



**ABN 73 122 948 805**

5 February 2010

Mr Dion Silvy  
Senior Adviser, Issuers (Adelaide)  
Australian Securities Exchange  
91 King William Street  
Adelaide SA 5000

Dear Mr Silvy,

**ISK Appendix 4C**

With reference to your letter dated 1 February 2010 relating to the Company's Appendix 4C filed for the period ending 31 December 2009.

In response to the questions you have raised, the Company responds as follows:

1. Noted. But there are other factors to be taken into account. Those other factors are:
  - a. The Company anticipates expenditure in Q3 and Q4 to be at a lower rate to that indicated in the Appendix 4C for Q2;
  - b. The Company has been transitioning from product development to the production stage and higher levels of expenditure can be expected to be incurred during such a transition;
  - c. The Company has implemented steps to reduce significantly the current rate of expenditure until revenue from sales reaches higher levels;
  - d. The Company has in place an unused USD\$500,000 line of credit with Florida Shores Bank available to its USA subsidiary enabling the subsidiary to draw down 50% of the face value of confirmed commercial letters of credit representing sales transactions (this enables receipt of sales revenue to be accelerated where a commercial letter of credit is involved);
  - e. The Company anticipates improved sales revenue during the period in question;
  - f. Discussions are being held with various parties with a view to placing the shortfall under the Company's recent rights issue (or making a separate placement in accordance with LR 7.1);

**Registered Office**  
Level 3, 100 Pirie Street, Adelaide SA 5000  
[www.islandsky.com.au](http://www.islandsky.com.au)  
t +61 8 8232 2550 f +61 8 8232 2540



ABN 73 122 948 805

- g. The Company has inventory on hand with an estimated sales value of US\$1.253 million and this constitutes a source of working capital and better enables the Company to contain expenditure going forward.
2. No.
3. The expenditure for the quarter was broadly in line with expectations. However, revenue from sales was below expectations for the quarter and the Company believes that it is running 2-3 months behind those expectations. This is not surprising given the global economic crisis.
4. The Company has not made any specific forecast of future revenues, however internal management budgets anticipated greater sales during Q2 2010. Those anticipated sales are now budgeted for Q3. The Company became aware of this slower than anticipated rate of sales at the end of Q2.
5. The Company has reduced its rate of expenditure in order to take into account the delay in receipt of sales revenue and to meet its business objectives as stated in the 2009 Annual Report.
6. The Company is in compliance with Listing Rule 3.1.
7. The Company's financial condition meets the requirements for continued listing under LR 12.2.

The Company does not believe that any information contained in this letter is required to be disclosed under LR 3.1.

Yours Sincerely,

A handwritten signature in black ink, appearing to read "Rajita Alwis", is written over a horizontal line.

Rajita Alwis  
Company Secretary

Registered Office  
Level 3, 100 Pirie Street, Adelaide SA 5000  
[www.islandsky.com.au](http://www.islandsky.com.au)  
t +61 8 8232 2550 f +61 8 8232 2540



ASX Markets Supervision Pty Ltd  
 ABN 26 087 780 489  
 91 King William Street  
 Adelaide SA 5000

GPO Box 547  
 Adelaide SA 5001

Telephone 61 8 8216 5000  
 Facsimile 61 8 8216 5099  
 www.asx.com.au

1 February 2010

Ms Rajita Shamani Alwis  
 Company Secretary  
 Island Sky Australia Limited  
 Level 3, 100 Pirie Street  
 Adelaide SA 5000

By email: [ralwis@adelaldeequity.com.au](mailto:ralwis@adelaldeequity.com.au)

Dear Ms Shamani Alwis,

**Island Sky Australia Limited (the "Company")**

I refer to the Company's Quarterly Report in the form of an Appendix 4C for the period ended 31 December 2009, released to ASX Limited ("ASX") on 29 January 2010 (the "Appendix 4C").

ASX notes that the Company has reported the following.

1. Receipts from customers of \$56,000.
2. Net negative operating cash flows for the quarter of (\$1,280,000).
3. Cash at end of quarter of \$1,339,000.
4. No loan facilities or credit standby arrangements available for the Company to access.

In light of the information contained in the Appendix 4C please respond to each of the following questions.

1. It is possible to conclude on the basis of the information provided that if the Company were to continue to expend cash at the rate for the quarter ending 31 March 2010, as indicated by the Appendix 4C, the Company may not have sufficient cash to fund its activities for another two quarters. Is this the case, or are there other factors that should be taken into account in assessing the Company's position?
2. Does the Company expect that in the future it will have negative operating cash flows similar to that reported in the Appendix 4C and if so, what steps has it taken to ensure that it has sufficient funds in order to continue its operations at that rate?
3. To what extent have the Company's actual revenues and expenses in the quarter, as reported in the Appendix 4C, matched the Company's anticipated revenues and expenses for that reporting period?

**Australian Securities Exchange**

Australian Stock Exchange  
 Sydney Futures Exchange

Australian Clearing House  
 SFE Clearing Corporation

ASX Settlement and Transfer Corporation  
 Austraclear

4. If the Company's actual revenues and expenses are not substantially in accordance with the Company's anticipated revenues and expenses, when did the Company become aware that its revenues and expenses would not substantially match the anticipated revenues and expenses? You may wish to outline any circumstances that may have had an effect on the Company's revenues and expenses.
5. What steps has the Company taken, or what steps does it propose to take, to enable it to continue to meet its business objectives as set out in its annual report for the period ending 30 June 2009 (the "Annual Report")? The Company's business objectives and strategies may have changed since the date of the Annual Report. If so, this should be taken into account in your response.
6. Can the Company confirm that it is in compliance with the listing rules, and in particular, listing rule 3.1?
7. Please comment on the Company's compliance with listing rule 12.2, with reference to the matters discussed in the note to the rule

### **Listing rule 3.1**

Listing rule 3.1 requires an entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. The exceptions to this requirement are set out in the rule.

In responding to this letter you should consult listing rule 3.1 and the guidance note titled "Continuous disclosure: listing rule 3.1".

If the information requested by this letter is information required to be given to ASX under listing rule 3.1 your obligation is to disclose the information immediately.

Your responsibility under listing rule 3.1 is not confined to, or necessarily satisfied by, answering the questions set out in this letter.

This letter and your response may be released to the market. If you have any concerns about your response being released, please contact me immediately. Your response should be sent to me by e-mail at [dion.silvy@asx.com.au](mailto:dion.silvy@asx.com.au) or by facsimile on facsimile number (08) 8216 5099. It should not be sent to the Company Announcements Office.

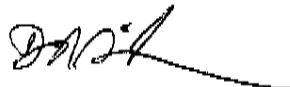
Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible and, in any event, not later than 9.30 a.m. C.D.S.T. on Friday, 5 February 2010.

If you are unable to respond by the time requested you should consider a request for a trading halt in the Company's securities.

Please note that ASX reserves the right, under listing rule 18.7A, to release this letter and the Company's response to the market if it considers it necessary for an informed market. Accordingly, it would be appreciated if you would prepare your response in a format suitable for release to the market and separately address each of the questions asked.

If you have any queries in relation to the above, please let me know.

Yours sincerely,



Dion Silvy  
**Senior Adviser, Issuers (Adelaide)**