other comprehensive income	-	805	-	805
Total comprehensive loss for the year	-	805	(10,140,582)	(10,139,777)
Balance at 30 June 2018	40,810,939	58,450	(18,487,961)	22,381,428
Balance at 1 July 2016	34,648,455	658,164	(7,456,089)	27,850,530
Shares issued during the year	5,665,005	-	-	5,665,005
Share issue costs	(342,131)	-	-	(342,131)
Share issue on exercise of performance rights	495,588	(495,588)	-	-
Employee share based payment performance rights	-	177,872	-	177,872
Comprehensive income				
Loss for the year	-	-	(891,290)	(891,290)
Total comprehensive loss for the year	-	-	(891,290)	(891,290)
Balance at 30 June 2017	40,466,917	340,448	(8,347,379)	32,459,986

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2018

	Consolidated Group	
	2018	2017
	\$	\$
Cash Flows From Operating Activities		
Receipts from customers	14,946,055	14,523,197
Payments to suppliers and employees	(13,508,159)	(12,023,796)
Grant income received	-	24,875
Interest received	615	7,373
Finance costs	(558,598)	(383,317)
Net cash inflows from operating activities	879,913	2,148,332
Cash Flows From Investing Activities		
Purchase of property, plant and equipment	(106,485)	(9,389,457)
Payments for investment in joint venture	(545,107)	-
Payment for intangible assets	(1,263,202)	(517,477)
Net cash outflows from investing activities	(1,914,794)	(9,906,934)
Cash Flows From Financing Activities		
Proceeds from issue of securities	-	5,665,005
Proceeds from borrowings	1,500,000	2,493,302
Repayment of borrowings	(1,218,035)	(901,718)
Share issue costs	-	(342,131)
Net cash inflows from financing activities	281,965	6,914,458
Net decrease in cash held	(752,916)	(844,144)
Cash and cash equivalents at beginning of year	1,706,457	2,550,601
Cash and cash equivalents at end of year	953,541	1,706,457

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

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

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

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

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

Basis of Accounting

The Group incurred a loss for the year after tax of \$10,140,582 (2017: loss of \$891,290) and has a net current deficiency in assets of \$6,268,042. Included within current liabilities are deferred revenue of \$1,231,797 that will be realised as revenue once the service has been delivered to the customer. Therefore, excluding this balance, the Group has an adjusted current asset deficiency position of \$5,036,245 at 30 June 2018.

The following matters have been considered by the directors in determining the appropriateness of the going concern basis of preparation in the financial statements:

- i) in July and August 2018, the consolidated entity received the balance of \$1,500,000 in funding from Birkdale Holdings (QLD) Pty Ltd. As a result, the consolidated entity will have sufficient working capital to enable it to meet its objectives and financial obligations.
- ii) the consolidated entity generated net operating cash inflow for the financial year ended 30 June 2018 of \$879,913 (2017: \$2,148,332). Excluding the legal costs that has been paid in financial year 2018, net operating cash flow was \$1,679,146. Management expect that the operating costs will be further reduced in the succeeding financial year as a result of the restructuring of its operations, which further increase operating cash flows.
- iii) in September 2018, the consolidated entity has entered into a settlement that is funded by a Promissory Note of US\$3,789,933 from SkyVenture International Limited. The loan under the promissory note has a 2-year term with the first year comprising interest payments only. Up to US\$1,619,219.99 of the loan amount may be converted into ISA Group ordinary shares from 60 days after the effective date of the note at a conversion price of US\$0.079.
- iv) the Westpac Banking Corporation has agreed to consolidate all loan facilities and to increase the term of the loan to be repaid over a 7 year term which will result in reduction in the monthly loan repayment amounts.

The directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial statements as at 30 June 2018. Accordingly, no adjustments have been made to the financial statements relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

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

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

Critical Accounting Estimates and Judgements

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

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

ii. Deferred Tax Asset

In future years, the Group is expected to generate taxable income that will utilise the deferred tax balance. The directors have recognised a deferred tax asset to the extent of deductible temporary differences. Due to several years of losses, there is some doubt as to whether the tax benefit from unused tax losses will be recouped. The directors have therefore deemed it is prudent not to recognise a deferred tax asset for tax losses. This may be reversed in future years if it becomes probable that sufficient taxable income will be generated.

iii. Exclusive Territory Development Agreement Recognition and Amortisation

On 20 December 2013 an Exclusive Territory Development Agreement was entered into between the Company and iFly Australia Pty Ltd (iFly) to exclusively develop projects in Australia and New Zealand for which iFly would receive 2,500,000 shares in the company (IDZ.ASX). iFly is the Australian subsidiary of SkyVenture International, our vertical wind tunnel supplier. The agreement has created an intangible asset which is expected to create a future economic benefit. This intangible asset must be initially valued at cost, in accordance with AASB 138. The cost is calculated as \$1,500,000, being the fair value of the shares granted to iFly, at the IDZ close price of \$0.60 at 20 December 2013.

The term of the agreement is limited, and the asset was therefore classified as a finite life intangible asset. An intangible asset with a finite life is to be amortised over its useful life. The amortisation method selected should reflect the pattern over which the asset's future economic benefit is expected to be consumed. If that pattern cannot be determined reliably, the straight-line method is to be used. The amortisation period and method for an intangible asset with a finite useful life are to be reviewed at least at the end of each annual reporting period. If the expected useful life or expected pattern of consumption of the future economic benefit is different from previous estimates, the period or method is to be revised.

An accelerated amortisation rate of 40% diminishing value was used against this intangible asset in previous years. This reflected the expected consumption of benefits under the agreement.

In the current year, the Group has fully impaired the carrying value of this intangible asset considering the arbitrator's findings that the Group's Australian operating facilities were in breach of the purchase and license agreements.

iv. Gift Card Revenue

Gift card revenue from the sale of gift cards is recognised when the card is redeemed for the purchase of flight time (Flight Revenue), or when the gift card is no longer expected to be redeemed (Gift Card Revenue). At 30 June 2018, \$797,913 of Gift Card Revenue is recognised (2017: \$494,388). The key assumption in measuring the liability for gift cards and vouchers is the expected redemption rates by customers with a portion recognised upfront,

Additional Information

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

v. Site Restoration

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

In the current year, the Group has recognised a provision for site restoration for its three tunnels. To this extent, an estimate of the costs to remove the VWT's and its related Building Infrastructure has been determined based on current costs using existing technology at current prices. Management used the services of an expert and determined the cost to restore the sites. These costs were projected forward at a 2.5% inflationary escalation and then discounted back at 8.73% (2017: 8.73%), after consideration of the associated risks. The discount rate reflects the time value of money and risks specific to the operation of the tunnels. The site restoration asset is depreciated over the remainder of each extended lease period being 40 years in the case of each of iFLY Downunder (Penrith), iFLY Gold Coast and iFLY Perth. The accumulative effect of discounting on the site restoration provision is included within finance costs in the statement of comprehensive income.

vi. Capitalisation of Internally Developed Intangible Assets

Distinguishing the research and development phases of a new project and determining whether the recognition requirements for the capitalisation of development costs are met requires judgement.

After capitalisation, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalised costs may be impaired.

Additional Information

NOTE 3: INTEREST IN SUBSIDIARIES

Set out below are the Group's subsidiaries at 30 June 2018. The subsidiaries listed below have share capital consisting solely of ordinary shares, which are held directly by the Group and the proportion of ownership interests held equals the voting rights held by the Group. Each subsidiary's country of incorporation or registration is also its principal country of business.

Subsidiaries	Country of Incorporation	2018 %	2017 %
Indoor Skydiving Penrith Holdings Pty Ltd	Australia	100	100
Indoor Skydiving Penrith Pty Ltd	Australia	100	100
Indoor Skydiving Gold Coast Pty Ltd	Australia	100	100
ISA Flight Club Pty Ltd	Australia	100	100
Indoor Skydiving Perth Pty Ltd	Australia	100	100
ISAG Holdings D Pty Ltd	Australia	100	100
ISAG Café Pty Ltd	Australia	100	100
ISA Asia Holdings Pty Ltd	Australia	100	100
ISA Asia Operations Pty Ltd	Australia	100	100

NOTE 4: SEGMENT INFORMATION

GENERAL INFORMATION

Identification of reportable segments

The Group's operations are in one segment being the construction and operation of indoor skydiving facilities. The Group operates in one segment being Australia. All subsidiaries in the Group operate within the same segment. All three tunnels have been aggregated to one operating segment.

Types of Products and Services by Segment

The products and services will include a number of indoor skydiving facilities allowing human flight within a safe environment used by tourists, enthusiasts and military.

Additional Information

NOTE 5: EARNINGS PER SHARE

	2018 Cents	2017 Cents
Earnings per share (cents per share)		
From continuing operations:		
- basic earnings per share	(7.42)	(0.68)
- diluted earnings per share	(7.42)	(0.68)
	2018 \$	2017 \$
a. Reconciliation of earnings to profit or loss:		
Loss	(10,140,582)	(891,290)
Earnings used to calculate basic EPS	(10,140,582)	(891,290)
Earnings used in the calculation of dilutive EPS	(10,140,582)	(891,290)
	No.	No.
b. Weighted average number of ordinary shares for basic EPS	136,640,752	131,633,571
Weighted average number of ordinary shares for diluted EPS	139,818,500	136,633,571

All performance rights on issue at 30 June 2018 are anti-dilutive.

Additional Information

NOTE 6: INTEREST IN JOINT VENTURE ENTITIES

- a) The Group has a 40% interest in LeisureWorld Assets Sdn. Bhd., a joint venture involved in owning an indoor skydive facility in Kuala Lumpur, Malaysia. The Group's interest in LeisureWorld Assets Sdn. Bhd. is accounted for using the equity method.
- b) The Group has a 60% interest in LeisureWorld Escapades Sdn. Bhd., a joint venture operating and managing the indoor skydive facility in Kuala Lumpur, Malaysia officially launched on 24 January 2018. The Group's interest in LeisureWorld Escapades Sdn. Bhd. is accounted for using the equity method.

The following table illustrates the summarised financial information of the Group's 40% investment in LeisureWorld Assets Sdn. Bhd. and 60% investment in LeisureWorld Escapades Sdn. Bhd:

	30 June 2018	
	LeisureWorld Assets Sdn. Bhd	LeisureWorld Escapades Sdn. Bhd
Current assets	4,581,349	321,278
Non-current assets	5,425,005	6,494
Current liabilities	44,653	197,492
Non-current liabilities	9,474,211	111,392
Equity	487,490	18,888
Group's carrying value of the investment	194,996	11,333

	30 June 2018	
	LeisureWorld Assets Sdn. Bhd	LeisureWorld Escapades Sdn. Bhd
Revenue	184,891	349,257
Cost of sales	-	(136,871)
Administration expenses	(300,179)	(624,345)
Finance costs	(115,732)	-
Loss before tax	(231,020)	(411,959)
Income tax benefit	-	-
Loss for the year	(231,020)	(411,959)
Group's share of the loss for the year	(92,408)	(247,175)