

MANAGING DIRECTOR'S ADDRESS – AGM 31 JULY 2012

An analysis of the difficulties the company has experienced to date has revealed several issues that have brought us to this point.

Of course the most obvious and glaring problem was we entered the marketplace during the worst global financial crisis since the great depression of the 1930's

We believe that we tried to bring our products to the market too quickly. Our business model called for us to start generating revenue immediately and the product was not ready for mass market distribution. We should have built fewer machines initially and Beta tested them over a longer period of time before we released them into the market place.

Our marketing efforts were too wide spread. We didn't focus on one or two markets and bring in small successes. We tried to open in too many areas creating a diverse area with not enough support and we spread ourselves too thin.

Our initial distributors were not strong enough and could not support the needs of the machine or the instant customer satisfaction which is necessary to create good word of mouth.

Developing the product in China was also fraught with difficulties. The lure of procuring inexpensive manufacturing needed to bring our product to the market at a competitive price was overshadowed by the hidden expenses of having to bring our engineers over there for extending periods of time. We also had to hire our own local engineers for quality control measures we did not feel we were getting from the factory. Ultimately the process was much more difficult, time consuming and expensive than we anticipated.

The process of securing UL certification to enable our machines to be sold commercially in the US market was also extremely expensive and took much more time than anyone could have anticipated.

Ultimately we have reached a point where the product ready for the market and we have the certifications that we need but we don't have the money to market the products properly.

So we are taking measures to bring in new investment. We are focusing on several markets where we have had some measure of success. We have downsized our overhead considerably and we are trying to move the company forward.

The Skywater machines that were donated to Haiti following the earthquake are currently still in use and continue to provide clean water to help alleviate the cholera epidemic. The company continues to work with the Haitian NGO One Village Planet on the development of their Sustainable Village Initiative a project which combines the use of Skywater machines with Biofuel Gasifiers to generate electricity and water to be used for farming and aquaculture in the underdeveloped rural areas of Haiti.

Our newest product has just been introduced to the market. It is the Skywater Harmony. This is a Skywater 14 machine that has been enhanced to provide ionized super oxygenated

alkaline water. The Skywater Harmony is targeted for the health conscious individual who is looking to maintain a balanced PH in their body which is thought by many to be a major factor in the prevention of cancer and other degenerative diseases. We have had a great deal of interest in this product from our distributors and we feel there is a very large and passionate market for a product of this type.

Island Sky is in the process of developing a new machine we call the Skywater Solar 125. Initial testing leads us to believe that this machine will produce up to 150 gallons of water per day using only 1 KW of electricity per hour. The typical RO Desalination System uses 2KW per hour to power their system and another 2KW to run the pump on the well. Electricity can run anywhere from \$0.10 per KW/Hr in a highly industrialized area to \$0.50 per KW/Hr in a place like the Bahamas. This would yield a yearly cost of \$17,520.00 for the desal machine vs. \$4,380.00 for the Skywater machine.

Once the 125 unit has been commercialized the company intends to produce a solar version of the Skywater 300 machine as well which will have a similar economy of scale.

As the company continues to improve the energy efficiency of its products allowing access to a greater segment of the marketplace, and as the world's water resources continue to be depleted (thereby increasing the price of water), Island Sky® believes that there will be a significant increase in mainstream demand for the units as a substitute for municipal water.

Richard J Groden

Managing Director

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