ANNOUNCEMENT TO AUSTRALIAN SECURITIES EXCHANGE

26 February 2010

General Manager
The Company Announcements Office
Australian Securities Exchange

Appendix 4E
Preliminary final report for the period ending 31 December 2009

The following information is provided to ASX under listing rule 4.3A.

1. Reporting period

a. Current Period: 12 months ended 31 December 2009
b. Prior Period: 12 months ended 31 December 2008

2. Results for announcement to the market

Consolidated Group	Item		Change $	% Change		31 December 2009
Revenue – excluding interest received (continued operations)	2.1	down	(363,667)	(9.14)%	to	3,617,165
(Loss) after tax attributable to members	2.2	down	(2,853,393)	(1,417.70)%	to	(2,652,124)
Net (Loss) attributable to members	2.3	down	(2,853,393)	(1,417.70)%	to	(2,652,124)
Dividend	2.4	The Board is not proposing any dividend for the 2009 or 2008 financial year.				
The record date for determining entitlements to the dividend	2.5	N/A				
Explanatory information	2.6	Please refer to the attached Preliminary Financial Report 2009 for an explanation of the figures in 2.1 to 2.4				

2.7 Net tangible assets per security

	31 December 2009	31 December 2008
Number of securities	128,298,168	125,295,879
Net tangible assets per security	$0.03	$0.07

The group has achieved a number of key milestones in 2009 along the path to commercialisation, most significantly the finalisation of the product designs of the Skywater14 and 300 units and the establishment of three manufacturing facilities in China, India and Mexico. The Skywater14 and 300 machines are now market-ready, having been through a process of evaluation, testing and design changes during 2009. During the last 12 months the company has secured numerous distribution agreements to assist with driving sales growth in the future.

AUDIT STATUS

The Preliminary Final Report 2009 is based upon accounts that have been subject to audit and review, however the auditor has not signed off or provided final clearance with the attached figures.

Yours faithfully

Rajita Alwis
Company Secretary

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islandsky®
WATER MAKING MACHINES

ABN 73 122 948 805

PRELIMINARY FINAL REPORT 2009

Island Sky Australia Limited and Controlled entity
ABN 73 122 948 805

CONTENTS

Island Sky Australia Limited and Controlled entity

ABN 73 122 948 805

STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 31 DECEMBER 2009

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
		$	$	$	$
Revenue	2	3,617,165	3,980,832	530,668	50,000
Other income	2	144,871	223,945	518,720	220,349
Changes in inventories of finished goods and work in progress		(571,972)	11,575	-	-
Distribution		(8,959)	(22,010)	(1,305)	(824)
Marketing		(688,124)	(220,071)	(72,367)	(83,000)
Amortisation expense	13	(219,530)	-	-	-
Depreciation expense	12	(123,721)	(206,261)	-	-
Occupancy	3	(194,252)	(84,379)	(28,926)	(26,266)
Administration	3	(903,767)	(581,261)	(240,938)	(122,614)
Professional fees	3	(811,841)	(972,285)	(352,923)	(678,220)
Other expenses	3	(2,874,061)	(1,870,684)	(274,934)	(252,171)
Small tools & equipment		(13,847)	(16,606)	-	-
Finance costs	3	(8,284)	(9,818)	(1,016)	(1,345)
(Loss)/Profit before income tax		(2,656,322)	232,977	76,979	(894,091)
Income tax receipt/(expense)	4	4,198	(31,708)	(12,819)	(6,962)
(Loss)/Profit for the year from continuing operations		(2,652,124)	201,269	64,160	(901,053)
(Loss)/Profit for the period		(2,652,124)	201,269	64,160	(901,053)
Other comprehensive income					
Foreign Currency Translation Adjustment gain/(loss)		(1,937,153)	853,074	-	-
Total comprehensive income for the period		(4,589,277)	1,050,343	64,160	(901,053)
Profit attributable to:					
Members of the parent entity		(2,652,124)	201,269	64,160	(901,053)
Total comprehensive income attributable to:					
Members of the parent entity		(4,589,277)	1,050,343	64,160	(901,053)
Overall and Continuing Operations					
Basic earnings per share (cents per share)	6	(2.07)	.002		
Diluted earnings per share (cents per share)	6	(2.07)	.002		

The accompanying notes form part of these financial statements.

Island Sky Australia Limited and Controlled entity
ABN 73 122 948 805

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2009

	Note	Consolidated Group		Parent Entity	
		2009 $	2008 $	2009 $	2008 $
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	8	1,338,727	6,882,737	1,051,613	5,105,161
Trade and other receivables	9	70,550	42,708	15,473	42,708
Financial Assets	10	318,309	398,393	-	-
Inventories	14	1,629,439	312,108	-	-
Other current assets	15	462,512	119,980	-	-
TOTAL CURRENT ASSETS		3,819,537	7,755,926	1,067,086	5,147,869
NON-CURRENT ASSETS					
Trade and other receivables	9	-	-	8,319,270	3,897,181
Financial assets	10	-	-	467,201	467,201
Plant and equipment	12	178,952	175,680	-	-
Other non-current assets	15	1,050,456	1,442,5736	-	-
Intangible assets	13	1,852,847	2,122,552	-	-
TOTAL NON-CURRENT ASSETS		3,082,255	3,740,805	8,786,471	4,364,382
TOTAL ASSETS		6,901,792	11,496,731	9,853,557	9,512,251
CURRENT LIABILITIES					
Trade and other payables	16	303,008	685,371	154,772	278,835
Provisions	17	2,769	27,277	2,769	2,769
TOTAL CURRENT LIABILITIES		305,777	712,648	157,541	281,604
TOTAL LIABILITIES		305,777	712,648	157,541	281,604
NET ASSETS		6,596,015	10,784,083	9,696,016	9,230,647
EQUITY					
Issued capital	18	13,341,778	12,940,569	11,208,754	10,807,545
Reserves	19	(769,321)	1,167,832	69,305	69,305
Retained earnings		(5,976,442)	(3,324,318)	(1,582,043)	(1,646,203)
TOTAL EQUITY		6,596,015	10,784,083	9,696,016	9,230,647

The accompanying notes form part of these financial statements.

Island Sky Australia Limited and Controlled entity

ABN 73 122 948 805

STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED 31 DECEMBER 2009

	Share Capital Ordinary	Reserves	Retained Earnings	Total
	$	$	$	$
CONSOLIDATED GROUP				
Balance at 1 January 2008	8,871,078	314,758	(3,525,587)	5,660,249
Shares issued on 28 August 2008	4,085,735	-	-	4,085,735
Share issue costs	(23,206)	-	-	(23,206)
Deferred tax benefit associated with the share issue costs	6,962	-	-	6,962
Total comprehensive income for the period	-	853,074	201,269	1,050,343
Balance at 31 December 2008	**12,940,569**	**1,167,832**	**(3,324,318)**	**10,784,083**
Shares issued on 16 December 2009	420,320	-	-	420,320
Unissued 2009 Rights Issue shares	10,800	-	-	10,800
Share issue costs	(42,730)	-	-	(42,730)
Deferred tax benefit associated with the share issue costs	12,819	-	-	12,819
Total comprehensive income for the period	-	(1,937,153)	(2,652,124)	(4,589,277)
Balance at 31 December 2009	13,341,778	(769,321)	(5,976,442)	6,596,015

STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED 31 DECEMBER 2009

	Share Capital Ordinary	Reserves	Retained Earnings	Total
	$	$	$	$
PARENT ENTITY				
Balance at 1 January 2008	6,738,054	69,305	(745,150)	6,062,209
Shares issued on 28 August 2008	4,085,735	-	-	4,085,735
Share issue costs	(23,206)	-	-	(23,206)
Deferred tax benefit associated with the share issue costs	6,962	-	-	6,962
Total comprehensive income for the period	-		(901,053)	(901,053)
Balance at 31 December 2008	**10,807,545**	**69,305**	**(1,646,203)**	**9,230,647**
Shares issued on 16 December 2009	420,320	-	-	420,320
Unissued 2009 Rights issue shortfall shares	10,800	-	-	10,800
Share issue costs	(42,730)	-	-	(42,730)
Deferred tax benefit associated with the share issue costs	12,819	-	-	12,819
Total comprehensive income for the period	-	-	64,160	64,160
Balance at 31 December 2009	**11,208,754**	**69,305**	**(1,582,043)**	**9,696,016**

The accompanying notes form part of these financial statements

Island Sky Australia Limited and Controlled entity

ABN 73 122 948 805

STATEMENT OF CASH FLOWS FOR YEAR ENDED 31 DECEMBER 2009

	Note	Consolidated Group		Parent Entity	
		2009 $	2008 $	2009 $	2008 $
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		3,589,323	3,980,832	-	-
Payments to suppliers and employees		(8,116,538)	(5,070,766)	(1,068,222)	(992,791)
Interest received		144,822	216,286	78,603	217,274
Income Taxes		-	-	-	-
Finance costs		(8,235)	(9,818)	(1,015)	(1,345)
Net cash (used in)/provided by operating activities	23	(4,390,628)	(883,466)	(990,634)	(776,862)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of intangible assets		(435,116)	(521,575)	-	-
Purchase of property, plant and equipment		(124,287)	(66,381)	-	-
Promissory Note acquired during year		-	(398,393)	-	-
(Increase)/ decrease in intercompany loan		-	-	(3,451,304)	(2,128,597)
Net cash (used in)/provided by investing activities		(559,403)	(986,349)	(3,451,304)	(2,128,597)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		431,120	4,085,735	431,120	4,085,735
Payment of share issue costs		(42,730)	(16,244)	(42,730)	(16,244)
Net cash (used in)/provided by financing activities		388,390	4,069,491	388,390	4,069,491
Net (decrease)/increase/ in cash held		(4,561,641)	2,199,676	(4,053,548)	1,164,032
Cash at beginning of financial year		6,882,737	4,138,469	5,105,161	3,941,129
Effect of exchange rates on cash holdings in foreign currencies		(982,369)	544,592	-	-
Cash at end of financial year	8	1,338,727	6,882,737	1,051,613	5,105,161

The accompanying notes form part of these financial statements.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This financial report includes the consolidated financial statements and notes of Island Sky Australia Ltd and controlled entities ('consolidated group' or 'Group') and the separate financial statements and notes of Island Sky Australia Ltd as an individual parent entity ('Parent Entity').

Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of Australian Accounting Standards Board and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below. They have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Accounting Policies

Accounting Standards not previously applied

The Group has adopted the following new and revised Australian Accounting Standards issued by the AASB which are mandatory to apply to the current period. Disclosure required by these Standards that are deemed material have been included in the financial report on the basis that they represent a significant change in information from what was previously made available in the previous annual financial statements.

Presentation of Financial Statements

AASB 101 prescribes the contents and structure of the financial statements. Changes reflected in this financial report include:

- The replacement of Income Statement with Statement of Comprehensive Income. Items of income and expense not recognised in profit or loss are now disclosed as components of 'other comprehensive income'. In this regard, such items are no longer reflected as equity movements in the Statement of Changes in Equity;
- The adoption of the separate income statement/single statement approach to the presentation of the Statement of Comprehensive Income;
- Other financial statements are renamed in accordance with the Standard; and

Two comparative periods are presented for the statement of financial position when the Group:

- Applies an accounting policy retrospectively,
- Makes a retrospective restatement of items in its financial statements, or
- Reclassifies items in the financial statements.

We have determined that only one comparative period for the statement of financial position was required for the current reporting period as the application of the new accounting standards have had no material impact on the previously presented primary financial statements that were presented in the prior year financial statements.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Operating Segments

From 1 January 2009, operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to, or reviewed by, the group's chief operating decision makers which, for the Group, is the board of directors. In this regard, such information is provided using different measures to those used in preparing the Statement of Comprehensive Income and Statement of Financial Position.

Principles of Consolidation

A controlled entity is any entity Island Sky Australia Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

Details of the controlled entity are contained in Note 11 to the financial statements. The controlled entity has a December financial year-end.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended.

All inter-company balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the consolidated group during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

Income Tax

The income tax expense (revenue) for the year comprises of current income tax expense (income) and deferred tax expense (income).

Current income tax expense charges to the profit and loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at reporting date. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - CONT

Income Tax –Cont

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established where there is objective evidence that the consolidated group will not be able to collect all amounts due according to the original terms of receivables.

Inventories

Inventories are measured at the lower cost and net realizable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - CONT

Plant and Equipment

Each class of plant and equipment is carried at historical cost or fair value less, where applicable, any accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets, is depreciated on a straight-line basis over their useful lives to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Buildings improvements	5 years
Moulds	5 years
Vehicles	10 years
Furniture & fittings	7 years
Office equipment	3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

Trade and Other Payables

These amounts represent liabilities for goods and services provided to the consolidated group prior to the period end, which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw down of the facility, are recognised as prepayments and amortised on a straight line basis over the term of the facility.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – CONT

Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the consolidated group, are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

Financial Instruments

Recognition and Initial Measurement

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

Financial instruments are initially measured at fair value plus transaction costs where the instrument is not classified as at fair value through profit and loss. Transactions costs related to instruments classified as at fair value through profit and loss are expensed to profit or loss immediately. Financial instruments are classified and measured as set out below.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits, associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in the statement of comprehensive income.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – CONT

Financial Instruments - Cont

Classification and Subsequent Measurement

(i) *Financial assets at fair value through profit or loss*
Financial assets are classified at fair value through profit or loss when they are held for trading for the purpose of short term profit taking, where they are derivatives not held for hedging purposes, or designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with documented risk management or investment strategy. Realised and unrealised gains and losses arising from changes in fair value are included in profit or loss in the period in which they arise.

(ii) *Loans Receivables*
Loan and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost using the effective interest rate method.

(iii) *Held-to-maturity investments*
Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the group's intention to hold those investments to maturity. They are subsequently measured at amortised cost using the effective interest rate method.

(iv) *Available-for-sale financial assets*
Available-for-sale financial assets are non-derivative financial assets that are either designated as such or that are not classified in any of the other categories. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

(v) *Financial Liabilities*
Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Fair Value
Fair value is determined based on the current bid prices for all quoted investment. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment
At each reporting date, the group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the statement of comprehensive income

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES – CONT

Impairment of Non-financial Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

Impairment testing is performed annually with intangible assets having an indefinite life.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Intangibles

Patents and Trademarks

Patents and trademarks are recognised at cost of acquisition. Patents and trademarks have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. Patents and trademarks are amortised over their useful life ranging between 15 – 20 years.

Research and Development

Expenditure during the research phase of a project is recognised as an expense when incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its costs of materials, services, direct labour and an appropriate proportion of overheads where can be readily measured. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Capitalised development that have a finite life and are amortised on a systematic basis matched to the future economic benefits over the life of the product.

Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the consolidated group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and Balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the statement of comprehensive income.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity; otherwise the exchange difference is recognised in the statement of comprehensive income.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - CONT

Group Companies

The financial results and position of foreign operations whose functional currency is different from the consolidated group's presentation currency are translated as follows:

— assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;

— income and expenses are translated at average exchange rates for the period; and

— retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Contributed Equity

Ordinary Shares are Classified as Equity

Incremental costs directly attributable to the issue of new shares and options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are included in the cost of the acquisition as part of the purchase consideration.

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Employee Benefits

(i) Wages and Salaries, Annual Leave and Sick Leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measures at the amounts expected to be paid when the liabilities are settled.

(ii) Long Service Leave

The liability for long service leave is recognised in the provision for employee benefits and measures as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using projected unit credit method. Consideration is given to expected future wages and salary levels, experience of employee departures and period of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash flows.

(iii) Equity Settled Compensation

Shares and share options issued as part of employees' remuneration package are measured at the more readily determinable fair of the value of the services provided or the fair values of the equity instrument. The fair value of the equity instrument is determined by application of the Black-Scholes methodology.

Where the grant date and the vesting date are different the total expenditure will be allocated between the two dates taking into account the terms and conditions attached to the instruments and the counterparties as well as management's assumptions about probabilities of payments and compliance with and attainment of the terms and conditions.

Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - CONT

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

Revenue

Revenue is measures at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties.

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

Borrowing Costs

All borrowing costs are recognised in income in the period in which they are incurred.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

Comparative Figures

When required by accounting standards comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Critical Accounting Estimates and Judgments

The Directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the consolidated group.

Key Estimates — Impairment

The consolidated group assesses impairment at each reporting date by evaluating conditions specific to the consolidated group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

No impairment has been recognised in respect of research and development as the projects’ commercial and technical feasibility and costs do not indicate that impairment is required.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - CONT

Earnings per Share

(i) Basic Earnings per Share

Basic earning per share is calculated by dividing the profit attributable to equity holders of the company excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted Earnings per Share

Diluted earning per share adjusts the figures used in the determination of basic earning per share to take into account the after income tax effect of interest and other financial costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

New Accounting Standards and Interpretations

New / revised pronouncement	Explanation of amendments	Effective date (i.e. annual reporting periods ending on or after)
AASB 1 First time adoption of Australian Accounting Standards (May 2009) – "AASB 1R"	Structure of the standard has been amended for ease of use.	30 June 2010
AASB 3 Business Combinations (March 2008) – "AASB 3R"	AASB 3R amends how entities account for business combinations and changes in ownership interests in subsidiaries. Many changes have been made to this standard affecting acquisition related costs, step acquisitions, measurement of goodwill and contingent considerations. AASB 3 also replaces the term "Minority Interest" with "Non-controlling Interest". AASB 3 is applied prospectively.	Business combinations occurring on or after an annual reporting period beginning on or after 1 July 2009
AASB 127 Consolidated and Separate Financial Statements (March 2008) – "AASB 127R"	AASB 127R amends how entities account for business combinations and changes in ownership interests in subsidiaries. Many changes were made to this standard affecting acquisitions and disposals which do not result in a change of control, partial disposals where control is lost, attribution of profit or loss to non-controlling interests and loss of significant influence or control in relation to Associates and Joint Ventures. AASB 127 replaces the term "Minority Interest" with the "Non-controlling Interest". AASB 127 is applied retrospectively, with certain exceptions relating to the significant changes made in this revision.	30 June 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - CONT

New Accounting Standards and Interpretations - cont

IFRS 9 Financial Instruments (to be issued in Australia as AASB 9)	IFRS 9 introduces new requirements for the classification and measurement of financial assets. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortised cost or fair value, replacing the many different rules in AASB 139 and removes the impairment requirement for financial assets held at fair value.	31 December 2013
AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASBs 1, 2, 4, 5, 7, 101, 107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and Interpretations 9 & 107]	AASB 2008-3 was issued after the AASB revised AASB 3 and AASB 127, as consequential amendments were necessary to other Australian Accounting Standards.	30 June 2010
AASB 2008-6 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1 & 5]	AASB 2008-6 amends AASB 1 and AASB 5 to include requirements relating to a sale plan involving the loss of control of a subsidiary. The amendments require all the assets and liabilities of such a subsidiary to be classified as held for sale and clarify the disclosures required when the subsidiary is part of a disposal group that meets the definition of a discontinued operation.	30 June 2010
AASB 2008-8 Amendments to Australian Accounting Standards - Eligible Hedged Items [AASB 139]	AASB 2008-8 makes amendments to AASB 139 to clarify the application of some of AASB 139's requirements on designation of a risk or a portion of cash flows for hedge accounting purposes. The main issues addressed are: – Designation of one-sided risks – Designation of portions of cash flows of a financial instrument, with reference to inflation components; and – Hedge effectiveness when hedging one-sided risks with a purchased option.	30 Jun 2010
AASB 2008-11 Amendments to Australian Accounting Standard – Business Combinations Among Not-for-Profit Entities [AASB 3]	AASB 2008-11 mandates that the requirements in AASB 3 (March 2008) are applicable to business combinations among not-for-profit entities (other than restructures of local governments) that are not commonly controlled. It also allows those requirements to be early adopted by not-for-profit entities. Also included are specific recognition, measurement and disclosure requirements relating to local government restructures.	30 June 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES - CONT

New Accounting Standards and Interpretations - cont

AASB 2008-13 Amendments to Australian Accounting Standards arising from AASB Interpretation 17 – Distributions of Non-cash Assets to Owners [AASB 5 & AASB 110]	AASB 2008-13 makes amendments to AASB 5 and AASB 110 resulting from the issue of Interpretation 17. The amendments relate to the classification, presentation and measurement of non-current assets held for distribution to owners and the disclosure requirements for dividends that are declared after the reporting period but before the financial statements are authorised for issue.	30 June 2010
AASB 2009-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2, AASB 138 and AASB Interpretations 9 & 16]	Makes various amendments to a number of standards and interpretations in line with the IASB annual improvements project.	30 June 2010
AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	Makes various amendments to a number of standards and interpretations in line with the IASB annual improvements project.	31 December 2010
AASB 2009-7 Amendments to Australian Accounting Standards [AASB 5, 7, 107, 112, 136 & 139 and Interpretation 17]	AASB 2009-7 makes amendments to correct errors that occurred in AASB 2008-12, AASB 2008-13 and Interpretation 17, as well as amendments which reflect changes made by the IASB to its pronouncements. The editorial amendments have no major impact on the requirements of the amended pronouncements.	30 June 2010
AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions	AASB 2009-8 makes amendments which clarify the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.	31 December 2010
AASB 2009-9 Amendments to Australian Accounting Standards – Additional Exemptions for First-time Adopters	AASB 2009-9 makes amendments to ensure that entities applying Australian Accounting Standards for the first time will not face undue cost or effort in the transition process in particular situations.	31 December 2010
AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues	AASB 2009-10 makes amendments which clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all existing owners of the same class of its non-derivative equity instruments.	31 January 2011

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

NOTE 2: REVENUE

	Consolidated Group		Parent Entity	
	2009 **$**	**2008** **$**	**2009** **$**	**2008** **$**
Sales & licence fee revenue	3,617,165	3,980,832	-	-
Management fee to wholly owned subsidiary	-	-	530,668	50,000
Other income				
Interest from Bank deposits	144,871	223,945	78,603	220,349
Interest from wholly owned subsidiary	-	-	440,117	-
Total interest revenue	144,871	223,945	518,720	220,349

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

NOTE 3: (LOSS)/PROFIT FOR THE PERIOD

	Consolidated Group		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Cost of sales	571,972	(11,575)	-	-
Finance costs:				
— external	-	206	-	206
— bank charges & fees	8,284	9,612	1,016	1,139
Total finance costs	8,284	9,818	1,016	1,345
Occupancy costs:				
Rental expense on operating leases				
— minimum lease payments	165,326	58,113	-	-
— rental expense for sublease	28,926	26,266	28,926	26,266
Total occupancy costs	194,252	84,379	28,926	26,266
Administration				
— travel, accommodation and entertaining	544,174	381,439	64,296	72,807
— expensed listing fees	42,830	7,470	42,830	7,470
— other	316,763	192,352	133,812	42,337
Total administration costs	903,767	581,261	240,938	122,614
Professional Fees:				
--- merger implementation	152,886	339,088	152,886	339,088
--- accounting & audit fees	329,326	348,280	132,043	200,647
--- legal	167,051	252,164	1,754	113,419
--- corporate advisory fees	25,000	-	25,000	-
--- other consulting fees	137,578	32,753	41,240	25,066
Total professional fees	811,841	972,285	352,923	678,220
Other Expenses				
--- development costs	245,544	-	-	-
--- salaries, director fees and other related costs	2,628,517	1,870,684	274,934	252,171
	2,874,061	1,870,684	274,934	252,171

NOTE 4: INCOME TAX EXPENSE

	Consolidated Group		Parent Entity	
	2009 $	2008 $	2009 $	2008 $
The components of tax expense comprise:				
Current tax	(17,017)	24,746	-	-
Deferred tax	12,819	6,962	12,819	6,962
	(4,198)	31,708	12,819	6,962
The prima facie tax on (loss)/profit from ordinary activities before income tax is reconciled to the income tax as follows:				
Prima facie tax payable on (loss)/profit from ordinary activities before income tax at 30% (2008: 30%)				
— consolidated group	(796,897)	69,893	-	-
— parent entity	-	-	24,421	(268,227)
Add:				
Tax effect of:				
— other non-allowable items	-	(534)	-	-
— Tax benefit not previously recognised:	-	-	-	-
> Capital raising costs deductible	(66,629)	(83,123)	(66,629)	(46,176)
	(66,629)	(83,657)	(66,629)	(46,176)
Less:				
Tax effect of:				
— Foreign tax rate impact	-	(276,131)	-	-
— Capital raising costs deductible	-	-	-	-
	-	(276,131)	-	-
Deferred tax assets recognised direct to equity and not meeting the recognition criteria of AASB 112	12,819	6,962	12,819	6,962
Tax effect of tax losses not brought into accounts as they do not meet the recognition criteria	846,509	314,403	42,208	314,403
Income tax attributable to entity	(4,198)	31,708	12,819	6,962

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

NOTE 5: AUDITORS' REMUNERATION

	Consolidated Group		Parent Entity	
	2009 $	2008 $	2009 $	2008 $
Remuneration of the auditor of the parent entity for:				
— auditing or reviewing the financial report	106,806	107,120	59,100	30,094
— taxation services	82,009	11,190	45,450	11,190
	188,815	118,310	104,550	41,284

NOTE 6: EARNINGS PER SHARE

	Consolidated Group	
	2009 $	2008 $
Reconciliation of earnings to profit or loss from continuing operations		
(Loss)/Profit	(2,652,124)	201,269
Earnings used in the calculation of basic EPS	(2,652,124)	201,269
Weighted average number of ordinary shares outstanding during the period used in calculating basic EPS	125,419,261	114,400,586
The number of ordinary shares during the period used in calculating dilutive EPS. In accordance with AASB 133 there were no dilutive securities for the 2009 year.	125,419,261	172,462,554

NOTE 7: KEY MANAGEMENT PERSONNEL REMUNERATION

Names and positions held of economic and parent entity key management personnel in office at any time during the financial period are:

Key Management Person	Position
David John Lindh	Independent Non-Executive Chairman
Richard Jay Groden	Managing Director
Heinz Josef Niedermaier	Executive Director
Michael Murphy Paragon	Executive Director
Neville Wayne Martin	Independent Non-Executive Director
Terry Polistina	Non-Executive Director
Rajita Alwis	Company Secretary
Pia Bentick-Owens	Company Secretary
Thomas Duran Merritt	Chief Technology Officer
George Louis Dubois	Vice President –-Engineering
Ronald Jeffrey Coletta	Vice President –Sales

Shares Issued on Exercise of Compensation Options

There were no options exercised during the year or since the 31 December 2009 that were granted as compensation in prior periods.

There were no options granted in the reporting period as compensation.

Options and Rights Holdings

Number of 2011 A Class Options Held by Key Management Personnel
(The options are exercisable at $0.40 by 31 December 2011)

	Balance 1.1.2009	Granted as Compensation	Options Exercised	Net Change Other
Richard Jay Groden	3,840,000	-	-	-
Heinz Josef Niedermaier	2,400,000	-	-	-
Michael Murphy Paragon	3,840,000	-	-	-
Thomas Duran Merritt	3,840,000	-	-	-
Ron Jeffrey Coletta	3,936,000	-	-	-
Total	17,856,000	-	-	-

NOTE 7: KEY MANAGEMENT PERSONNEL REMUNERATION – CONT

Number of 2011 A Class Options Held by Key Management Personnel
(The options are exercisable at $0.40 by 31 December 2011)

	Balance 31.12.2009	Total Vested 31.12.2009	Total Unexercisable 31.12.2009	Total Exercisable 31.12.2009
Richard Jay Groden*	3,840,000	3,840,000	-	3,840,000
Heinz Josef Niedermaier	2,400,000	2,400,000	-	2,400,000
Michael Murphy Paragon	3,840,000	3,840,000	-	3,840,000
Thomas Duran Merritt	3,840,000	3,840,000	-	3,840,000
Ron Jeffrey Coletta	3,936,000	3,936,000	-	3,936,000
Total	17,856,000	17,856,000	-	17,856,000

Number of 2011 B Class Options Held by Key Management Personnel
(The options are exercisable at $0.60 by 31 December 2011)

	Balance 1.1.2009	Granted as Compensation	Options Exercised	Net Change Other
Heinz Josef Niedermaier	4,320,000	-	-	-
Michael Murphy Paragon	2,880,000	-	-	-
Thomas Duran Merritt	1,920,000	-	-	-
George Louis Dubois	1,440,000	-	-	-
Ron Jeffrey Coletta	1,920,000	-	-	-
Total	12,480,000	-	-	-

	Balance 31.12.2009	Total Vested 31.12.2009	Total Unexercisable 31.12.2009	Total Exercisable 31.12.2009
Heinz Josef Niedermaier	4,320,000	4,320,000	-	4,320,000
Michael Murphy Paragon	2,880,000	2,880,000	-	2,880,000
Thomas Duran Merritt	1,920,000	1,920,000	-	1,920,000
George Louis Dubois)	1,440,000	1,440,000	-	1,440,000
Ron Jeffrey Coletta	1,920,000	1,920,000	-	1,920,000
Total	12,480,000	12,480,000	-	12,480,000

NOTE 7: KEY MANAGEMENT PERSONNEL REMUNERATION – CONT

Number of 2011 C Class Options Held by Key Management Personnel
(The options are exercisable at $1.00 by 31 December2011)

	Balance 1.1.2009	Granted as Compensation	Options Exercised*	Net Change Other
Richard Jay Groden	2,000,000	-	-	-
Heinz Josef Niedermaier	2,000,000	-	-	-
Michael Murphy Paragon	2,000,000	-	-	-
Thomas Duran Merritt	1,000,000	-	-	-
George Louis Dubois	1,000,000	-	-	-
Ron Jeffrey Coletta	1,000,000	-	-	-
Total	9,000,000	-	-	-

	Balance 31.12.2009	Total Vested 31.12.2009	Total Unexercisable 31.12.2009	Total Exercisable 31.12.2009
Richard Jay Groden	2,000,000	2,000,000	-	2,000,000
Heinz Josef Niedermaier	2,000,000	2,000,000	-	2,000,000
Michael Murphy Paragon	2,000,000	2,000,000	-	2,000,000
Thomas Duran Merritt	1,000,000	1,000,000	-	1,000,000
George Louis Dubois	1,000,000	1,000,000	-	1,000,000
Ron Jeffrey Coletta	1,000,000	1,000,000	-	1,000,000
Total	9,000,000	9,000,000	-	9,000,000

NOTE 7: KEY MANAGEMENT PERSONNEL REMUNERATION – CONT

Number of 2010 Options Held by Key Management Personnel
(The options are exercisable at $0.20 by 31 December 2010)

	Balance 1.1.2009	Granted as Compensation	Options Exercised*	Ne
David John Lindh	500,000	-	-	
Neville Wayne Martin	350,000	-	-	
Total	850,000	-	-	

	Balance 31.12.2009	Total Vested 31.12.2009	Total Unexercisable 31.12.2009	Ex 31
David John Lindh	500,000	500,000	-	5
Neville Wayne Martin	350,000	350,000	-	3
Total	850,000	850,000	-	8

Shareholdings

Number of Shares held by Key Management Personnel

	Balance on 1.1.2009	Received as Compensation	Options Exercised	Net Change Other	Balance 31.12.2009
David John Lindh*	606,146	-	-	-	606,146
Richard Jay Groden**	13,696,913	-	-		13,696,913
Heinz Josef Niedermaier***	6,888,234	-	-	-	6,888,234
Michael Murphy Paragon	1,199,129	-	-	-	1,199,129
Neville Wayne Martin****	1,092,450	-	-	-	1,092,450
Terry Lee Polistina	-	-	-	-	-
Rajita Shamani Alwis	-	-	-	-	-
Pia Bentick-Owens	-	-	-	-	-
Thomas Duran Merritt	12,235,366	-	-	-	12,235,366
George Louis Dubois	-	-	-	-	-
Ronald Jeffrey Coletta	1,483,513	-	-	-	1,483,513
Total	37,201,751	-	-	-	37,201,751

NOTE 7: KEY MANAGEMENT PERSONNEL REMUNERATION – CONT

Shareholdings – Cont

Number of Shares held by Key Management Personnel

*506,146 of the shares are held by Davan Nominees Pty Ltd. Mr Lindh is a Director and shareholder of Davan Nominees Pty Ltd.

**Included in the above are 12,000,000 share held in joint names of Richard Jay Groden and Susan Groden. Also included are 794,391 shares held in Rhythm & Blues Holdings Inc, a company associated with Richard Groden. In addition Richard Jay Groden and Susan Groden may be jointly entitled to 12,000,000 performance shares as detailed in Note 18.

***Entrust Administrative Services, an entity associated with Mr Niedermaier, holds 5,161,728 of the shares

****510,000 of the shares are held by Houmar Nominees Pty Ltd as trustee for the Martin Superannuation Fund. Mr Martin is a Director and shareholder of Houmar Nominees Pty Ltd and a beneficiary of the Martin Superannuation Trust. Mr Martin is a potential beneficiary of Chaffey Consulting Pty Ltd, which as trustee for Minter Ellison Investment Trust holds 32,450 shares on behalf of Mr Martin. Stansbury Petroleum Investments Pty Ltd, a company associated with Mr Martin holds 10,000 of the shares.

NOTE 8: CASH AND CASH EQUIVALENTS

	Consolidated Group		Parent Entity	
	2009 $	2008 $	2009 $	2008 $
Cash at bank and in hand	723,092	1,803,642	435,978	26,066
Short-term bank deposits	615,635	5,079,095	615,635	5,079,095
	1,338,727	6,882,737	1,051,613	5,105,161

The effective interest rate on short-term bank deposits was 3.2% (2008: 4.7%); these deposits have an average maturity of 30 days.

Reconciliation of cash

Cash at the end of the financial period as shown in the statement of cash flows is reconciled to items in the balance sheet as follows:

Cash and cash equivalents	1,338,727	6,882,737	1,051,613	5,105,161
	1,338,727	6,882,737	1,051,613	5,105,161

NOTE 9: TRADE AND OTHER RECEIVABLES

	Consolidated Group		Parent Entity	
	2009 $	2008 $	2009 $	2008 $
CURRENT				
Interest due on Term Deposits	574	3,075	574	3,075
Trade receivables	53,816	-	-	-
GST Receivable	14,898	39,633	14,899	39,633
Other Receivables	1,262	-	-	-
	70,550	42,708	15,473	42,708
NON-CURRENT				
Amounts receivable from wholly-owned entities	-	-	8,319,270	3,897,181

Provision for Impairment of Receivables

Current trade and term receivables are non-interest bearing loans and generally on 30 day terms. Non-current trade and term receivables are assessed for recoverability based on the underlying terms of the contract. A provision for impairment is recognised when there is objective evidence that an individual trade or term receivable is impaired.

Consolidated Group

	Opening Balance 1.1.2009	Charge for the Year	Amounts Written Off	Closing Balance 31.12.2009
Current Term Receivables	3,075	(2,501)	-	574
Current Trade Receivables	-	53,816	-	53,816
Current GST Receivable	39,633	(24,735)	-	14,898
Current Other Receivables	-	1,262	-	1,262
	42,708	27,842	-	70,550

Parent Entity

	Opening Balance 1.1.2009	Charge for the Year	Amounts Written Off	Closing Balance 31.12.2009
Current Term Receivables	3,075	(2,501)	-	574
Current GST Receivable	39,633	(24,734)	-	14,899
	42,708	(27,235)	-	15,473

There are no significant balances within trade and other receivables that contain assets that are impaired or past due. It is expected these balances will be received when due. Impaired assets are provided in full.

NOTE 10: FINANCIAL ASSETS

	Consolidated Group		Parent Entity	
	2009 $	2008 $	2009 $	2008 $
Financial Assets Comprise				
Unlisted investments, at cost				
CURRENT				
— Promissory Note – M Baier Foundation	318,309	398,393	-	-
NON CURRENT				
--- Shares in controlled entity	-	-	467,201	467,201
Total financial assets	318,309	398,393	467,201	467,201

Financial assets comprise investments in the ordinary issued capital of Island Sky Corporation Inc. There are no fixed returns or fixed maturity date attached to these investments.

The fair value of unlisted available-for-sale financial assets cannot be reliably measured as variability in the range of reasonable fair value estimates is significant. As a result, the unlisted investment is reflected at cost.

NOTE 11: CONTROLLED ENTITY

Controlled entity Consolidated

	Country of Incorporation	Percentage Owned (%)*	
Parent Entity and Ultimate Parent Entity:		2009	2008
Island Sky Australia Limited	Australia		
Subsidiaries of **Island Sky Australia Limited**:			
Island Sky Corporation Inc	United States of America	100%	100%

** Percentage of voting power is in proportion to ownership*

NOTE 12: PROPERTY, PLANT AND EQUIPMENT

	Consolidated Group		Parent Entity	
	2009 $	2008 $	2009 $	2008 $
PLANT AND EQUIPMENT				
At cost	451,706	488,490	-	-
Accumulated depreciation	(310,326)	(317,149)	-	-
Total Plant and Equipment	141,380	171,341	-	-
LEASEHOLD IMPROVEMENTS				
At cost	208,006	172,949	-	-
Accumulated depreciation	(129,903)	(168,610)	-	-
Less disposals	(40,531)	-	-	-
Total Leasehold Improvements	37,572	4,339	-	-
PROPERTY, PLANT AND EQUIPMENT				
At cost	619,181	661,439	-	-
Accumulated depreciation	(440,229)	(485,759)	-	-
Total Plant and Equipment	178,952	175,680	-	-

a. **Movements in Carrying Amounts**

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial period

	Consolidated Group		Parent Entity	
	2009 $	2008 $	2009 $	2008 $
PLANT AND EQUIPMENT				
Opening Balance	171,341	138,396	-	-
Additions	49,978	59,803	-	-
Depreciation expense	(89,789)	(137,430)	-	-
Adjustments from translation of foreign controlled entity	9,850	110,572	-	-
Closing Balance	141,380	171,341	-	-
LEASEHOLD IMPROVEMENTS				
Opening Balance	4,339	97,874	-	-
Additions	74,309	6,578	-	-
Depreciation expense	(33,932)	(68,831)	-	-
Disposals	(40,531)	-		
Adjustments from translation of foreign controlled entity	33,387	(31,282)	-	-
Closing Balance	37,572	4,339	-	-

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2009

NOTE 12: PROPERTY, PLANT AND EQUIPMENT – CONT

	Note	Consolidated Group		Parent Entity	
		2009 $	2008 $	2009 $	2008 $
PROPERTY, PLANT AND EQUIPMENT					
Opening Balance		175,680	236,270	-	-
Additions		124,287	66,381	-	-
Depreciation expense		(123,721)	(206,261)	-	-
Adjustments from translation of foreign controlled entity		2,706	79,290	-	-
Closing Balance		178,952	175,680	-	-

NOTE 13: INTANGIBLE ASSETS

	Consolidated Group		Parent Entity	
	2009 $	2008 $	2009 $	2008 $
TRADEMARKS AND PATENTS				
Cost	196,563	218,151	-	-
Accumulated amortisation and impairment	(36,923)	(45,115)	-	-
Net carrying value	159,640	173,036	-	-
DEVELOPMENT COSTS				
Cost	1,875,815	1,949,516	-	-
Accumulated amortisation and impairment	(182,607)	-	-	-
Net carrying value	1,693,208	1,949,516	-	-
Total intangibles	1,852,847	2,122,552	-	-

NOTE 13: INTANGIBLE ASSETS – CONT

	Trademarks & Patents $	Development Costs $
Consolidated Group:		
Year ended 31 December 2008		
Balance at the beginning of period	38,170	1,378,730
Additions	131,007	390,568
Disposals	-	-
Amortisation charge	(6,945)	-
Impairment losses	(38,170)	-
Adjustments from translation of foreign controlled entity	48,974	180,218
Closing value at 31 December 2008	173,036	1,949,516
Year ended 31 December 2009		
Balance at the beginning of period	173,036	1,949,516
Additions	35,895	399,221
Disposals	-	-
Amortisation charge	(36,923)	(182,607)
Impairment losses	-	-
Adjustments from translation of foreign controlled entity	(12,369)	(472,922)
Closing value at 31 December 2009	159,639	1,693,208

Intangible assets have finite useful lives. The future amortisation charges for intangible assets will be included under depreciation and amortisation expense in the statement of comprehensive income.

NOTE 14: INVENTORIES

	Consolidated Group		Parent Entity	
	2009 $	2008 $	2009 $	2008 $
CURRENT				
Inventories	1,629,439	312,108	-	-

NOTE 15: OTHER ASSETS

	Consolidated Group		Parent Entity	
	2009 $	2008 $	2009 $	2008 $
CURRENT				
Prepayments	46,604	119,980	-	-
Manufacturing Deposits	415,908	-	-	-
	462,512	119,980	-	-
NON-CURRENT				
Manufacturing Deposit	1,050,456	1,442,573	-	-

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NOTE 16: TRADE & OTHER PAYABLES

	Consolidated Group		Parent Entity	
	2009 $	2008 $	2009 $	2008 $
CURRENT				
Trade Payables	260,092	425,367	116,226	148,487
Sundry payables and accrued expenses	42,916	260,004	38,546	130,348
	303,008	685,371	154,772	278,835

NOTE 17: PROVISIONS

	Consolidated Group		Parent Entity	
	2009 $	2008 $	2009 $	2008 $
CURRENT				
Current Tax Liability	-	24,508	-	-
Employee Entitlements	2,769	2,769	2,769	2,769
	2,769	27,277	2,769	2,769

The above employee entitlement provision relates to the annual leave entitlement on the Managing Director's Service Agreement for Richard Groden.

NOTE 18: ISSUED CAPITAL

	Consolidated Group		Parent Entity	
	2009	**2008**	**2009**	**2008**
	$	**$**	**$**	**$**
Opening Balance 1 January 2009	12,940,569	8,871,078	10,807,545	6,738,054
3,002,289 fully paid ordinary shares issued during the period	420,320	-	420,320	-
77,142 Rights Issue shortfall shares unissued	10,800	-	10,800	-
16,342,940 fully paid ordinary shares	-	4,085,735	-	4,085,735
Share issue costs	(42,730)	(23,206)	(42,730)	(23,206)
Deferred tax benefit associated with the Share issue costs	12,819	6,962	12,819	6,962
48,000,000 unissued performance shares (refer to note on next page)	-	-	-	-
	13,341,778	12,940,569	11,208,754	10,807,545

	Consolidated Group		Parent Entity	
	2009	**2008**	**2009**	**2008**
Ordinary shares	**No.**	**No.**	**No.**	**No.**
At the beginning of reporting period	125,295,879	108,952,939	125,295,879	108,952,939
Shares issued during the period				
Island Sky Australia Limited				
— 28 August 2008	-	16,342,940	-	16,342,940
— 16 December 2009	3,002,289	-	3,002,289	-
At reporting date	128,298,168	125,295,879	128,298,168	125,295,879

At the shareholders’ meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

NOTE 18: ISSUED CAPITAL – CONT

Performance shares

As part of the consideration for the acquisition of Island Sky Corporation Inc. the Company agreed to issue 48,000,000 Shares **('Performance Shares')** to the Founders on the terms set out below.

Performance Shares indicated in the table below will be issued to the Founders in equal portions if, within the period of 36 months from the date of admission of the Company to the Official List of ASX ('Listing Date'), the revenue recognised by the Company (and its subsidiaries) from the sale of products exceeds the revenue indicated in the table below opposite the relevant number of Performance Shares:

Cumulative No. of Performance Shares to be Issued	Cumulative Sales Revenue required to be received ($AUD)
6,000,000	5,000,000
12,000,000	10,000,000
18,000,000	15,000,000
24,000,000	20,000,000
30,000,000	30,000,000
36,000,000	36,000,000

The relevant Performance Shares will be issued to the Founders within 30 days of the Company's auditors confirming that the required sales revenue has been received.

An additional number of Performance Shares up to 12,000,000 will be issued to the Founders (Richard Groden and Susan Groden jointly, Thomas Merritt, Brian Stamp and Douglas Cox) in equal portions in the event that at any time within the period commencing 6 months after the Listing Date and ending 36 months after the Listing Date either:

(a) if the Earnings Before Depreciation and Amortization (EBDA) of the Consolidated entity is positive calculated from the Listing Date), then 12,000,000 Performance Shares shall be issued to the Founders, or

(b) (i) if the closing price for the Company's Shares listed on the ASX exceeds 25 cents for any period of 30 consecutive days, then 6,000,000 Performance Shares shall be issued to the Founders; and

(ii) if the closing price for the Company's Shares listed on the ASX exceeds the price indicated in the following table for a period of 30 consecutive days, that number of the remaining Performance Shares appearing opposite such price in the table shall be issued to the Founders:

Number of Performance Shares	Closing Price to be issued per share ($AUD)
1,000,000	0.26
1,000,000	0.27
1,000,000	0.28
1,000,000	0.29
2,000,000	0.30

The Company’s closing price exceeded 29 cents for 32 consecutive days during the period from 4 November 2008 to 30 January 2009 and an obligation to issue a total of 10,000,000 shares to the founders has been triggered pursuant to above. The Company presently in discussion with the founders regarding arrangements for the issue of those shares.

Options

i. For information relating to the Island Sky Australia Limited’s employee option plan, including details of options issued, exercised and lapsed during the financial period and the options outstanding at period-end, refer to Director’s remuneration report on Share-based Payments.

NOTE 18: ISSUED CAPITAL – CONT

Capital Management

The Group has no debt capital. There are no externally imposed capital requirements.

Management effectively manages the groups capital by assessing the group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the group since the prior year. This strategy is to ensure that the group has no debt.

NOTE 19: RESERVES

Foreign Currency Translation Reserve

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

Share Based Payment Reserve

The share based payment reserve records items recognised as expenses on valuation of employee share options.

NOTE 20: CAPITAL AND LEASING COMMITMENTS

	Consolidated Group		Parent Entity	
	2009 $	**2008 $**	**2009 $**	**2008 $**
a. **Operating Lease Commitments**				
Non-cancellable operating leases contracted for but not capitalised in the financial statements				
Payable — minimum lease payments				
— not later than 12 months	130,209	116,268	-	-
— between 1 year and 5 years	151,911	232,536	-	-
— Greater than 5 years	-	-	-	-
Minimum lease payments	282,120	348,804	-	-
Less future finance charges	-	-	-	-
	282,120	348,804	-	-

b. **Capital Expenditure Commitments**

There were no capital expenditure commitments at 31 December 2009 or 31 December 2008.

NOTE 21: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Island Sky US Directors and key management personnel have termination benefits up to one year should their employment be terminated without cause.

The consolidated group has in place an unused USD$500,000 line of credit available to its USA subsidiary enabling it to draw down 50% of the face value of confirmed letters of credit representing sales transactions.

Other than the contingencies detailed above, the Company and Consolidated Group had no contingent liabilities at the 31 December 2009 or 31 December 2008.

NOTE 22: OPERATING SEGMENTS

Identification of reportable segments

The group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Consolidated Group's operations is the marketing and development of USA Patented, high capacity, energy efficient air-to water making machines which draws water vapour from the air and converts it into drinking water. The Consolidated Group's business segments are located in Australia with the manufacturing and development subsidiary being located in the United States of America. The Skywater14 units are manufactured at Protel Pacific Corporation, a full service contract manufacturer with two manufacturing facilities in China and engineering facilities in USA. The Consolidated Group has a five year manufacturing agreement with Protel Pacific Corporation and has identified an operating segment in Asia for the year ended 31 December 2009.

Basis of accounting for purposes of reporting by operating segments

Accounting policies adopted

Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

Inter-segment transactions

An internally determined transfer price is set for all inter-entity sales. This price is re-set annually and is based on what would be realised in the event the sale was made to an external party at arm's-length. All such transactions are eliminated on consolidation for the Groups financial statements.

Corporate charges are allocated based on the segments' overall proportion of revenue generation within the Group. The Board of Directors believes this is representative of likely consumption of head office expenditure that should be used in assessing segment performance and cost recoveries.

Inter-segment loans payable and receivable are initially recognised at the consideration received net of transaction costs. If inter-segment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates. This policy represents a departure from that applied to the statutory financial statements.

Segment assets

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Segment liabilities

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

Unallocated items

The following items of revenue, expense, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Income tax expense; and
- Deferred tax assets and liabilities

Comparative information

This is the first annual reporting period in which AASB 8: Operating Segments has been adopted. Comparative information has been stated to conform to the requirements of the Standard.

NOTE 22: OPERATING SEGMENTS - CONT

(i) Segment performance	**Australian**	**United States of America**	**Asia**	**Total**
Twelve months ended 31.12.2009	**$**	**$**	**$**	**$**
Revenue				
External Sales	-	3,617,165	-	3,617,165
Inter-segment sales	970,785	-	-	970,785
Interest revenue	78,603	66,268	-	144,871
Total segment revenue	1,049,388	3,683,433	-	4,732,821
Reconciliation of segment revenue to group revenue				
Inter-segment elimination				(970,785)
Total group revenue				3,762,036
Segment net profit before tax	76,978	(2,733,300)	-	(2,656,322)
Reconciliation of segment result to group net profit/(loss) before tax				
Amounts not included in segment result but reviewed by the board:				
• Depreciation & Amortisation		(343,251)		(343,251)
Net profit before tax from continuing operations	76,978	(2,733,300)	-	(2,656,322)

NOTE 22: OPERATING SEGMENTS - CONT

(i) Segment performance	Australia	United States of America	Asia	Total
Twelve months ended 31.12.2008	**$**	**$**	**$**	**$**
Revenue				
External Sales	-	3,980,832	-	3,980,832
Inter-segment sales	50,000	-	-	50,000
Interest revenue	220,349	3,596	-	223,945
Total segment revenue	270,349	3,984,428	-	4,254,777
Reconciliation of segment revenue to group revenue				
Inter-segment elimination				(50,000)
Total group revenue				4,204,777
Segment net profit before tax	(894,091)	1,127,068	-	232,977
Reconciliation of segment result to group net profit/(loss) before tax				
Amounts not included in segment result but reviewed by the Board:				
• Depreciation & Amortisation		(206,261)		(206,261)
Net profit before tax from continuing operations	(894,091)	1,127,068	-	232,977

NOTE 22: OPERATING SEGMENTS - CONT

(ii) Segment assets

	Australia	United States of America	Asia	Total
30.12.2009	**$**	**$**	**$**	**$**
Segment Assets	9,853,557	4,317,049	1,050,458	15,221,064
Segment asset increases for the period:				
• Property, Plant & Equipment	-	124,287	-	124,287
• Patent & Development Costs	-	435,116	-	35,895
	-	559,403	-	160,182
Reconciliation of segment assets to group assets				
Inter-segment eliminations	(8,319,270)	-	-	(8,319,270)
Total group assets from continuing operations	1,534,287	5,053,108	1,050,458	6,901,794

(ii) Segment assets

	Australia	United States of America	Asia	Total
31.12.2008	**$**	**$**	**$**	**$**
Segment Assets	9,045,050	4,906,289	1,442,573	15,393,912
Segment asset increases for the period:				
• Property, Plant & Equipment	-	-	-	-
• Patent & Development Costs	-	4,016	-	4,016
	-	4,016	-	4,016
Reconciliation of segment assets to group assets				
Inter-segment eliminations	(3,897,181)			(3,897,181)
Total group assets from continuing operations	5,147,869	4,906,289	1,442,573	11,496,731

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NOTE 22: OPERATING SEGMENTS - CONT

(iii) Segment liabilities

	Australia	United States of America	Asia	Total
31.12.2009	**$**	**$**	**$**	**$**
Segment liabilities	157,541	8,467,506	-	8,625,047
Reconciliation of segment liabilities to group liabilities				
Inter-segment eliminations	-	(8,319,270)	-	(8,319,270)
Total liabilities from continuing operations	157,541	148,236	-	305,777

(iii) Segment liabilities cont	Australia	United States of America	Asia	Total
31.12.2008	**$**	**$**	**$**	**$**
Segment liabilities	281,604	4,328,225	-	4,609,829
Reconciliation of segment liabilities to group liabilities				
Inter-segment eliminations	-	(3,897,181)	-	(3,897,181)
Total liabilities from continuing operations	281,604	431,044	-	712,648

NOTE 23: CASH FLOW INFORMATION

	Consolidated Group		Parent Entity	
	2009 **$**	**2008** **$**	**2009** **$**	**2008** **$**
a. **Reconciliation of Cash Flow from Operations with Profit after Income Tax**				
(Loss)/Profit after income tax	(2,652,124)	201,269	64,160	(901,053)
Non-cash flows adjustments				
Depreciation	123,721	206,261	-	-
Amortisation & Impairment	219,530	45,115	-	
Tax effect on share issue	12,819	-	12,819	-
Interest and management fee income	-	-	(970,785)	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
(Increase)/decrease in trade and term receivables	(27,842)	10,718	27,235	10,718
(Increase)/decrease in other assets	(342,530)	(1,539,596)	-	(43,038)
(Increase)/decrease in inventories	(1,317,331)	(312,108)		
Increase/(decrease) in trade payables and accruals	(382,363)	477,598	(124,063)	129,234
Increase/(decrease) in provisions	(24,508)	27,277	-	27,277
Cashflow from operations	(4,390,628)	(883,466)	(990,634)	(776,862)

NOTE 24: SHARE-BASED PAYMENTS

There were no share based payments during the 2009 year.

The following share based payments existed at 31 December 2009:

- 850,000 '2010 Class' Options are held by two Non Executive Directors of the company with an exercise price of $0.20 and an expiry date of 31 December 2010. The fair value of these options is $935.
- 12,000,000 'C Class Options' were granted to the existing shareholders and employees of Island Sky Florida with an exercise price of $1.00 and an expiry date of 31 December 2011. The fair value of the options is $nil.

In addition, pursuant to the sponsoring broker's agreement, the company issued 1,500,000 '2010 Class' Options to the sponsoring broker to the offer. The options have an exercise price of $0.20 and an expiry date of 31 December 2010. The fair value of the options is $68,370.

Options granted to key management personnel are as follows:	**Grant Date**	**Number**
2010 Class Options with strike price of $0.20	16 November 2007	850,000
2011 C Class Options with strike price of $1.00	16 November 2007	9,000,000

	Number	**Weighted average exercise price**
Options outstanding at 31 December 2007		
Granted	-	-
Forfeited	-	-
Exercised	-	-
Expired	-	-
Options outstanding as at 31 December 2008	-	-
Granted	-	-
Forfeited	-	-
Exercised	-	-
Expired	-	-
Options outstanding as at 31 December 2009	-	-
Options exercisable as at 31 December 2009	9,850,000	$0.93
Options exercisable as at 31 December 2008	9,850,000	$0.93

There were no options issued during the year.

The weighted average remaining contractual life of options outstanding at year end was 1.9 years.

NOTE 24: SHARE-BASED PAYMENTS - CONT

Island Sky Australia Employee Option Plan
The Company has established a Share Option Plan (the 'Plan') with the following key features:

(a) Eligibility
The Board may issue Options under the Plan to any officer or employee of the Company (Eligible Employee).

(b) General Terms of the Options
Options will be issued free of charge. Each Option is to subscribe for one Share and, when issued, the Share will rank equally with other Shares.
The Options are not transferable. Quotation of the Options on the ASX will not be sought but the Company will apply to the ASX for official quotation of Shares issued on the exercise of Options.
Options may be granted subject to conditions specified by the Board, which must be satisfied, before the Option can be exercised.

(c) Exercise of Options
Subject to satisfaction of the Conditions of Exercise of Options, Options may be exercised at any time within 5 years of the date of grant (provided however that the number of Options the Eligible Employee may exercise during any period of 12 consecutive months shall not exceed that number of Options that equals one third of the total number of Options issued to the Eligible Employee under the Plan [whether or not exercised prior to the time of calculation]). Options lapse upon termination of the Eligible Employee's employment by the Company and, unless the terms of the offer of the Option specified otherwise each Option lapses 5 years after the date upon which it was granted.

(d) Exercise Price
The exercise price per Share for an option will be the amount determined by the Board at the time of the grant of the Option.

(e) New Issue of Securities
Option holders will not be entitled to participate in any new issue of securities in the Company unless they exercise their Options prior to the record date for the determination of entitlements to the new issue.

(f) Bonus Issues
If the Company makes a bonus issue of securities to ordinary shareholders, each unexercised Option will, on exercise, entitle its holder to receive the bonus securities as if the Option had been exercised before the record date for the bonus issue.

(g) Rights Issues
If the Company makes a pro-rata rights issue of Shares for cash to its ordinary shareholders, the exercise price of the unexercised Options will be adjusted to reflect the diluting effect of the issue.

(h) Capital Reogranisations
If there is any reorganisation of the capital of the Company, the number of Options and their exercise price will be adjusted in accordance with the Listings Rules.

(i) Limit on Number of Options
The maximum number of Options on issue under the Plan must not at any time exceed 5% of the total number of Shares on issue at that time.

NOTE 25: EVENTS AFTER THE BALANCE SHEET DATE

In early January 2010, the consolidated group entered into a distribution agreement with Waternauts LLP, giving the group a strategic partner in Australia. This agreement introduces the Skywater machines into the Australian market. In mid-February 2 container loads of Skywater machines were shipped to Australia. These Skywater machines are under consignment arrangements with Waternauts.

The consolidated group teamed up with non-profit organisation One Village Planet and the South Florida Audubon Society to contribute to relief efforts for the victims of the earthquake in Haiti.

The consolidated group's Middle Eastern distributor Sky H20 signed a "letter of intent" with His Highness Sheik Isa Bin Zayed Al Nahyan and other members of the Royal Family of Abu Dhabi for exclusive rights to sell Skywater machines in the United Arab Emirates.

In late February 2010, the consolidated group had successfully completed the independent product safety certification with Underwriters Laboratories Inc (UL). UL is seeking to perform an Initial Production Inspection(IPI) at Island Sky's outsourced production facility in Guang Dong, China. Once the IPI is successfully completed and the machine is given UL approval, the group can commence retail sales in the United States.

In January 2010 the company issued 255,713 fully paid ordinary shares and 127,857 2011 Listed Options. The securities were allotted as part of the shortfall applications received in relation to the 2009 Rights Issue.

NOTE 26: RELATED PARTY TRANSACTIONS

	Consolidated Group		Parent Entity	
	2009 $	2008 $	2009 $	2008 $
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.				
Transactions with related parties:				
Other Related Parties transaction (net of GST)				
Under a five year business lease agreement dated 2 January 2005 rent was paid to Rhythm & Blues Holdings Inc., of which Mr Richard Groden is a Director and shareholder.	6,384	28,102	-	-
Leasehold Improvements were undertaken in the year by Groden-Stamp Construction Inc. Richard Groden is a Director of this company.	69,180	-	-	-
Under the exclusive license agreement with Salton licensing fees was paid to Island Sky. Terry Polistina is the Chief Executive Officer and President of Salton Inc.	2,936,200	3,980,832	-	-
Skywater India Private Limited, an entity associated with the Salton/Applica group, was paid funds to assist in inventory. The entity is associated with Terry Polistina	595,250	-	-	-
The company issued 16,342,940 fully paid shares to Salton Inc during August 2008. Terry Polistina is the CEO and President of Salton	-	4,085,735	-	4,085,735
During the year the entity used the services of AE Administrative Services Pty Ltd for the provision of Company Secretarial, Accounting and Administration Services. David Lindh is an associate of this company.	117,332	117,113	117,332	117,113
Rent, occupancy costs and reimbursable expenses to Adelaide Equity Partners Limited. David Lindh is a Director of Adelaide Equity Partners.	30,793	24,976	30,793	24,976

NOTES TO THE FINANCIAL STATEMENTS
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NOTE 26: RELATED PARTY TRANSACTIONS - CONT

	Consolidated Group		Parent Entity	
	2009 $	2008 $	2009 $	2008 $
During the year the entity used the services of Adelaide Equity Partners Limited for the provision of Corporate Advisory Services. David Lindh is a Director of Adelaide Equity Partners Limited.	125,000	100,000	125,000	100,000
During the year, the Company used the services of Minter Ellison for the provision of legal services. Mr Neville Martin is a partner and Mr David Lindh is a consultant of Minter Ellison.	80,615	287,507	80,615	287,507
Other Related Parties balances (including GST)				
Amount payable to Minter Ellison, of which, Mr Neville Martin is a partner and Mr David Lindh is a consultant.	46,396	131,450	46,396	131,450
Amount payable to Adelaide Equity Partners Limited, of which, Mr David Lindh is a Director and shareholder.	21,494	117,536	21,494	117,536

NOTE 27: FINANCIAL INSTRUMENTS

Financial Risk Management Policies

The Group's financial instruments consist mainly of deposits with banks, short term investments, accounts receivable and payable and loans to and from subsidiaries. The main risks the group is exposed to through it financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk.

Treasury Risk Management

A finance committee consisting of senior executives of the group meet on a regular basis to analyse financial risk exposure and to evaluate treasury management strategies. The senior executives of the company regularly analyse interest rate exposure and evaluate treasury management strategies in the context of the most recent economic conditions and forecasts.

Foreign Currency Risk

The consolidated group will be exposed to fluctuations in foreign currencies arising from sales and purchase of goods and services in currencies other than the group's functional currency. The consolidated entity potentially may have sales in foreign locations which will require risk management policies to be implemented to minimise the foreign currency risk. The group is currently preparing a policy for this as sales are commencing.

NOTE 27: FINANCIAL INSTRUMENTS - CONT

Interest Rate Risk

The group had no long term financial assets or liabilities upon which it earns or pays interest. Cash is held in an interest yielding cheque account and on short-term call deposits where the interest rate can vary from day to day.

Interest rate risk is managed with a mixture of fixed and floating rate cash deposits. It is the policy of the group to keep surplus cash in high yielding deposits. For further details on interest rate risk refer below.

Liquidity Risk

Liquidity risk arises from the possibility that the group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The group manages liquidity risk by monitoring forecast cash flows.

Credit Risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions, and represents the potential financial loss if counterparties fail to perform as contracted. Management monitors credit risk on an ongoing basis by maintenance of procedures. Such procedures include the utilisation of systems for the approval, granting and renewal of credit limits, regular monitoring of exposures against such limits and monitoring of the financial stability of significant customers and counterparties.

Interest Rate Risk

The consolidated group's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	Fixed Interest Rate Maturing			
	Weighted Average Effective Interest Rate		Total	
	2009	2008	2009 $	2008 $
Financial Assets:				
Cash and cash equivalents	3.2%	4.7%	1,138,727	6,882,737
Financial Assets	3.0%	3.0%	318,309	398,393
Total Financial Assets			1,457,036	7,281,130

	Floating Interest Rate Within 1 Year		Non Interest Bearing	
	2009 $	2008 $	2009 $	2008 $
Financial Assets:				
Cash and cash equivalents	615,635	5,079,095	723,091	1,803,642
Receivables	-	-	70,550	42,708
Financial Asset	318,309	398,393	-	-
Total Financial Assets	933,944	5,477,488	793,641	1,846,350
Financial Liabilities:				
Trade and sundry payables	-	-	303,008	685,371
Total Financial Liabilities	-	-	303,008	685,371

NOTES TO THE FINANCIAL STATEMENTS
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NOTE 27:FINANCIAL INSTRUMENTS – CONT

Net Fair Values

Aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the financial statements at balance date.

	2009		2008	
	Carrying Amount $	Net Fair Value $	Carrying Amount $	Net Fair Value $
Financial Assets				
Cash and cash equivalents	1,338,727	1,338,727	6,882,737	6,882,737
Receivables	70,550	70,550	42,708	42,708
Financial Asset	318,309	318,309	398,393	398,393
	1,727,586	1,727,586	7,323,838	7,323,838
Financial Liabilities				
Other liabilities and payables	303,008	303,008	685,371	685,371
	303,008	303,008	685,371	685,371

Fair values are materially in line with carrying values.

Sensitivity analysis

Interest rate and price risk

The group has performed a sensitivity analysis relating to its exposure to interest rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result in a change in these risks. It should be noted that the company does not have borrowings and any impacts would be in relation to deposit yields on cash investments.

Interest rate sensitivity analysis

At 31 December 2009, the effect on profit/loss and equity as a result of changes in the interest rate, with all other variables remaining constant would be as follows:

	Consolidated		Parent	
	2009 $	2008 $	2009 $	2008 $
Change in profit/loss				
Increase in interest rates by 2%	2,795	137,655	12,605	(102,103)
Decrease in interest rates by 2%	(2,795)	(137,655)	(12,605)	102,103
Change in equity				
Increase in interest rates by 2%	2,795	137,655	12,605	(102,103)
Decrease in interest rates by 2%	(2,795)	(137,655)	(12,605)	102,103

NOTE 27: FINANCIAL INSTRUMENTS - CONT

Foreign Currency Risk sensitivity analysis

At 31 December 2009, the effect on profit/loss and equity as a result of changes in the value of the Australian Dollar to the US Dollar, with all other variables remaining constant are as follows:

	Consolidated		Parent	
	2009	**2008**	**2009**	**2008**
	$	**$**	**$**	**$**
Change in profit/loss				
Improvement in AUD to USD by 5%	130,701	46,456	-	-
Decline in AUD to USD by 5%	(130,701)	(46,456)	-	-
Change in equity				
Improvement in AUD to USD by 5%	130,701	46,456	-	-
Decline in AUD to USD by 5%	(130,701)	(46,456)	-	-

Financial Instrument Composition and maturity analysis

The table below reflects the undiscounted contracted settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments. As such, the amounts may not reconcile to the balance sheet.

Trade and sundry payables are expected to be paid as follows:

	Consolidated		Parent	
	2009	**2008**	**2009**	**2008**
	$	**$**	**$**	**$**
Less than 6 months	303,008	685,371	154,772	278,835
6 months to 1 year	-	-	-	-
1 to 5 years	-	-	-	-
Over 5 years	-	-	-	-
	303,008	685,371	154,772	278,835

NOTE 28: COMPANY DETAILS

The registered office of the company is:

Island Sky Australia Limited
Level 3
100 Pirie Street
Adelaide SA 5000
Telephone (08) 8232 2550
Facsimile (08) 8232 2540

The principal places of business are:

USA Office - Island Sky Corporation Inc.
3288 North 29th Court
Hollywood
Florida 33020
United States of America

Australia Office - Island Sky Australia Ltd.
Level 3
100 Pirie Street
Adelaide SA 5000
Australia