



30 January 2009

ASX RELEASE

Appendix 4C Quarterly Report – Commentary

This commentary should be read in conjunction with the Appendix 4C attached.

Island Sky Australia Limited (ASX: ISK) has released the additional commentary below, in support of its Appendix 4C Quarterly Report attached, for the quarter to 31 December 2008.

Shipments

During December 2008, ISK commenced the shipment of Skywater 14 units to a distributor in Florida USA. These units were manufactured following the establishment of the production line at the Protel Pacific Corporation's manufacturing plant in China. That production line has now completed a pilot run and is in a position to undertake mass production in response to orders from distributors.

Production

Good progress has also been made in the establishment of a production line in Mexico which will produce both the Skywater 14 and Skywater 300 units.

Mass production of the Skywater 300 unit is scheduled to commence in Mexico and India in the second quarter of 2009.

Applica Merger

On 4 November 2008, ISK announced that it had entered into a conditional Merger Implementation Agreement (MIA) with Applica Water Products LLC (Applica). The MIA envisaged that Applica would acquire the majority of the issued ordinary shares in ISK under a scheme of arrangement (Scheme) for A\$0.45 cents per share.

The Scheme is subject to a number of conditions (and termination events) including Applica being satisfied regarding due diligence enquiries. Applica has not completed those enquiries. ISK is presently engaged in discussions with Applica regarding the terms of a possible extension of time and expects to be able to advise shareholders further within the next week.

About Island Sky Australia

Island Sky's mission is to provide low-cost, high-quality drinking water equipment throughout the world.

Island Sky® designs and manufactures Atmospheric Water Generators utilising its patented 'adiabatic' distillation technology. Island Sky®'s technology replicates the natural process of water vapour condensation from air into drinking water.

For further information, please contact:

Pia Bentick
Company Secretary
(08) 8232 2550

Richard Lenarduzzi
CPR
0411 254 390

Appendix 4C

Quarterly report for entities admitted on the basis of commitments

Introduced 31/3/2000. Amended 30/9/2001, 24/10/2005.

Name of entity

ISLAND SKY AUSTRALIA LTD

ABN

73 122 948 805

Quarter ended ("current quarter")

31 December 2008

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from customers	2,932	2,932
1.2 Payments for		
(a) staff costs	(585)	(948)
(b) advertising and marketing	(6)	(15)
(c) research and development	(168)	(390)
(d) leased assets	-	-
(e) other working capital	(345)	(921)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	114	147
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid		
1.7 Other (provide details if material)		
Professional Fees	(533)	(561)
Rental	(24)	(47)
Other	(15)	(30)
Net operating cash flows	1,370	167

+ See chapter 19 for defined terms.

Appendix 4C
Quarterly report for entities
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	Current quarter \$A'000	Year to date (6 months) \$A'000
1.8 Net operating cash flows (carried forward)	1,370	167
Cash flows related to investing activities		
1.9 Payment for acquisition of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	-	-
(e) other non-current assets	-	-
1.10 Proceeds from disposal of:	-	-
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	-	-
(e) other non-current assets	-	-
1.11 Loans to other entities	-	-
1.12 Loans repaid by other entities	-	-
1.13 Other (provide details if material)	-	-
Net investing cash flows	-	-
1.14 Total operating and investing cash flows	1,370	167
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc.	-	4,086
1.16 Proceeds from sale of forfeited shares	-	-
1.17 Proceeds from borrowings	-	-
1.18 Repayment of borrowings	(295)	(295)
1.19 Dividends paid	-	-
1.20 Other (provide details if material) –share issue costs	(4)	(4)
Net financing cash flows	(299)	3,787
Net increase (decrease) in cash held	1,071	3954
1.21 Cash at beginning of quarter/year to date	5,897	2,652
1.22 Exchange rate adjustments	(85)	277
1.23 Cash at end of quarter	6,883	6,883

+ See chapter 19 for defined terms.

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	378
1.25	Aggregate amount of loans to the parties included in item 1.11	

1.26 Explanation necessary for an understanding of the transactions

Directors' remuneration and fees amounted to \$244,000. Rent and other professional services paid to director related entities \$134,000

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

N/A

2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

N/A

Financing facilities available

Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities		
3.2	Credit standby arrangements		

Reconciliation of cash

+ See chapter 19 for defined terms.

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Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
4.1 Cash on hand and at bank	1,804	787
4.2 Deposits at call	5,079	5,110
4.3 Bank overdraft	-	-
4.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.23)	6,883	5,897

Acquisitions and disposals of business entities

	Acquisitions <i>(Item 1.9(a))</i>	Disposals <i>(Item 1.10(a))</i>
5.1 Name of entity		
5.2 Place of incorporation or registration		
5.3 Consideration for acquisition or disposal		
5.4 Total net assets		
5.5 Nature of business		

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here:
(Company secretary)

Date: 30 January 2009

Print name: Pia Bentick-Owens

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The definitions in, and provisions of, *AASB 1026: Statement of Cash Flows* apply to this report except for the paragraphs of the Standard set out below.
 - 6.2 - reconciliation of cash flows arising from operating activities to operating profit or loss
 - 9.2 - itemised disclosure relating to acquisitions
 - 9.4 - itemised disclosure relating to disposals
 - 12.1(a) - policy for classification of cash items
 - 12.3 - disclosure of restrictions on use of cash
 - 13.1 - comparative information
3. **Accounting Standards.** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

+ See chapter 19 for defined terms.