



ABN 73 122 948 805

ANNOUNCEMENT TO AUSTRALIAN SECURITIES EXCHANGE

31 August 2010

General Manager
The Company Announcements Office
Australian Securities Exchange

Appendix 4D Half-Year Report Period ending 30 June 2010

The following information is provided to ASX under listing rule 4.2A.3.

1. Reporting period

- a. Current Period: 6 months ended 30 June 2010
- b. Prior Period: 6 months ended 30 June 2009

2. Results for announcement to the market

Consolidated Group	Item		Change \$	% Change		30 June 2010
Revenue – excluding interest received (continued operations)	2.1	down	3,135,293	(96.53)%	to	112,822
(Loss) after tax attributable to members	2.2	down	2,141,960	(8,206.74)%	to	(2,168,060)
Net (Loss) attributable to members	2.3	down	2,141,960	(8,206.74)%	to	(2,168,060)
Dividend	2.4	The Board is not proposing any dividend for the 2010 or 2009 half year.				

Registered Office

Level 3, 100 Pirie Street, Adelaide SA 5000

www.islandsky.com.au

t +61 8 8232 2550 f +61 8 8232 2540



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The record date for determining entitlements to the dividend	2.5	N/A
Explanatory information	2.6	Please refer to the 2010 Half Year Report for an explanation of the figures in 2.1 to 2.4

3. Net tangible assets per security

	30 June 2010	30 June 2009
Number of securities	142,850,998	125,295,879
Net tangible assets per security	\$0.02	\$0.04

- There were no entities over which control has been gained or lost during the period.
- Details of individual and total dividends or distributions and dividend or distribution payments – not applicable.
- Details of any dividend or distribution reinvestment plans in operation and the last date for the receipt of an election notice for participation in any dividend or distribution reinvestment plan – not applicable.
- Details of associates and joint venture entities including the name of the associate or joint venture entity and details of the reporting entity's percentage holding in each of these entities – not applicable.
- The Company is not a foreign entity.
- The 2010 Half-Year Report is based upon accounts that were reviewed by the Company's Auditor.

Yours faithfully

Rajita Alwis
Company Secretary



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INTERIM FINANCIAL REPORT 2010

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

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Island Sky Australia Limited and Controlled entity

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DIRECTORS' REPORT FOR THE HALF-YEAR ENDED 30TH JUNE 2010

Your Directors present their report of the consolidated group for the half-year ended 30th June 2010.

Directors

The names of Directors who held office during or since the end of the half-year:

David John Lindh

Richard Jay Groden

Michael Murphy Paragon

Neville Wayne Martin

Heinz Josef Niedermaier (resigned 31 March 2010)

Terry Lee Polistina (resigned 9 April 2010)

Review of Operations

In January a distribution agreement was signed with Waternauts LLP giving a strategic partner for distribution of the Skywater machines into the Australian market.

During later January the company teamed up with non-profit organisations, One Village Planet and the South Florida Audubon Society, to contribute relief efforts for the victims of the earthquake in Haiti.

In February independent product safety organisation, Underwriters Laboratories Inc (UL) successfully completed its testing of the Skywater14 water making machine.

In May 2010 the company received a US\$252,000 payment from Skywater Distributors Inc. to begin production of the UL approved Skywater 14 machines.

Island Sky has simultaneously begun Skywater300 product testing and certification with Intertek to receive ETL certification, a UL equivalent consumer approval.

A distribution agreement was signed with a company called iMarketing, to distribute Skywater units in the Phillipines.

On 1 June 2010 14,297,117 ordinary shares were issued at \$0.03 to raise \$428,914.

During the half-year, Heinz Niedermaier and Terry Polistina resigned as directors.

Auditor's Declaration

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 is set out on page 2 of the half-year ended 30 June 2010.

This report is signed in accordance with the resolution of the Board of Directors



David Lindh

Chairman

Dated this 31 day of August 2010

Level 1,
67 Greenhill Rd
Wayville SA 5034
GPO Box 1270
Adelaide SA 5001

T 61 8 8372 6666
F 61 8 8372 6677
E info.sa@au.gt.com
W www.grantthornton.com.au

**AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF ISLAND SKY AUSTRALIA LIMITED**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Island Sky Australia Limited for the half-year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b no contraventions of any applicable code of professional conduct in relation to the review.

GRANT THORNTON
South Australian Partnership
Chartered Accountants



S J Gray
Partner

Signed at Wayville on this 31st day of August 2010

Island Sky Australia Limited and Controlled entity

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 30 JUNE 2010

	Note	Consolidated Group	
		30.06.10	30.06.09
		\$	\$
Revenue	2	112,822	3,248,115
Other income		16,082	95,904
Changes in inventories of finished goods and work in progress		(157,468)	(219,408)
Distribution		(6,880)	(5,836)
Marketing		(117,780)	(373,546)
Depreciation expense		(23,317)	(83,808)
Occupancy		(80,354)	(104,586)
Administration	2	(356,105)	(595,667)
Professional fees		(242,643)	(471,239)
Employee Expenses		(943,056)	(1,431,041)
Other expenses	2	(108,760)	(71,232)
Small tools & equipment		(3,336)	(9,084)
Impairment expense		(243,450)	-
Finance costs		(6,005)	(3,784)
(Loss)/Profit before income tax		(2,160,250)	(25,212)
Income tax receipt/(expense)		(7,810)	(888)
(Loss)/Profit for the period from continuing operations		(2,168,060)	(26,100)
(Loss)/Profit for the period		(2,168,060)	(26,100)
Other comprehensive income			
Foreign Currency Translation Adjustment gain/(loss)		209,937	(1,607,663)
Total comprehensive income for the period		(1,958,123)	(1,633,763)
Profit attributable to:			
Members of the parent entity		(2,168,060)	(26,100)
Total comprehensive income attributable to:			
Members of the parent entity		(1,958,123)	(1,633,763)
Overall and Continuing Operations			
Basic earnings per share (cents per share)		(1.67)	(0.02)
Diluted earnings per share (cents per share)		(1.67)	(0.02)

The accompanying notes form part of these financial statements.

Island Sky Australia Limited and Controlled entity

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

	Consolidated Group	
	30.06.10	31.12.09
	\$	\$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	425,712	1,338,727
Trade and other receivables	118,281	70,550
Financial Assets	96,436	318,309
Inventories	1,856,013	1,629,439
Other assets	328,064	462,512
TOTAL CURRENT ASSETS	2,824,506	3,819,537
NON-CURRENT ASSETS		
Plant and equipment	150,061	178,952
Other non-current assets	1,146,457	1,050,456
Intangible assets	1,828,932	1,852,847
TOTAL NON-CURRENT ASSETS	3,125,450	3,082,255
TOTAL ASSETS	5,949,956	6,901,792
CURRENT LIABILITIES		
Trade and other payables	873,269	303,008
Provisions	2,769	2,769
TOTAL CURRENT LIABILITIES	876,038	305,777
TOTAL LIABILITIES	876,038	305,777
NET ASSETS	5,073,918	6,596,015
EQUITY		
Issued capital	13,777,804	13,341,778
Reserves	(559,384)	(769,321)
Retained earnings	(8,144,502)	(5,976,442)
TOTAL EQUITY	5,073,918	6,596,015

The accompanying notes form part of these financial statements.

Island Sky Australia Limited and Controlled entity

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 30 JUNE 2010

	Issued Capital Ordinary	Reserves	Retained Earnings	Total
	\$	\$	\$	\$
CONSOLIDATED GROUP				
Balance at 1 January 2009	12,940,569	1,167,832	(3,324,318)	10,784,083
Total comprehensive income for the period	-	(1,607,663)	(26,100)	(1,633,763)
Balance at 30 June 2009	<u>12,940,569</u>	<u>(439,831)</u>	<u>(3,350,418)</u>	<u>9,150,320</u>
CONSOLIDATED GROUP				
Balance at 1 January 2010	13,341,778	(769,321)	(5,976,442)	6,596,015
Shares issued during the year	453,914	-	-	453,914
Share issue costs	(25,554)	-	-	(25,554)
Deferred tax benefit not recognised associated with the share issue costs	7,666	-	-	7,666
Total comprehensive income for the period	-	209,937	(2,168,060)	(1,958,123)
Balance at 30 June 2010	<u>13,777,804</u>	<u>(559,384)</u>	<u>(8,144,502)</u>	<u>5,073,918</u>

The accompanying notes form part of these financial statements.

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CONSOLIDATED STATEMENT OF CASHFLOWS FOR THE HALF-YEAR ENDED 30 JUNE 2010

	Consolidated Group	
	30.06.10	30.06.09
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	361,139	3,281,477
Payments to suppliers and employees	(1,658,477)	(5,301,736)
Finance Costs	(5,947)	(3,784)
Interest received	16,082	95,904
Net cash (used in)/provided by operating activities	(1,287,203)	(1,928,139)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of intangible assets	-	(438,449)
Purchase of property, plant and equipment	(11,220)	(156,742)
Net cash (used in)/provided by investing activities	(11,220)	(595,191)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	453,914	-
Payment of share issue costs	(25,554)	-
Net cash (used in)/provided by financing activities	428,360	-
Net increase in cash held	(870,063)	(2,523,330)
Cash at beginning of the period	1,338,727	6,882,737
Effect of exchange rates on cash holdings in foreign currencies	(42,952)	(721,501)
Cash at end of period	425,712	3,637,906

The accompanying notes form part of these financial statements.

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2010

NOTE 1: BASIS OF PREPARATION

These general purpose financial statements for the interim half-year reporting period ended 30 June 2010 have been prepared in accordance with requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB 134: Interim Financial Reporting. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Island Sky Australia Limited and its controlled entity (the Group). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2009, together with any public announcements made during the half-year.

The same accounting policies and methods of computation have been followed in the interim financial report as were applied in the most recent annual financial statements.

NOTE 2: (LOSS)/PROFIT FOR THE PERIOD

	Consolidated Group	
	30.06.2010	30.06.2009
	\$	\$
The following revenue and expense items are relevant in explaining the financial performance for the interim period:		
Revenue		
Licensing Fees	-	3,016,280
Sales Revenue	112,822	231,835
	<hr/>	<hr/>
	112,822	3,248,115
Expenses		
Other Expenses:		
— Development Costs	33,297	71,232
— Donations	75,463	-
	<hr/>	<hr/>
Total Other Expenses	108,760	71,232
Administration		
— Travel, accommodation and entertaining	135,753	304,874
— Other	220,352	290,793
	<hr/>	<hr/>
Total Administration costs	356,105	595,667

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NOTE 3: 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 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 half-year ended 30 June 2010.

(i) Segment performance

	Australia	United States of America	Asia	Total
Six months ended 30.06.2010	\$	\$	\$	\$
Revenue				
External Sales	-	112,822	-	112,822
Inter-segment sales	216,514	-	-	216,514
Interest revenue	8,475	7,607	-	16,082
Total segment revenue	224,989	120,429	-	345,418
<i>Reconciliation of segment revenue to group revenue</i>				
Inter-segment elimination	-	-	-	(216,514)
Total group revenue	-	-	-	128,904
Segment net profit before tax	(57,841)	(2,102,409)	-	(2,160,250)
<i>Reconciliation of segment result to group net profit/(loss) before tax</i>				
Net profit before tax from continuing operations	-	-	-	(2,160,250)

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NOTE 3: OPERATING SEGMENTS (continued)

(i) Segment performance

	Australia	United States of America	Asia	Total
Six months ended 30.06.2009	\$	\$	\$	\$
Revenue				
External Sales	-	3,248,115	-	3,248,115
Inter-segment sales	1,407,646	-	-	1,407,646
Interest revenue	54,330	41,574	-	95,904
Total segment revenue	1,461,976	3,289,689	-	4,751,665
<i>Reconciliation of segment revenue to group revenue</i>				
Inter-segment elimination	-	-	-	(1,407,646)
Total group revenue				3,344,019
Segment net profit before tax	847,561	(872,773)	-	(25,212)
<i>Reconciliation of segment result to group net profit/(loss) before tax</i>				
Net profit before tax from continuing operations	-	-	-	(25,212)

(ii) Segment assets

	Australia	United States of America	Asia	Total
30.06.2010	\$	\$	\$	\$
Segment Assets	10,214,250	3,614,765	1,454,015	15,283,030
Segment asset increases for the period:				
• Property, Plant & Equipment	-	11,220	-	11,220
• Patent & Development Costs	-	-	-	-
	-	11,220	-	11,220
<i>Reconciliation of segment assets to group assets</i>				
Inter-segment eliminations	(9,333,074)	-	-	(9,333,074)
Total group assets from continuing operations	881,176	3,614,765	1,454,015	5,949,956

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NOTE 3: OPERATING SEGMENTS (continued)

(ii) Segment assets

	Australia	United States of America	Asia	Total
31.12.2009	\$	\$	\$	\$
Segment Assets	9,853,557	4,317,047	1,050,458	15,221,062
Segment asset increases for the period:				
• Property, Plant & Equipment	-	124,287	-	124,287
• Patent & Development Costs	-	435,116	-	435,116
	-	559,403	-	559,403
<i>Reconciliation of segment assets to group assets</i>				
Inter-segment eliminations	(8,319,270)	-	-	(8,319,270)
Total group assets from continuing operations	1,534,287	4,317,047	1,050,458	6,901,792

(iii) Segment liabilities

	Australia	United States of America	Asia	Total
30.06.2010	\$	\$	\$	\$
Segment liabilities	147,716	10,061,396	-	10,209,112
<i>Reconciliation of segment liabilities to group liabilities</i>				
Inter-segment eliminations	-	(9,333,074)	-	(9,333,074)
Total liabilities from continuing operations	147,716	728,322	-	876,038

(iii) Segment liabilities cont

	Australia	United States of America	Asia	Total
3.12.2009	\$	\$	\$	\$
Segment liabilities	157,541	8,467,506	-	8,625,047
<i>Reconciliation of segment liabilities to group liabilities</i>				
Inter-segment eliminations	-	(8,319,270)	-	(8,319,270)
Total liabilities from continuing operations	157,541	148,236	-	305,777

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NOTE 4: EVENTS SUBSEQUENT TO REPORTING DATE

No matters have arisen since the end of the period that significantly affects the operations of the company, the results of these operations, or the state of affairs of the company in future years.

NOTE 5: GOING CONCERN BASIS OF ACCOUNTING

The financial report has been prepared on the basis of going concern.

The consolidated entity incurred a loss of \$2,168,060 during the year ended 30 June 2010. The projections of the consolidated entity evidence that the consolidated entity will require positive cash flows from sales and/or additional capital to continue operation. The Directors anticipate positive cash flow from sales to commence in the near future.

The consolidated entity's ability to continue as a going concern is contingent upon generating positive cashflow from sales and/or successfully raising additional capital. If additional funds are not generated or raised, the going concern basis may not be appropriate, with the result that the consolidated entity may have to realise its assets and extinguish its liabilities, other than in the ordinary course of business in amounts different from those stated in the financial report. No allowance for such circumstances has been made in the financial report.

NOTE 6: CONTINGENT LIABILITIES

There has been no change in contingent liabilities since the last reporting date.

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NOTE 7: ISSUED CAPITAL

	30.06.10	31.12.09
	\$	\$
142,850,998 (31 December 2009: 128,298,168) fully paid ordinary shares	13,777,804	13,341,778
a. Ordinary shares		
At the beginning of reporting period	13,341,778	12,940,569
Shares issued during the year		
27 January 2010	25,000	-
1 June 2010	428,914	-
Total shares issued during the year	453,914	-
Shares Issued during the prior year:		
16 December 2009	-	420,320
Shortfall shares unissued (allotted 12 January 2010)	-	10,800
Total shares Issued during the prior year	-	431,120
Less: Cost of capital raising (net of tax)	(17,888)	(29,911)
At the end of the reporting period	13,777,804	13,341,778
	30.06.10	31.12.09
	No.	No.
At the beginning of reporting period	128,298,168	125,295,879
Shares issued during the half-year:		
12 January 2010	77,142	-
27 January 2010	178,571	-
1 June 2010	14,297,117	-
Total shares issued during the year	14,552,830	-
Shares Issued during the prior year:		
16 December 2009	-	3,002,289
Total shares issued during the prior year	-	3,002,289
At the end of the reporting period	142,850,998	128,298,168

At 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.

Island Sky Australia Limited and Controlled entity

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NOTE 7: ISSUED CAPITAL (CONT)

b. Listed Options	2011 Listed Options	
	30.06.10	31.12.09
	No.	No.
At the beginning of reporting period	1,501,145	-
Options issued during the year:		
12 January 2010	38,571	-
27 January 2010	89,287	-
	127,858	-
Options issued during the prior year:		
16 December 2009	-	1,501,145
	-	1,501,145
At the end of the reporting period	1,629,003	1,501,145

In the event that all Listed Options were exercised, the Company would be required to issue a further 1,629,003 (31 December 2009: 1,501,145) ordinary shares.

2011 Listed Options have an exercise price of \$0.25 and expire on 30 November 2011.

NOTE 8: 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 Limited
 Level 3
 100 Pirie Street
 Adelaide SA 5000
 Australia

Island Sky Australia Limited and Controlled entity
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DIRECTORS' DECLARATION

The Directors of the company declare that:

1. the financial statements and notes, as set out on pages 3 to 13:
 - a. comply with Accounting Standards and the Corporations Regulations 2001; and
 - b. give a true and fair view of the economic entity's financial position as at 30 June 2010 and of its performance for the half-year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
3. These financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

This declaration is made in accordance with a resolution of the Board of Directors.

A handwritten signature in blue ink, appearing to read 'David Lindh', is written over a faint yellow rectangular background.

David Lindh

Chairman

Dated this 31 day of August 2010

Level 1,
67 Greenhill Rd
Wayville SA 5034
GPO Box 1270
Adelaide SA 5001

T 61 8 8372 6666
F 61 8 8372 6677
E info.sa@au.gt.com
W www.grantthornton.com.au

INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF ISLAND SKY AUSTRALIA LIMITED

We have reviewed the accompanying half-year financial report of Island Sky Australia Limited ("Company"), which comprises the consolidated financial statements being the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

The directors of the Company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410: Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Island Sky Australia Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

**INDEPENDENT AUDITOR'S REVIEW REPORT
TO THE MEMBERS OF ISLAND SKY AUSTRALIA LIMITED Cont**

Directors' responsibility for the half-year financial report Cont

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we complied with the independence requirements of the Corporations Act 2001.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Island Sky Australia Limited is not in accordance with the Corporations Act 2001, including:

- a giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the half-year ended on that date; and
- b complying with Accounting Standard AASB 134: Interim Financial Reporting and Corporations Regulations 2001.

Material uncertainty regarding continuation as a going concern

Without qualifying our opinion, we draw attention to Note 5 in the financial statements which indicates that the consolidated entity incurred a net loss of \$2,168,060 during the half year ended 30 June 2010. These conditions, along with other matters as set forth in Note 5, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business. The consolidated entity will require positive cash flow from sales and/or capital raising for the consolidated entity to continue development of their existing projects and for working capital.

GRANT THORNTON
South Australian Partnership
Chartered Accountants



S.J. Gray
Partner

Signed at Wayville on this 31st day of August 2010