



## ASX RELEASE

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General Manager  
The Company Announcements Office  
Australian Securities Exchange

## MARKET UPDATE

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### HIGHLIGHTS

- Sales of circa US\$450,000 for nine months ended 30 September 2009 (ex. licensing royalties)
  - Three production facilities now fully operational
  - UL (United Laboratory) certification in progress, opening access to US markets soon
  - Delivery of re-worked prototype of Military Spec Unit targeted for 2010
  - Exciting pipeline of new products to be developed over next 12 months
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Island Sky® Australia Limited (ASX:ISK) (Island Sky®) is pleased to provide a market update in relation to the commercialisation, production, marketing, distribution, and sale of its existing range of its unique 'air to water' products, as well as the development of an exciting pipeline of new products.

Island Sky® has achieved a number of key milestones in 2009 along the path to commercialisation, most significantly the finalisation of the product designs of the Skywater® 14 and 300 units and the establishment of three manufacturing facilities in China, India and Mexico. The company has also recorded some initial commercial sales.

### 1. COMMERCIALISATION STRATEGY

The company has a clear strategy to continue the process of commercialisation:

- (a) In the immediate term, **driving sales growth** in relation to its now market-ready Skywater® 14 and Skywater® 300 units, principally targeting residential, commercial and light-industrial markets, through increased marketing, promotion and distributor support; and
- (b) Over the coming 12 to 18 months, undertaking **further product development** by leveraging off of its existing product designs to create a new range of products for use in other applications (e.g. 500-Military Unit, 300-Oil Rig unit, 1000-Light Industrial unit, 14-World Unit, Solar Powered Unit etc.).

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## 2. SALES & MARKETING STRATEGY

### 2.1 Overview

The company's Skywater® 14 and Skywater® 300 machines are now market-ready, having been through a process of evaluation, testing and design changes during 2009.

Island Sky® continues to implement its wholesale distribution model in relation to the two products. The company has a network of distributors around the globe, with new agents recently announced across a number of countries in Europe, Africa and the Middle East.

Following the establishment of large-scale production facilities and a broad distribution network, Island Sky® booked its first commercial sales of approximately US\$450,000 for the nine months ended 30 September 2009 (excluding licensing royalties). The company anticipates an increase in sales in the December 2009 quarter.



### 2.2 Key target markets – Skywater® 14

The Skywater® 14 machine is a home and office water cooler that continuously replenishes its 22 litre tank by condensing vapour out of the air. The unit has been designed for commercial and residential use and competes with traditional bottled water coolers. The product has two key competitive advantages over traditional bottled water coolers:

- (a) **Lower running cost** – The Skywater® 14 uses approximately the same amount of electricity as an ordinary water cooler. Bottled water coolers, on the other hand, involve the added cost of replacement bottles. Island Sky® estimates that the Skywater® 14 has an average 'pay-off period' of approximately 10 months.
- (b) **Lower carbon footprint** – The energy consumed in producing, filling, transporting and disposing of plastic bottles is significant. Governments and businesses around the world have recognised this and in response have banned or are phasing out the use of bottled water in their offices. For example, the NSW government has recently announced that it will ban the use of bottled water in government departments and agencies.

Island Sky® intends to aggressively pursue this market by continuing to work with distributors with established networks in key regions, undertaking direct sales activities and participating in event sponsorship and tradeshows.

In addition, in 2010 Island Sky is planning a global public relations campaign to bring the “story” of Island Sky® water-making machines to the world. The Internet will play a large role in the campaign as we revamp islandsky.com to optimize on the worldwide web and register and rank at the top of search engines in major markets.

### 2.3 Key target markets – Skywater® 300

The Skywater® 300 has capacity to produce approximately 1,100 litres per day in optimal conditions, enough to meet all of the water demands of an average household.

The product is targeted principally at homes that are "off the grid" from public water sources. The machines may also be bundled together to provide point of use water service for larger housing developments, greenhouse irrigation, and light industrial use, saving thousands of dollars in infrastructure.

Island Sky® is initially targeting the Skywater® 300 at number of specific markets, including:

- Developing regions around the world where clean drinking water and/or infrastructure is limited or non-existent;
- Residential property developments;
- Remote mining camps;
- Greenhouse irrigation;
- Light industrial businesses;
- Humanitarian and emergency relief; and
- Government and military.

As the company continues to improve the energy efficiency of the Skywater® 300, and as the world’s water resources continue to be depleted (thereby increasing the price of water), Island Sky® believes that there will be a significant increase in mainstream demand for the units as a substitute for mains water.

At the appropriate price point, the ‘point of use generation’ method offered by the Skywater® 300 will present a very compelling alternative to traditional water supply as it avoids the associated inhibitive infrastructure costs without diminishing existing water supplies and without creating a toxic by-product (i.e. brine).

Island Sky® may be able to further penetrate these markets through the continued up-scaling of its technology into larger and more efficient machines (see further below).

### 2.4 Key regions

Island Sky’s sales and marketing efforts are focussed on a regional basis. Below is a summary of a number of recent developments in each of the relevant regions:

- (a) **Australia** – An Island Sky company representative has been appointed in Sydney to handle public relations, field all media and general product inquires and to coordinate the various sales efforts and sales agents in the Australian market.

The company exhibited the Skywater 14 and Skywater 300 to the general public for the very first time at the Green Build Expo in Melbourne Oct 16-18 (see photo below). The response

from the public was extremely enthusiastic and the company is now in discussions with several new distributors and new sales agents.



Skywater 300 unit on display at the Green Build Expo in Melbourne

Following the exposition, a Skywater 300 unit was installed at a permanent demonstration site at Narre Warren, 45km outside of Melbourne, where interested distributors can see the machine at work.



Skywater 300 display unit being installed at Narre Warren

There is also strong demand for the product in Australia's growing mining industry. Many of Australia's mines are very remote and water has to be brought in by tankers. Skywater 300 is seen as a cost effect alternative to trucked in water. Various pilot programs in NSW are currently being proposed. Additional discussions are underway with new development projects that also rely on a combination of trucked water and recycled grey water.

- (b) **Europe** – Island Sky has begun operations in Europe by appointing distributors in Spain (Essential Water S.L.) and Italy (Veragon Italia, srl). Both markets represent a significant opportunity for the Skywater 14 and Skywater 300.

Both models have received CE approvals and are now in the process of having water testing performed by local authorities in order to receive water certificates in each country. The company expects to receive these approvals by the middle of November 2009, which would pave the way for sales in the region.

- (c) **Latin America** – With many regions in Latin America facing critical water shortages and infrastructure constraints, Island Sky is well positioned to be able to provide water solutions for this market. The company has appointed a distributor in Venezuela (Great Eco Solutions) and has shipped over 100 Skywater 14 units to the Caracas region. The distributor will launch the product at the Caracas Home Show in October 2009 and is also making presentations to the National Oil Company (PDVSA). A search for further distributors is under way in Mexico and other countries in Latin America, with a focus on Colombia, Central America, and Brazil.
- (d) **Middle East** – The Middle East is shaping up to be a very exciting market for Island Sky. There is significant demand for water in the region. Existing resources have been taxed beyond their capabilities by new development. Alternative means of water delivery are constantly being employed, which, in most cases involves trucking large quantities of water at great expense to the end user.

With several new distributors in the region, Island Sky has placed successful pilot demonstrations of both the Skywater 14s and the Skywater 300. Orders have started to come in, machines have been delivered, and the company is hopeful that sales activity in the Middle East will continue to ramp up over the coming months.



**Skywater® 300 unit installed and operating in Dubai**

- (e) **Africa** – Pilot demonstrations of the Skywater 300 are currently being set up in Namibia, South Africa, Kenya, Sudan, The Democratic Republic of the Congo, Zambia, Botswana, Zimbabwe, and Sierra Leone.

Island Sky is working with a team of Distributors, Government contacts, and NGO's to bring life-giving water to one of the most water starved regions of the world. In remote areas of Africa it is not uncommon for women and children to walk several miles every day to bring water for their family. In the urban areas, informal settlements containing thousands of people living in primitive housing rely on large tanks of water which are filled by water trucked in on irregular schedules as their only source of water. Island Sky machines will provide an efficient and cost effective water source at the point of use in these areas eliminating the need for costly infrastructure.

- (f) **Asia** – Distribution in a number of key Asian markets has been outsourced by way of an exclusive royalty-based distribution agreement. The distributor continues to make positive inroads in the region, with a number of demonstration units now operating and some promising sales leads emerging.

### 3. MANUFACTURING UPDATE

After extensive testing, pilot production runs and process refinement during 2009, Island Sky® has now finalised arrangements with three manufacturing facilities in China, India and Mexico. The factories provide Island Sky® with total annual production capacity of 50,000 Skywater® 14 machines and 6,000 Skywater®300 machines, positioning the company for rapid growth as the demand for units increase. The production facilities are strategically located around the world to provide easy access to the company key markets, as outlined below:

- **China** – the company’s Chinese factory, operated under contract by Protel Pacific, is now in commercial-scale production of Skywater®14 machines, and is capable of producing approximately 200 units per single-shift day.
- **India** – the Indian factory, owned by a third party, is capable of producing Skywater® 300 machines under license from Island Sky® at a rate of up to 12 units per single shift day ( 12 x 5 days x 50 weeks = 3000 units/year). The machines are either distributed by the manufacturer in India or Southeast Asia (5% royalty payable to Island Sky®) or sold back to Island Sky® for wholesale distribution in Europe, Africa, and Australia markets.
- **Mexico** – The Skywater® 300 is also produced in Monterrey, Mexico by factory owner, Empresas Mayer with a capability of up to 12 units per single shift day. Machines produced in Mexico are sold to distributors in the US, Mexico, Central & South America, Caribbean Islands.



Skywater® 300 Unit on the floor of the company’s factory in Mexico

The attainment of CE certification – a mandatory conformity mark (see below) applied to most household electronic goods indicating compliance with key health and safety standards – was a key milestone for the company earlier this year. The certification has opened up a myriad of western and African markets for Island Sky®.

Island Sky® will also obtain the equivalent certification from United Laboratories (UL) (see below) to enable it to access US markets. The company has been working closely with UL and is confident of securing the certification. Once the UL certification has been secured, Island Sky® will be able to begin selling its products in the United States, opening up a substantial market for the company.



## 4. NEW PRODUCT DEVELOPMENT

### 4.1 Overview

Island Sky® has an exciting research and development program on foot. The company's product development strategy can be broken into two principal streams:

- **Product variations** – modifications of existing designs to create new products for a particular industry or application; and
- **Product up-scaling** – increasing the size and scale of the machines to increase water production and improve energy efficiency.

### 4.2 Product variations

Off the back of the Skywater® 14 and Skywater® 300, Island Sky® is in the process of developing four new units:

- **Skywater® MilSpec Unit** – a version of the Skywater® 300, built to the specifications of the US Military for use in remote locations during deployment, where the transportation of water is logistically difficult and/or dangerous;
- **Skywater® Oil Rig Unit** – an explosive-proof version of the Skywater® 300 which meets the safety requirements of offshore oil and gas drilling rigs;
- **Skywater® World Unit** – a very basic, low-cost, version of the Skywater® 14 without many of the more discretionary features of the original design (such as heating/cooling facilities, electronic display screen etc.) for use in low socio-economic regions; and
- **Skywater® Solar Unit** – a Skywater® 300 unit powered by factory fitted solar panels.

Of these products, the MilSpec unit is the most advanced. The specially designed unit, created to meet the durability and shock resistance requirements of the military, is powered by diesel generators to enable use in remote locations on deployment. After Island Sky® presented the custom built machine (see below) to the Quartermasters Symposium in Virginia on June 19, the military has provided its detailed specifications to enable Island Sky® to modify and refine the prototype unit.



The first version of the MilSpec unit designed by Island Sky® earlier in 2009

The company is now implementing the design changes requested by the military and is aiming to deliver the modified prototype unit within six to eight months. From there, the military will undertake further evaluation and testing before making a decision as to whether to proceed with a bulk order of the machines. If such an order materialises, it is likely to be a very material contract for the company and would provide enormous validation of the technology.

Off the back of the company's discussions with the US Military, Island Sky® has fielded enquiries from a number of other international militaries and defence departments.

#### 4.3 Up-scaling of the technology

The Skywater® technology has already proved to be scalable – the development of the Skywater® 300 off the back of the Skywater® 14 unit resulted in demonstrable improvements in the efficiency of the technology – the energy consumption per litre of water produced has been significantly reduced.

The development of an even larger machine, the Skywater®1000, which has production capacity of approximately 3,800 litres per day, is demonstrating further gains in efficiency. The larger machine will target industrial, building, construction, mining and agricultural markets.

Island Sky® will continue to up-scale the technology into larger and larger machines until the energy efficiency of the machines begins to plateau. At that point, the company will begin to implement a strategy of 'bundling' the machines to work collaboratively

#### 4.4 Technology Development Agreement

The company is presently negotiating a technology development agreement with Empresas Mayer, the Mexican manufacturer for Island Sky®. Empresas Mayer is the largest A/C distributor in Mexico, and manufactures the Skywater® 300 in their Monterrey factory.

Empresas Mayer employs over 1000 people, including 200 engineers. Empresas Mayer will develop the US MilSpec Unit, as well as the Oil Rig Unit and Skywater® 1000 unit in conjunction with Island Sky®. Any resulting new patents will belong to Island Sky®. Once these units have been developed and are accepted by Island Sky®, manufacturing will commence in the Empresas Mayer factory, which is now being enlarged to meet demand.

### 5. CORPORATE

The forthcoming 6 to 12 months is shaping to be a very exciting period for Island Sky®. As commercial sales begin to increase and as the company brings its exciting pipeline of new products online, its capital requirements will also intensify. The company is currently considering a number of capital management initiatives to help nurture the business through this period.

Yours sincerely,



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