



## ASX RELEASE

29 January 2010

General Manager  
The Company Announcements Office  
Australian Securities Exchange

### Appendix 4C Quarterly Report

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

#### **SALES & MARKETING UPDATE**

During the December quarter, Island Sky continued to implement its marketing strategy and pursue a number of sales opportunities.

Sales of \$56,000 for the December quarter were below expectations, with tough trading conditions on world markets proving challenging for the company. A number of potential orders were held over the Christmas period into the New Year, and the company remains optimistic about capitalising on these opportunities over coming quarter.

During the quarter, the company announced that it was well progressed with the implementation of its pilot demonstration program, having installed a series of Skywater14 and 300 machines at a variety of locations around the world. The demonstrations have enabled customers and distributors to see the machines in action first hand, providing a platform for an aggressive sales and marketing campaign in 2010.

Included in these installations was a pilot Skywater300 unit, installed at a permanent demonstration site in Narre Warren, outside of Melbourne. Two other demonstration units are planned for New South Wales and Queensland.

During the quarter, the company also negotiated a distribution agreement with Waternauts LLP (subsequently signed in January) for distribution of Skywater machines in Australia. Island Sky has agreed to ship two container-loads of Skywater 14s to Australia, in late January, under a consignment arrangement. The Waternauts business is focused on water-filtration products. Its head office is in Victoria and has agencies in Tasmania, Darwin, Katherine, Tennant Creek, Alice Springs, Kalgoorlie, Mt Isa and Emerald, servicing 80 other towns Australia-wide.

Island Sky has also made significant inroads in its sales and marketing efforts in the Middle East and Italy, with the announcement of shipments to those regions post balance date (12 January).

### **MANUFACTURING UPDATE**

The company's three outsourced manufacturing facilities in China, India and Mexico have continued to operate well.

In November, the company announced that it had signed a Term Sheet with its Mexican manufacturer, Empresas Mayer, for the development of the next generation Skywater300 machines.

The company also announced in mid-December that it had received notice of the registration of its Australian patent, which it originally filed for in 2005. The patent covers the adiabatic distillation (air to water) technology that underpins both the Skywater 14 and Skywater 300 machines.

The company continues to work with Underwriters Laboratories Inc (UL) to attain final approval for its Skywater14 units. This certification is conducted by an independent product safety certification organisation and will enable retail sales in the US market once received. Island Sky has attained CE approval (the European equivalent), which allows it to sell its machines in other parts of the world.

### **CORPORATE**

The company conducted a non-renounceable rights issue to shareholders that closed on 8 December 2009. The company had received applications from eligible shareholders for 3,002,289 ordinary shares totalling \$420,320. The shares were allotted on 16 December 2009. To date, the company has received applications for 255,714 shortfall shares. The company intends to place additional shortfall shares in the coming quarter.

### **About Island Sky Australia**

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

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

**For further information, please contact:**

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**Island Sky Australia**  
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+ See chapter 19 for defined terms.

# 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 2009

### 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	56	370
1.2 Payments for		
(a) staff costs	(585)	(1,197)
(b) advertising and marketing	(223)	(461)
(c) research and development	(98)	(191)
(d) leased assets	-	-
(e) other working capital	(126)	(853)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	3	44
1.5 Interest and other costs of finance paid	(2)	(4)
1.6 Income taxes paid	(17)	(18)
1.7 Other (provide details if material)		
Professional Fees	(251)	(341)
Rental	(37)	(65)
<b>Net operating cash flows</b>	<b>(1,280)</b>	<b>(2,716)</b>

+ See chapter 19 for defined terms.

**Appendix 4C**  
**Quarterly report for entities**  
**admitted on the basis of commitments**

	Current quarter \$A'000	Year to date (6 months) \$A'000
1.8 Net operating cash flows (carried forward)	(1,280)	(2,716)
<b>Cash flows related to investing activities</b>		
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	-	2
1.11 Loans to other entities	-	-
1.12 Loans repaid by other entities	-	-
1.13 Other (provide details if material)	-	-
<b>Net investing cash flows</b>	-	2
<b>1.14 Total operating and investing cash flows</b>	<b>(1,280)</b>	<b>(2,714)</b>
<b>Cash flows related to financing activities</b>		
1.15 Proceeds from issues of shares, options, etc.	431	431
1.16 Proceeds from sale of forfeited shares	-	-
1.17 Proceeds from borrowings	-	-
1.18 Repayment of borrowings	-	-
1.19 Dividends paid	-	-
1.20 Other (provide details if material) –share issue costs	-	-
<b>Net financing cash flows</b>	<b>431</b>	<b>431</b>
<b>Net increase (decrease) in cash held</b>	<b>(849)</b>	<b>(2,283)</b>
1.21 Cash at beginning of quarter/year to date	2,187	3,638
1.22 Exchange rate adjustments	1	(16)
1.23 <b>Cash at end of quarter</b>	<b>1,339</b>	<b>1,339</b>

+ 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	189
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 \$168,110  
 Rent and other professional services paid to director related entities \$20,912

**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	-	-

+ See chapter 19 for defined terms.

**Reconciliation of cash**

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	723	840
4.2 Deposits at call	616	1,347
4.3 Bank overdraft	-	-
4.4 Other (provide details)	-	-
<b>Total: cash at end of quarter</b> (item 1.23)	1,339	2,187

**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		

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## 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: 29 January 2010

Print name: Rajita Alwis

## 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.

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