



ABN 73 122 948 805

ANNOUNCEMENT TO AUSTRALIAN SECURITIES EXCHANGE

31 August 2012

General Manager
The Company Announcements Office
Australian Securities Exchange

Appendix 4D Half-Year Report Period ending 30 June 2012

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

1. Reporting period

- a. Current Period: 6 months ended 30 June 2012
- b. Prior Period: 6 months ended 30 June 2011

2. Results for announcement to the market

Consolidated Group	Item		Change \$	% Change		30 June 2012
Revenue – excluding interest received (continued operations)	2.1	No change	0	0%	to	0
Profit/(Loss) after tax attributable to members from continued and discontinued operations.	2.2	up	1,136,687	76.25 %	to	(353,956)
Net Profit/(Loss) attributable to members from continued and discontinued operations.	2.3	up	1,136,687	76.25 %	to	(353,956)
Dividend	2.4	The Board is not proposing any dividend for the 2012 or				

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		2011 half year.
The record date for determining entitlements to the dividend	2.5	N/A
Explanatory information	2.6	Please refer to the 2012 Half Year Report for an explanation of the figures in 2.1 to 2.4

3. Net tangible assets per security

	30 June 2012	30 June 2011
Number of securities	285,701,996	142,850,998
Net tangible assets per security	(\$0.005)	(\$0.008)

- 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 2012 Half-Year Report is based upon accounts that were reviewed by the Company's Auditor.

Yours faithfully

Rajita Alwis
Company Secretary



INTERIM FINANCIAL REPORT 2012

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 2012

Your Directors present their report of the consolidated group, consisting of Island Sky Australia Limited and the entity it controlled at the end of the half-year ended 30th June 2012.

Directors

The names of Directors who held office within Island Sky Australia Limited during or since the end of the half-year:

David John Lindh

Richard Jay Groden

Neville Wayne Martin

Michael Murphy Paragon (resigned 10 April 2012)

Review of Operations

On 15 June 2012 the Company signed a Stock Purchase Agreement (SPA) with Mr Richard Groden pursuant to which the Company will sell 75% of its shares of common stock in its wholly owned subsidiary, Island Sky Corporation. The Agreement was subject to shareholder approval which was approved at the Annual General Meeting held on 31 July 2012.

Auditor's Independence 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 report ended 30 June 2012.

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



David J Lindh

Chairman

Dates this 31st day of August 2012

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**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 2012, 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

GRANT THORNTON SOUTH AUSTRALIAN PARTNERSHIP
Chartered Accountants



J.L. Humphrey
Partner

Adelaide, 31 August 2012

Island Sky Australia Limited and Controlled entity

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED 30 JUNE 2012

		Consolidated	
	NOTE	30 June 2012	30 June 2011
Other income	2	1,589	669
Expenses			
Distribution		(17)	(483)
Marketing		-	(14,773)
Occupancy		(15,091)	(14,528)
Administration		(31,325)	(34,847)
Professional Fees		(90,052)	(96,715)
Other	2	(2,151)	(71,284)
Finance costs		(263)	(408)
Loss before income tax		(137,310)	(232,369)
Income tax expense		-	-
Loss from continued operations		(137,310)	(232,369)
Loss from discontinued operation	3	(216,646)	(1,258,274)
Loss for the year		(353,956)	(1,490,643)
Other comprehensive income			
Foreign Currency Translation		(5,989)	(52,024)
Total comprehensive income		(359,945)	(1,542,667)
Loss is attributable to:			
Owners of Island Sky Australia Limited		(353,956)	(1,490,643)
Total comprehensive income attributable to:			
Owners of Island Sky Australia Limited		(359,945)	(1,542,667)
Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the company:			
Basic earnings per share (cents per share)		(0.0480)	(0.1626)
Diluted earnings per share (cents per share)		(0.0480)	(0.1626)
Earnings per share for loss attributable to the ordinary equity holders of the company:			
Basic earnings per share (cents per share)		(0.1239)	(0.0104)
Diluted earnings per share (cents per share)		(0.1239)	(0.0104)

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 2012

		Consolidated	
	NOTE	30 June 2012	31 December 2011
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		190,323	287,575
Trade and other receivables		3,508	-
		<hr/>	<hr/>
		193,831	287,575
Assets classified as held for sale	5	962,505	996,625
		<hr/>	<hr/>
TOTAL CURRENT ASSETS		1,156,336	1,284,200
		<hr/>	<hr/>
TOTAL ASSETS		1,156,336	1,284,200
CURRENT LIABILITIES			
Trade and other payables	4	460,216	343,564
Provisions		2,769	2,769
		<hr/>	<hr/>
		462,985	346,333
Liabilities directly associated with assets classified as held for sale	6	2,216,728	2,101,299
		<hr/>	<hr/>
TOTAL CURRENT LIABILITIES		2,679,713	2,447,632
		<hr/>	<hr/>
NET LIABILITIES		(1,523,377)	(1,163,432)
EQUITY			
Issued Capital	12	14,448,739	14,448,739
Reserves		(1,072,718)	(1,066,729)
Retained losses		(14,899,398)	(14,545,442)
		<hr/>	<hr/>
TOTAL EQUITY		(1,523,377)	(1,163,432)
		<hr/>	<hr/>

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 2012

	Issued Capital Ordinary	Reserves	Retained Losses	Total
	\$	\$	\$	\$
CONSOLIDATED GROUP				
Balance at 1 January 2011	13,777,803	(1,032,090)	(11,370,643)	1,375,070
Total comprehensive income for the period	-	(52,024)	(1,490,643)	(1,542,667)
Balance at 30 June 2011	<u>13,777,803</u>	<u>(1,084,114)</u>	<u>(12,861,286)</u>	<u>(167,597)</u>
CONSOLIDATED GROUP				
Balance at 1 January 2012	14,448,739	(1,066,729)	(14,545,442)	(1,163,432)
Total comprehensive income for the period	-	(5,989)	(353,956)	(359,945)
Balance at 30 June 2012	<u>14,448,739</u>	<u>(1,072,718)</u>	<u>(14,899,398)</u>	<u>(1,523,377)</u>

The accompanying notes form part of these financial statements.

Island Sky Australia Limited and Controlled entity

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CONSOLIDATED STATEMENT OF CASHFLOWS FOR THE HALF-YEAR ENDED 30 JUNE 2012

	Consolidated Group	
	30 June 2012	30 June 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	63,085	149,972
Payments to suppliers and employees	(152,569)	(326,120)
Finance Costs	(1,152)	(408)
Interest received	7,208	707
Net cash used in operating activities	(83,428)	(175,849)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	-	122,506
Net cash provided by financing activities	-	122,506
Net decrease in cash held	(83,428)	(53,343)
Cash at beginning of the period from continuing and discontinuing operations	289,017	66,480
Effect of exchange rates on cash holdings in foreign currencies	(6,189)	(1,211)
Cash at the end of the period from continuing and discontinuing operations	199,400	11,926

The accompanying notes form part of these financial statements.

Island Sky Australia Limited and Controlled entity

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NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2012

NOTE 1: BASIS OF PREPARATION

These general purpose financial statements for the interim half-year reporting period ended 30 June 2012 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 2011, 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 FOR THE PERIOD FROM CONTINUING OPERATIONS

	30 June 2012 \$	30 June 2011 \$
The following revenue and expense items are relevant in explaining the financial performance for the interim period from continuing operations:		
Other Income		
Interest Income	1,589	669
Other Expenses		
Employee Expenses	2,151	71,284

Island Sky Australia Limited and Controlled entity

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NOTE 3: LOSS FOR THE PERIOD FROM DISCONTINUED OPERATIONS

On 15 June 2012 the Company signed a Stock Purchase Agreement (SPA) with Mr Richard Groden pursuant to which the Company will sell 75% of its shares of common stock in its wholly owned subsidiary, Island Sky Corporation. The Agreement was subject to shareholder approval which was approved at the Annual General Meeting held on 31 July 2012. As a result of this transaction, the net liabilities of Island Sky Corporation have been classified within the Statement of Financial Position as 'held for sale'. In addition, the performance of Island Sky Corporation has been removed from the continuing "operations" within the Statement of Comprehensive Income.

	30 June 2012 \$	30 June 2011 \$
The following revenue and expense items are relevant in explaining the financial performance for the interim period of the discontinued operation:		
Revenue		
Sales Income	51,480	173,610
Interest Income	5,620	6,601
	<u>57,100</u>	<u>180,211</u>
Cost of sales	(25,423)	(566,413)
Expenses		
Distribution	(555)	(1,075)
Marketing	(826)	(559)
Occupancy	(34,712)	(56,420)
Administration	(23,397)	(28,475)
Employee Expenses	(136,748)	(498,926)
Professional Fees	(13,967)	(61,562)
Depreciation	(16,810)	(26,420)
Travel, accommodation and entertainment	(249)	(2,251)
Finance costs	(20,518)	(20,947)
Impairment	-	(169,495)
Other Expenses	(396)	(4,933)
	<u>(248,178)</u>	<u>(871,063)</u>
Income tax expense		
Company taxation	(145)	(1,009)
	<u>(145)</u>	<u>(1,009)</u>
Loss from discontinued operation	<u>(216,646)</u>	<u>(1,258,274)</u>

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NOTE 4: TRADE AND OTHER PAYABLES

	30 June	31 December
	2012	2011
Accounts payable	258,554	148,914
Accrued expenses	201,662	194,650
	<u>460,216</u>	<u>343,564</u>

NOTE 5: ASSETS CLASSIFIED AS HELD FOR SALE

	30 June	31 December
	2012	2011
	\$	\$
Cash and cash equivalents	9,077	1,442
Trade and other receivables	30,524	40,631
Inventories	897,299	911,893
Plant and Equipment	13,744	30,814
Deposits	11,861	11,845
TOTAL	<u>962,505</u>	<u>996,625</u>

NOTE 6: LIABILITIES DIRECTLY ASSOCIATED TO ASSETS CLASSIFIED AS HELD FOR SALE

Current liabilities		
Trade and other payables	2,216,728	2,101,299
TOTAL	<u>2,216,728</u>	<u>2,101,299</u>

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NOTE 7: CASHFLOWS FROM DISCONTINUED OPERATIONS

	NOTE	30 June 2012 \$	30 June 2011 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		63,085	149,972
Payments to suppliers and employees		(55,019)	(178,650)
Finance Costs		(889)	(188)
Interest received		6,647	-
Net cash provided by/(used in) operating activities		13,824	(28,866)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		-	32,960
Net cash provided by financing activities		-	32,960
Net increase in cash held		13,824	4,094
Cash at beginning of the period		1,442	(1,087)
Effect of exchange rates on cash holdings in foreign currencies		(6,189)	(1,211)
Cash at end of period	5	9,077	1,796

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NOTE 8: 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 US based segment is a discontinued operation due to the signing of the Stock Purchase Agreement (SPA) with Mr Richard Groden on 15 June 2012, as outlined with Note 3. As a result this segment is no longer shown as an operating segment of the group.

The five-year manufacturing agreement with Protel Pacific Corporation was previously identified as an operating segment in Asia. For the half year ended 30 June 2012 and the comparative period, the segment has no current operations, assets or liabilities.

NOTE 9: EVENTS SUBSEQUENT TO REPORTING DATE

On 15 June 2012 the Company signed a Stock Purchase Agreement (SPA) with Mr Richard Groden pursuant to which the Company will sell 75% of its shares of common stock in its wholly owned subsidiary, Island Sky Corporation. The Agreement was subject to shareholder approval which was approved at the Annual General Meeting held on 31 July 2012.

No other 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 10: GOING CONCERN BASIS OF ACCOUNTING

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

The consolidated entity incurred a loss of \$353,956 during the half-year ended 30 June 2012 and, as of that date, the consolidated entity's current liabilities exceeded its total assets by \$1,523,377. Subsequent to 30 June 2012, Island Sky Corporation was disposed of as disclosed in Note 3.

Had Island Sky Australia Limited disposed of Island Sky Corporation as at 30 June 2012, the net liabilities of the holding company would have been \$269,154.

The projections of the holding company indicate the need for positive cash flows from additional capital to fund development and working capital.

The company remains reliant upon further capital raisings to continue as a going concern. We understand that once a suitable business is found to be acquired the company will seek to raise the additional capital required. If additional funds are not raised, the going concern basis may not be appropriate, with the result that the Company may have to realise its assets and extinguish its liabilities, other than in the ordinary course of business and in amounts different from those stated in the Interim Financial Report. No allowance for such circumstances has been made in the Interim Financial Report.

NOTE 11: CONTINGENT LIABILITIES

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

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NOTE 12: ISSUED CAPITAL

	30 June 2012 \$	31 December 2011 \$
285,701,996 (31 December 2011: 285,701,996) fully paid ordinary shares	14,448,739	14,448,739
a. Ordinary shares		
At the beginning of reporting period	14,448,739	13,777,803
Shares issued during the half-year	-	-
Total shares issued during the year	-	-
Shares Issued during the prior year:		
— 2 August 2011	-	138,890
— 4 August 2011	-	575,365
Total shares Issued during the prior year	-	714,255
Share issue costs	-	(56,176)
Tax effect of transaction costs	-	12,857
At the end of the reporting period	14,448,739	14,448,739

	30 June 2012 No.	31 December 2011 No.
At the beginning of reporting period	285,701,996	142,850,998
Shares issued during the half-year:	-	-
Total shares issued during the year	-	-
Shares Issued during the prior year:		
— 2 August 2011	-	27,777,921
— 4 August 2011	-	115,073,077
Total shares issued during the prior year	-	142,850,988
At the end of the reporting period	285,701,996	285,701,996

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.

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NOTE 12: ISSUED CAPITAL (CONT)

b. Listed Options

	2011 Listed Options	
	30 June 2012 No.	31 December 2011 No.
	At the beginning of reporting period	-
Options issued during the year		
Island Sky Australia Limited		-
Total Options issued during the year	-	-
Options expired during the prior year		
- 30 November 2011 (i)	-	1,629,003
Total options expired during the prior year	-	1,629,003
At the end of the reporting period	-	-

(i) 2011 Listed Options have an exercise price of \$0.25 and expired on 30 November 2011.

NOTE 13: 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 set out on pages 3 to 13 are 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 2012 and of its performance for the half-year ended on that date; and
 - b. comply with Accounting Standard AASB 134 Interim Financial Reporting, and the Corporations Regulations 2001.
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.

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



David Lindh
Chairman

Dated this 31st day of August 2012

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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 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement or description 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 Island Sky Australia Limited are responsible for the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such controls as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

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 a Financial Report 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 2012 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.

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 2012 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 qualification to the conclusion expressed above, we draw attention to Note 10 to the financial statements which indicate that the consolidated entity incurred a net loss of \$353,956 during the year half-year ended 30 June 2012 and, as of that date, the consolidated entity's current liabilities exceeded its total assets by \$1,523,377. The consolidated entity will require additional capital to fund future development and working capital

These conditions, along with others set forth in Note 10, 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, and at the amounts stated in the financial report.

Grant Thornton

GRANT THORNTON SOUTH AUSTRALIAN PARTNERSHIP
Chartered Accountants



J L Humphrey
Partner

Adelaide, 31 August 2012