INDOOR SKYDIVE AUSTRALIA GROUP LIMITED (IDZ)

Start-up venture, based on an internationally proven businesses model, with first mover advantage in the domestic market.

DIRECTORS

Ken Gillespie, Non-Executive Chairman
Wayne Jones, Executive Director & CEO
Daniel Hogan, Executive Director & COO
Stephen Baxter, Non-Executive Director
John Diddams, Non-Executive Director
Malcolm Thompson, Alternate Director

MARKET DATA

ASX Code:	IDZ
Current Price	$0.355
52 week Share Price Range:	$0.20 - $0.50
Market Capitalisation (listed):	$13.1 million
Enterprise Value (incl escrow):	$21.2 million

CAPITAL STRUCTURE

Shares on Issue (listed):	36.9 million
Shares on Issue (escrowed):	21.9 million

FINANCIAL SUMMARY

$mill y/e June	2014(E)	2015(E)	2016 (E)
Revenue	1.5	6.0	7.5
EBITDA	0.2	2.5	3.5
Net Profit	-0.4	1.4	2.4
EPS (c)	n.a	2.4	4.1
PER (X)	n.a	14.8	8.7
EV/EBITDA(X)	n.a	8.5	6.1

SHAREHOLDERS

Top 20	80%
Directors & Management	35%

SENIOR ANALYST

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May 2013

KEY POINTS

- Indoor Skydive Australia Group (ISA Group) has acquired technology and licenced the iFly Downunder brand from US based, SkyVenture LLC, the world leader in Vertical Wind Tunnels (VWT) and the simulated indoor skydiving experience.
- The company is building Australia's first, and the world's largest, VWT at Penrith, NSW. The facility will provide training capabilities for the military and professional/enthusiast skydivers and an adrenalin experience for retail customers including children as young as 3 years old.
- IDZ was admitted to the ASX on the 16 January, 2013. It raised $6.1 million in equity through the IPO and has access to a further $5.9 million through a convertible note facility with the company's largest shareholder. This will provide the funds required to construct the facility.
- The short term benchmark is for the company to construct the Penrith facility on-time and on-budget with the commencement of operations targeted for early in the 1st quarter of calendar 2014.
- IDZ's business is an infrastructure style model, in that it's designed to generate high traffic through-put to maximise capacity utilisation and ultimately the return on capital employed.
- Penrith is expected to generate about $6 million revenue in its first full year of operation and rise strongly as capacity utilisation builds over the next two years.
- The success of the Penrith facility will be a springboard for domestic and international expansion into specifically targeted locations and markets. The company has identified five further potential locations for retail consumer oriented VWT in Australia and New Zealand.

INVESTMENT PROPOSITION

Investor interest in Indoor Skydive Australia Group's (ISA Group) unique training and entertainment facility in Australia will increase as the project at Penrith, NSW, heads towards completion and subsequent opening (due early 2014) and early ramp-up.

World leading technology and an internationally proven business model underpin the potential of the project, which based on overseas experience indicates that established facilities typically generate high (40%+) EBITDA margins.

With probably three years before Penrith reaches maturity and an identified potential of a further five consumer-oriented indoor skydiving facilities in Australia and New Zealand, the company has a very strong growth profile that will drive revenue and profit growth over the next five years.

SUMMARY AND OVERVIEW

ISA Group was established to build Australia's first and the world's largest indoor skydiving facility at Penrith, NSW. The company successfully listed on the ASX on 16 January 2013 having raised $6.1 million in new equity. A $5.9 million convertible note facility provided by the company's largest shareholder rounds out the funding package that will finance the development which is due to open early in the first quarter of calendar 2014.

An indoor skydiving facility simulates the freefall experience in a parachute drop. It is achieved by blowing a large volume of air at high speed into a vertical chamber. Users float on this air and undertake a wide variety of manoeuvres. It is a high octane, adrenalin experience.

Whilst new to Australia, the experience is well established overseas with the leading group, SkyVentures Inc, licencing more than 20 operating facilities in North America, Europe, The Middle East Asia and South America. We understand that once established, these centres typically enjoy 60% plus capacity utilisation and generate EBITDA margins of more than 40%.

The Penrith facility, which is under construction immediately adjacent to, and close to the front entrance of the Panthers Leagues Club, will be a training facility for military, professional and enthusiast skydivers as well as a consumer experience for adventure seekers and adrenalin junkies.

ISA Group's founders, the current CEO and COO, have extensive Australian military experience with strong links (as enthusiasts) to the skydiving industry, whilst the company's Chairman has also held senior roles in the ADF including Vice Chief of Defence Force. As the only training facility in Australia, Penrith will have considerable advantages and these connections will be important in building commercial relationships.

The facility is expected to very quickly become cash flow positive and generate around $6 million revenue in its first full year of operation rising to towards $9 million in its third year as capacity utilisation builds from relatively low levels. Profit margins will also markedly expand towards the international experience.

ISA Group has licenced the technology and the IFly Downunder brand from SkyVenture. ISA Group has identified a further five locations in Australia and New Zealand that could support a consumer only version of the simulator. The company intends to build these over a number of years, and will commence the first project shortly after the opening of Penrith. These proposed developments underpin the company's growth profile. With potentially three centres operating, revenue could be in the range of $15 million to $20 million within five years, with an EBITDA margin exceeding 40%.

There is currently no direct competition in Australia and whilst it is possible that it could emerge, the barriers are relatively high. Although the licence with SkyVenture is non-exclusive, it seems unlikely that it would deal with another company whilst ISA Group is actively pursuing additional development opportunities and no other potential technology supplier has the experience or comparable market presence. Further, the approval process with local councils is lengthy and arduous.

ISA Group has funding in place to finance the $10 million Penrith development. Once Penrith is operating, the company will have additional funding options. Cash flow could be utilised to repay the convertible note facility or lower cost bank debt could be sought. As further developments will be consumer oriented, the capital cost will be as much as 50% lower than Penrith. Accordingly, the capital needs for future developments will be relatively modest and unlikely to require significant new capital, if any.

BACKGROUND AND PROJECT

Executive Directors, Wayne Jones and Daniel Hogan identified a gap in the Australian market for a skydiving training and simulation facility for the military and enthusiasts. As former members of the Special Air Services Regiment of the Australian Army, they were uniquely placed to understand the training requirements of active skydivers; whether for recreational or military purposes. With the absence of any such facility in Australia, simulated training was only available overseas.

ISA Group was established to build and operate such a facility. Whilst military and enthusiast needs provided the initial impetus, it soon became apparent that that the general consumer market would provide a considerable revenue opportunity. With some 800 ADF positions specifically requiring high levels of parachute and freefall training and over 4,000 registered members of Australian skydiving and parachute clubs (over 100,000 tandem skydives undertaken each year) there is demonstrably a significant market capable of supporting a local skydive training facility.

A skydive simulator is essentially a vertical wind tunnel (VWT) which comprises a vertical glass cylinder and several high powered fans capable of generating wind speeds of typically up to 195kph but capable of up to 250+kph. The experience simulates the freefall stage of a parachute drop. The participant essentially floats on a high speed cushion of air against which he/she can perform a wide range of manoeuvres.

For the consumer, the experience will last about 1 hour. After initial check-in, the instructor will show a video and provide a briefing on the basic drills. The customer will then learn hand signals that the instructor may use to communicate during the flight. Included in the experience are a flight suit, helmet, ear plugs and goggles. At every step, the instructor will be on hand to assist the customer as required.

The customer moves to the pressurised staging area. Each person generally takes two turns flying in the tunnel under the direction of the instructor or other authorised person. Each flight is of approximately 50 seconds duration. Once the flight is completed the customer will return the equipment and move to the merchandise counter where photos and T-shirts may be purchased.

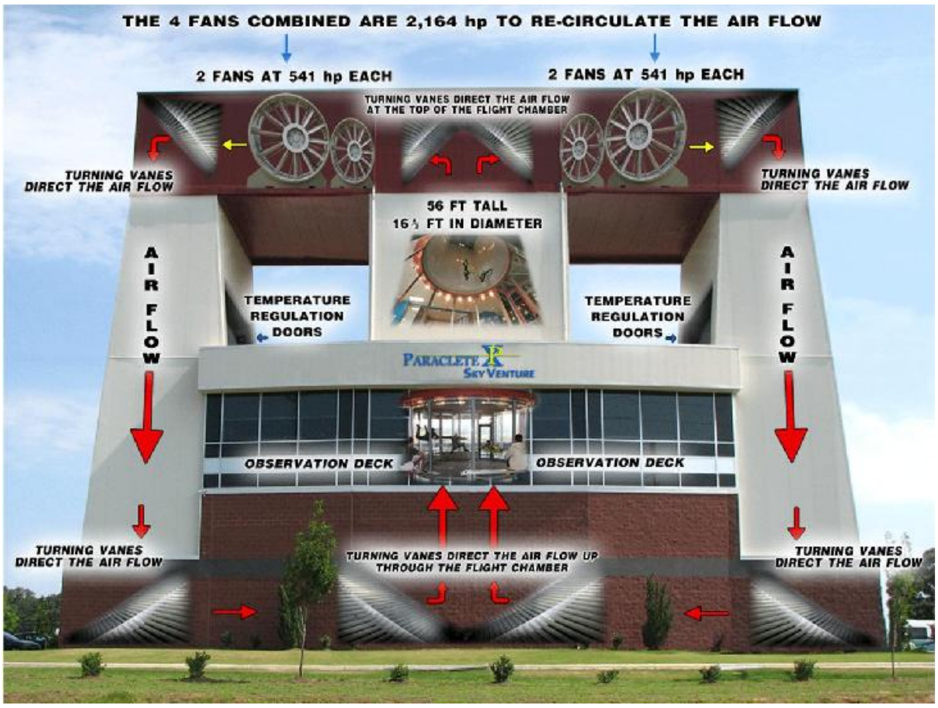
ISA group listed on the ASX in January 2013 having raised $6.1 million in new capital to fund construction of an indoor skydive facility at Penrith. The project was “shovel ready” with all development approvals, site acquisition, licencing and equipment sourcing in place.

ISA Group has acquired technology and licensed the iFly Downunder brand from US based, SkyVenture LLC, the world leader in VWT and the simulated indoor skydiving experience. There are currently 24 SkyVenture licensed facilities around the world ranging in size from, small 3.0 metre diameter VWT suitable only for the consumer entertainment experience through to 5.0 metre (diameter) VWT, full scale training facilities.

ISA Group’s maiden project is located adjacent to the Panthers Leagues Club in Penrith, in the outer western suburbs of Sydney. Penrith was primarily chosen for its location close to the Richmond RAAF base and other skydiving facilities in the Sydney basin. However, a large population base in western Sydney together with a proposal for a major redevelopment of the Panthers Leagues Club made Penrith an ideal location.

ISA Group’s Penrith facility which will be branded and marketed as iFly Downunder, is currently under construction and due for completion in the first quarter of calendar 2014 at a total cost of about $10 million. The facility will comprise a sixth generation 5.0 metre diameter, 13.0 metre high VWT powered by 4 x 450 hp electric motors driving fixed position blades.

The picture below provides an integrated view of the structure and equipment.



We understand that all established SkyVenture licensed facilities around the world are operating in excess of 60% capacity. With a mix of professional and consumer demand, the facility has the potential to generate over $8 million in annual revenues, within about 3 years. This is less than the "high achieving" Singapore facility which is located in the casino on Sentosa Island (reported revenue target of S$15 million for first year of operation) but significantly higher than the US based facilities. The variation from the US facilities will be primarily due to significantly higher Australian prices although operating margins (40% - 45% EBITDA) are expected to be comparable, once established. Utilisation rates are expected to be significantly less than 60% in the first full year of operation and, accordingly, revenue for the first full financial year (2014-15) is expected to be around $6 million.

The ground breaking ceremony on 4 March 2013 marked the commencement of the development. The major milestones of the project will be:

Excavation works	Removal of 4000m3 of soil and rock, and then pouring of over 400m3 of concrete	commence by the end of March and to be completed prior to the end of the second quarter of 2013
Erection	Erection of the 20m return air to support the specialised components from SkyVenture	scheduled for the third quarter of 2013
Equipment assembly	Integration of the four 450hp electric motors and fans and the placement of the 5m diameter curved glass flight chamber	scheduled for the fourth quarter of 2013
Practical completion and handover	Finalisation of the facility, integration of systems, testing, commissioning and final occupation certificate	scheduled for early in the first quarter of 2014

The completed structure will comprise a 3 storey building located close to the main entrance of the Penrith Panthers entertainment complex. The facility consists of 2 main levels and 3 service levels with a building footprint of 655 m2 and an overall area of 2,160m2 including plant areas. In addition to the expected operational areas the building will also have space for two concession areas, which will be leased to independent operators.

The facility has a maximum operating handling capacity of 72 users per hour (36 customers) and has approval to operate for 15 hours per day. It will require about 21 staff operating over three shifts, including trainers who will be important in delivering the overall experience to retail customers. The current strategy is to operate from 9:00 am to mid-night with military and accredited skydivers using the facility in the late afternoons and evenings. These groups will require much less supervision and support compared with the retail market.

GROWTH PROFILE

ISA Group is expected to enjoy rapid growth as revenue ramps up over its first three years of operation and as retail consumer oriented VWT are built in other locations throughout Australia and New Zealand.

Penrith is expected to become cash flow positive shortly after opening and quickly reach operating profitability. Strong growth over its first three years of operations will be driven by increased utilisation, primarily from increasing retail customer numbers. Utilisation is anticipated to increase from around 46% in year 1 to about 61% in Year 3. Based on current pricing models annualised revenue is expected to increase from about $6 million in its first year of operation to over $8 million in year 3. Over the same period, the EBITDA margin is expected to increase from 42% to 50%.

The company is planning to greatly expand capacity by building facilities in other markets around Australia and New Zealand. Whereas Penrith is a large scale, integrated professional training and retail entertainment/experience facility, other projects will be solely for the retail customer market.

Opportunities have been identified in inner Sydney, Melbourne, Perth, Gold Coast and Queenstown (NZ). Site identification is underway in several of these markets with a view to commencing the next project during 2014, shortly after the opening of Penrith. Melbourne will probably be the next location followed by either Perth or Sydney.

The VWT at these growth locations are much smaller and simpler than Penrith and will look something like the structure in the picture below which is located in Hollywood, USA. The VWT in these structures are relatively small with a 3 metre diameter, as they aren't designed to support a professional training capability. Due to the smaller size of these VWT and smaller footprint (about 300m2), the capital cost is much lower at around $5 million.

Although smaller than a multi-purpose VWT such as Penrith, the handling capacity of these smaller VWT is similar and margins and returns are expected to be comparable with Penrith. These smaller facilities are typically established in high traffic locations and accordingly, can achieve very high utilisation rates.

As the company is (bank) debt free, it has considerable flexibility in funding its growth. Certainly, some debt will be utilised, as it moves to a financial structure that more appropriately reflects the cash generation from Penrith but it is possible that other sources of capital, such as partners, could also be utilised.

Sustained double digit revenue growth is a reasonable expectation on the basis that a facility is opened every 18 months or so over the next five years. Moreover, the potential impact on overall group profitability will be even more impressive as corporate overheads will require little expansion.

Indeed, growth could be accelerated with the simultaneous development of several new sites. Whilst the company is certainly moving forward in planning for the next projects, whether simultaneous development occurred would be dependent on the timing of site acquisition and council approvals as well as funding availability.

BUSINESS MODEL

ISA Group's business model is structured around delivering two linked value propositions to two separate customer segments, which are largely differentiated by their relative level of experience and sophistication. The core element that links the two value streams is the free-fall experience; the first 50 second drop of a skydive before the parachute opens. Firstly, the Penrith VWT will provide an easily accessible, secure training facility for military, professional and experienced enthusiast skydivers. A domestic facility will enable experienced skydivers to more rapidly build their proficiency and at potentially markedly lower cost compared with having to travel (as they often do) to overseas facilities. Secondly, the Penrith VWT (and other VWT to be developed by the company) will provide a new adrenalin experience in a safe, easily accessible environment for retail customers of all ages.

As the company's key asset is the Penrith VWT, it will be operating an infrastructure – like business model that is designed to generate high traffic through-put to maximise capacity utilisation and ultimately the return on capital employed. The map below identifies the key elements of the business model.

Indoor Skydive Australia Group Business Model

The Business Model Canvas courtesy of *www.businessmodelgeneration.com*

The challenge for management as a relative start-up will be to put the systems and processes in place to ensure the efficient delivery of the value propositions to its target markets.

Possibly the most interesting element of this model are the partnerships that the company has developed and their role in underpinning the success of the business.

SkyVenture LLC (www.skyventure.com), which was established in the US in 1998 by professional skydivers, invented the technology that delivered, for the first time, wall-to-wall airflow in a skydiving simulator. This innovation eliminated the possibility of flyers falling off the column of air, making indoor skydiving safe for all ages and skill levels.

We understand that two-thirds of all VWT world-wide are licensed from SkyVenture and that no other company (of which there are only a few) has more than two operating facilities. Accordingly, the company has first mover advantage in a global market space which it anticipates will generate in excess of US$1.6 billion in annual revenues by 2025. Its position is underpinned globally by 33 patents and 18 trademarks.

ISA Group has purchased equipment and technology from SkyVenture and will pay an annual licence fee of 7% of gross revenue for branding rights (iFly Downunder). Whilst these transactions are on a non-exclusive basis, the fact that ISA Group is seeking to open up to five new facilities throughout Australia and New Zealand over the next few years strongly suggests that the relationship with SkyVenture will only deepen. It is also significant that Australia will be SkyVenture's largest market outside of the US if the company is successful in pursuing its growth path.

The Panthers Club is reportedly the largest club in NSW with 140,000 members of whom 70,000 are based at Penrith. Whilst the club has the usual gaming activities, it also has a major concert hall, quality restaurants and bars, and other entertainment facilities including a cables wave park and aqua golf (both water based entertainment ventures) and a family entertainment centre. The club is a high traffic venue covering a very broad demographic.

Whilst the Penrith Panthers rugby league club lies at the core, The Panthers Club is a brand with a vision to be the entertainment hub of western Sydney, with a market size of 1.8 million. An $850 million plan to develop an entertainment, leisure and sporting precinct gives substance to this vision. The precinct will include a major hotel development (potentially backed by Crown as a site for a casino training facility), indoor sport facilities, shopping, entertainment and recreational opportunities such as sporting fields, green parks, open spaces and walking and cycling tracks.

ISA Group's VWT is located near the front entrance of the club and will eventually be linked by an air-bridge to the proposed hotel.

Although indoor skydiving is a relatively new experience, it operates to a well-established business model and as we understand it, all SkyVenture licenced facilities are successful and highly profitable. The industry is primarily based in the US, but SkyVenture licenced facilities are operating in Europe (UK, Spain, Russia), Brazil. UAE, Malaysia and Singapore. Direct competition is modest but likely to increase over time.

ISA Group's, Penrith facility will be the first to operate in Australia although several ventures have been proposed but apparently failed to proceed. A simple Google search will identify at least two such proposals. It is conceivable that another venture will be developed in Australia although we assume that it would be difficult to secure a licence from SkyVenture, notwithstanding the lack of exclusivity, if ISA Group is successful in developing further centres and its relationship with SkyVenture deepens as expected.

Even if a potential competitor were to secure appropriate technology, there are barriers to entry, the most significant of which is to secure development approval from a local municipal council. The issues to deal with include zoning, parking, noise and operating hours. These are not insurmountable but ISA Group's experience points to lengthy (measured as several years) timelines. Furthermore, ISA Group's relationships with the military and the sky diving industry may preclude a potential competitor from using its facility as a professional training facility.

FINANCIAL MODEL

$m	Year 1	Year 2	Year 3
Revenue			
Retail	4.0	5.1	5.9
Professional	1.4	1.8	2.0
Other	0.6	0.6	0.7
	6.0	**7.5**	**8.6**
Operating Expenses	2.2	2.6	2.8
Corporate & Overheads	1.3	1.4	1.5
EBITDA	**2.5**	**3.5**	**4.3**
margin	42%	47%	50%
KEY ASSUMPTIONS			
Capacity Utilisation	46%	55%	61%
Yield per Operating Hour			
Retail	$3,100	$3,200	$3,250
Professional	$1,200	$1,250	$1,300

Source: Gordon Capital estimates

The financial model above is based on the first three full years are operations of the Penrith VWT. It does not include any other facility which may be developed within this timeframe. This financial model can best be described as illustrative rather than a solid forecast, given the absence of any trading history against which to measure the validity of the underlying assumptions.

On 16 January 2013, ISA Group issued a supplementary prospectus which included an independent analysis by Telsyte of its financial modelling. Telsyte concluded that it had a high degree of confidence in the assumptions used by ISA Group, which are mostly based on overseas experience. Our assumptions fall well within these ranges. Nonetheless, given that the venture is a start-up business without any trading background, there is significant uncertainty as to how the various assumptions will come together to deliver an overall financial result.

It is our view that the most significant risks lie with the revenue to be generated from retail customers. The level of start-up retail demand and the rate at which it ramps up is nothing more than a best guess taking into account pricing models, marketing and business development strategies and foot-traffic near The Panthers Club. The revenue yield is based on a mix of individual, group and children's prices together with an assortment of discounts. The underlying assumption is that retail demand will be about 20% of available capacity in the first year of operation.

The company's pricing strategies are still being developed in conjunction with its marketing strategies, however, an average price of about $100 per customer has been indicated. Clearly, demonstrating value for money will be imperative in driving sustained retail demand. At this level, pricing is favourable compared with the Sydney Bridge Climb ($200+), whitewater rafting at Penrith ($94) and paintball ($50 - $200) but is more expensive than the Sydney Aquarium ($38), go-karting (~$70) and laser skirmish (~$60). Whist the experiences are vastly different and not mutually exclusive, the issue will be to drive repeat business and favourable viral recommendations through social networks.

The military and enthusiast skydivers will typically use the facility in the evening and at nights. The company is expected to provide access to the facility under medium to long term arrangements with the ADF and skydiving clubs.

On the other hanc, there is a high degree of certainty regarding operating costs which primarily comprise staffing, license fee to SkyVenture, lease from The Panthers Club, power, and insurance. Marketing is included as a group overhead.

The model indicates that the contribution margin is high and that there is plenty of room to support any error in the initial assumptions. The model also points to the considerable scale benefits for adding facilities in other markets (notwithstanding that they would have lower revenue and profit generating capabilities).

RISKS

As a start-up business, the successful execution of the business model represents the most significant risk faced by the company and its stakeholders. However, a number of specific risks can be identified that could have significant favourable or unfavourable impacts on performance and returns.

Construction delays will obviously impact the timing of business opening and first revenues and could also impact the cost of the development. The most likely cause for delays would be poor weather during excavation and construction of the structure. We understand that the work has commenced on building the equipment in the US, but delays in this process or shipment to Australia could also impact the overall schedule.

Certainly, construction delays would be a nuisance but would hardly be fatal. Any delays would most likely be measured in weeks and the most likely adverse consequence would be to boost the capital cost base. Having said this, the project is scheduled for opening during the first quarter of calendar 2014, and subject to reasonable weather, the target is for early in the quarter.

With a relatively large capital base, a fixed cost structure, margins and profitability are highly leveraged to the level of **capacity utilisation**. We understand that all currently operating SkyVenture licenced VWT are achieving at least 60% capacity utilisation and generating EBITDA margins in excess of 40%. Capacity utilisation will build over the course of the first year of operation, but in the early months it will most likely be well under 50%. Early support from the military and sky diving clubs should ensure that demand from professionals and enthusiasts quickly achieves target levels but initial consumer demand is expected to be quite low relative the 36 customer per hour capacity. This will build as marketing programs are implemented and awareness increases. Overseas experience suggest that pre-opening sales are important in building anticipation and awareness, as well as early revenues. We do not see the issue as one of market acceptance which could result in permanently low utilisation rates, but rather at what rate will utilisation increase to target levels. In view of the proposed massive re-development of the Panthers Club, we see the medium to long term issue as being how high could utilisation rates go. VWT in high traffic locations overseas are understood to be achieving very high rates of utilisation

Revenue Mix is linked to utilisation rates and will reflect the relative acceptance by two distinct market segments. Potential revenue per hour from the consumer segment is considerably higher ($3000 plus @90% of capacity) than the military and enthusiasts (~$1200 per hour). Despite this difference, margins are expected to be comparable. Consumers will require training, high levels of supervision and significant marketing expenditures which will be quite modest for the latter segment.

Staffing is predicated on a target mix of revenues and in particular strong demand from consumers. Highly capable staff will be required due to the training that consumers will be required to undertake and the strong focus on comfort and safety. On the other hand, staffing levels for accredited skydivers will be relatively modest. Accordingly, misjudgements on the revenue mix could impact the cost structure through a staffing mis-match.

Consumer confidence in the absolute **safety** of the venue and the experience will be paramount in the long term sustainability of the business. Training is a key component of the total experience for the consumer and this is supported by the high level of supervision once in the VWT. The risk associated with potential accidents has been mitigated by the design of the VWT which does not have any exposed steel parts and should the fans fail, air is slowly released from the VWT ensuring a slow decent to the floor. We assume that the company will implement and maintain to a high standard the procedures set out in the iFly franchise agreement and the regulations of the International Body Flight Association. Apparently international experience is that more people slip over outside the tunnel than are injured in the tunnel.

As medium term growth will be driven by the launch of VWT in other cities around Australia and New Zealand, **site acquisition** will have a major bearing on time lines and ultimate success. Timeliness will be affected by the municipal council approval process whilst land costs, development costs and traffic flow will drive the financial performance of the venture.

BALANCE SHEET STRUCTURE AND FUNDING

IDZ listed on the ASX in January 2013 having raised $6.1 million in new equity. Accordingly, the financial results for the six months ended 31 December 2012 and the balance sheet as at 31 December reflected the company's then pre-IPO status of a start-up, with a small cash balance and no assets or liabilities of significance. The Pro-forma balance sheet below has been constructed by combining the data from the March quarter cash flow report with the balance sheet as at 31 December to provide an estimate of the key line items.

PRO FORMA BALANCE SHEET	
($mill)	**31 March 2013***
Cash & Equivalents	4.2
Plant & Equipment	1.6
Other	0.4
Total Assets	6.2
Current Liabilities	0.1
Shareholders' Equity	6.1
Liabilities & Equity	**6.2**
*Gordon Capital estimates	

The objective of the IPO was to raise $12 million to fund the equipment and construction of the Penrith VWT ($10 million) and to provide some working capital. The funding gap has been filled by a convertible note facility with Steve Baxter, a non-executive director of the company, to provide funding up to $5.9 million (at an interest rate of 10%). As at the end of April 2013, there has been no call on this facility.

A deposit of $1.4 million has been paid for equipment and USD1.5 million has been purchased to meet further progress payments. In total, the company had cash of $4.25 million as at 30 April 2013 and zero debt.

The convertible note facility will be drawn down, mostly in the December 2013 half year to meet progress payments to the builder of the project.

Whilst raising the full $12 million in equity was the ideal scenario, the convertible note facility provides considerable flexibility to the company through the construction and start-up phases of the business.

On the expectation that usage patterns following the opening are broadly in line with assumptions, the facility should quickly become cash flow positive. This will enable the company to commence repayment and potentially refinance with bank debt.

As more than two-thirds of revenue is expected to be generated by retail customers, the cash inflow cycle should be quite short and supporting working capital requirements should be relatively low. Accordingly, the company is expected to demonstrate a high capacity to quickly repay the convertible note or other debt, which may be used in due course to fund VWT facilities in other cities.

CAPITAL STRUCTURE

ISA Group's capital structure is:

Listed fully paid ordinary shares	36.9 million
Unlisted, escrowed fully paid ordinary shares	21.9 million
Total	58.8 million

Of the unlisted shares, 19.5 million are held by management interests and are escrowed for 2 years. The remainder are owned by other seed investors and are escrowed for 12 months.

The top 20 shareholders own a little over 80% of the listed shares of which directors and management hold about 35%. The table below details the substantial shareholders.

SUBSTANTIAL SHAREHOLDERS		
Registered Holder	**Beneficial Owner**	**Holding**
Birkdale Holdings (Qld) Pty Ltd	Steve Baxter	27.1%
Trackcorp Holdings Pty Ltd	Not associated with management	21.7%
Quad Investments Pty Ltd	Not associated with management	15.5%
Excalib-Air Pty Ltd	Wayne Jones & Daniel Hogan	7.5%

We understand that members of the skydiving fraternity represent a significant proportion of the shareholder base. This, no doubt, reflects the broad network of the company's founders but also the discounts to the facility offered during the IPO to larger investors (through membership of the Founders Club).

A key objective of the Founders Club was to bring together investors with a shared vision for the company and the development of the VWT at Penrith. In addition to a range of discounts, members would be invited to special events and depending on the level of membership, site tours.

Founder Club levels are:

Silver	$5,000 investment (25,000 shares)
Gold	$10,000 investment (50,000 shares)
Platinum	$50,000 investment (250,000 shares)

This has resulted in a very tight shareholder structure and low liquidity. Inasmuch as the share price is at a considerable premium to the IPO issue price, this is probably not a bad thing in the short term. Once the facility is operating early next year, and generating revenue, it will be important for liquidity to freed up to ensure that demand for stock can be satisfied and that the valuation reflects the earning power of the company.

DIRECTORS AND SENIOR MANAGEMENT

Ken Gillespie, LtGen (retired), Non-Executive Chairman

Ken is one of Australia's most distinguished career soldiers. Over more than 43 years in the Australian Defence Force, he held many senior roles including Chief of Staff Training Command - Army, Vice-Chief of the Defence Force and ultimately Chief of Army.

Wayne Jones - Chief Executive Officer (CEO)

Wayne Jones served for 21 years in the Australian Defence Force. The last 14 years of which were spent as part of the highly recognized SAS where he has been involved in multiple operations both overseas and in Australia. Wayne holds various senior instructor qualifications and has been at the forefront of Military Freefall development and training over the past 10 years. Wayne's leadership and management qualities have been recognised throughout his career in the Defence force.

Danny Hogan MG - Chief Operations Officer (COO)

Danny enlisted in the Australian Regular Army in 1991. In 1997 he attempted and successfully completed the Special Air Service Regiment (SASR) selection course and was selected for further service within SASR. He has been recognised and awarded for his actions and leadership during his 21 year military career. His ability to plan, manage and execute tasks in complex and fast moving environments with sound judgment are proven. Danny is qualified in Military Freefall Parachuting Operations, is a highly qualified senior dive instructor within the Special Air Service Regiment for air, oxygen and mixed gas diving operations. He was selected and completed a two year military exchange in the USA with two of the USA's elite Special Forces Commands where he gained his freefall qualifications with extensive use of VWT simulation training.

John F Diddams - (Non-exec Director & Company Secretary)

John has over thirty five years of financial and management experience as CFO, CEO and director of both private and public listed companies. John is the principal of a CPA firm that provides corporate advisory services and Non-Exec Director & Company Secretarial services to SME & mid-cap companies, including the management of the process to raise capital and list on the ASX. John has a B.Com from UNSW, is a Fellow of the Australian Society of CPAs and a Fellow of the Australian Institute of Company Directors.

Stephen Baxter – (Non-exec Director)

Former Regular Army electronics technician turned successful entrepreneur, Steve is the founder of early Internet Provider SE Net and co-founder of Australia's premier competitive telecommunications infrastructure company, Pipe Networks Ltd. In 2008 he moved to the USA and joined Google Inc (NASDAQ:GOOG) deploying high speed telecommunication infrastructure, before returning to Australia. He has been a Director on several successful ASX listed companies boards and is an Australian success story with extensive experience in successful start-up and listed companies. He is also founder of Brisbane based not-for-profit River City Labs - an early stage and start-up coworking space for tech and creative companies.

Malcolm Thompson - (alternate for Stephen Baxter)

An accountant and governance specialist by training, Malcolm has over 20 years' experience across technology, telecommunications, R&D and aerospace industries in senior roles, including CFO, Company Secretary and Director. Malcolm was instrumental in setting up governance, financial and operational aspects of IT company Red Hat Inc's (NYSE:RHT) Asia Pacific arm and the listing and growth of telecommunications infrastructure provider PIPE Networks Ltd. He has assisted a local subsidiary of EADS NV (EPA:EAD) relating to $6B construction and maintenance contracts for advanced military helicopters. Working with Stephen Baxter, he is currently Chief Investment Officer for Transition Level Investments targeting optimisation of angel and start-up investment success.

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