



ABN 73 122 948 805

ANNOUNCEMENT TO AUSTRALIAN SECURITIES EXCHANGE

31 August 2011

General Manager
The Company Announcements Office
Australian Securities Exchange

Appendix 4D Half-Year Report Period ending 30 June 2011

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

1. Reporting period

- a. Current Period: 6 months ended 30 June 2011
- b. Prior Period: 6 months ended 30 June 2010

2. Results for announcement to the market

Consolidated Group	Item		Change \$	% Change		30 June 2011
Revenue – excluding interest received (continued operations)	2.1	up	48,828	43.28%	to	161,650
Profit/(Loss) after tax attributable to members	2.2	up	677,417	31.25%	to	(1,489,643)
Net Profit/(Loss) attributable to members	2.3	up	677,417	31.25%	to	(1,489,643)
Dividend	2.4	The Board is not proposing any dividend for the 2011 or 2010 half year.				
The record date for determining entitlements to the dividend	2.5	N/A				

Registered Office

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ABN 73 122 948 805

Explanatory information	2.6	Please refer to the 2011 Half Year Report for an explanation of the figures in 2.1 to 2.4
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3. Net tangible assets per security

	30 June 2011	30 June 2010
Number of securities	142,850,998	142,850,998
Net tangible assets per security	(\$0.001)	\$0.023

The fully underwritten non-renounceable rights issue closed on 22 July 2011 which resulted in 142,850,998 ordinary shares being allotted and issued. The rights issue raised \$714,255 before costs. The Company currently has 285,701,996 ordinary shares on issue. After the issue the net tangible assets per security is \$0.002.

4. There were no entities over which control has been gained or lost during the period.
5. Details of individual and total dividends or distributions and dividend or distribution payments – not applicable.
6. 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.
7. 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.
8. The Company is not a foreign entity.
9. The 2011 Half-Year Report is based upon accounts that were reviewed by the Company's Auditor.

Yours faithfully

Rajita Alwis
Company Secretary



INTERIM FINANCIAL REPORT 2011

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

CONTENTS

	Page
Directors' Report	1
Auditor's Independence Declaration	2
Consolidated Statement of Comprehensive Income	3
Consolidated Statements of Financial Position	4
Consolidated Statement of Changes in Equity	5
Consolidated Statement of Cashflows	6
Notes to the Financial Statements	7
Directors' Declaration	14
Independent Auditor's Report	15

Island Sky Australia Limited and Controlled entity

ABN 73 122 948 805

DIRECTORS' REPORT FOR THE HALF-YEAR ENDED 30TH JUNE 2011

Your Directors present their report of the consolidated group, consisting of Island Sky Australia Limited and the entity it controlled at the end of or during the half-year ended 30th June 2011.

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

Michael Murphy Paragon

Neville Wayne Martin

Review of Operations

During March 2011 Island Sky Corporation received favourable reports by the Italian Military for its participation in the Senegal based military field trial using Skywater300 machines.

During May 2011 a cash deposit of US\$50,000 from Philippines distribution iMarketing Inc was received.

On 7 June 2011 the Company announced a fully underwritten 1 for 1 non-renounceable rights issue at \$0.005 per share to raise \$714,255. A prospectus for the rights issue was lodged with ASIC and ASX on 24 June 2011. The rights issue opened on 8 July 2011 and closed on 22 July 2011.

On 2 August 2011 27,777,921 ordinary shares were allotted and issued to shareholders who took up entitlements in the rights issue.

On 4 August 2011 115,073,077 ordinary shares were allotted and issued to the underwriters to the rights issue.

Auditor's Independence Declaration

The lead auditor's independence declaration under Section 307C of the Corporations Act 2011 is set out on page 2 of the half year report ended 30 June 2011.

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



David Lindh

Chairman

Dated this 31st day of August 2011

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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 2011, 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



S J Gray
Partner

Adelaide, 31 August 2011

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE HALF-YEAR ENDED
30 JUNE 2011

	Note	Consolidated Group	
		Half Year 30.06.11 \$	Half Year 30.06.10 \$
Revenue	2	161,650	112,822
Other income		19,230	16,082
Changes in inventories of finished goods and work in progress		(566,413)	(157,468)
Distribution		(1,558)	(6,880)
Marketing		(15,332)	(117,780)
Depreciation expense		(26,420)	(23,317)
Occupancy		(70,948)	(80,354)
Administration	2	(68,306)	(356,105)
Professional fees		(158,275)	(242,643)
Employee Expenses		(570,212)	(943,056)
Other expenses	2	(2,200)	(108,760)
Small tools & equipment		-	(3,336)
Impairment expense	2	(169,495)	(243,450)
Finance costs		(21,355)	(6,005)
(Loss)/Profit before income tax		(1,489,634)	(2,160,250)
Income tax receipt/(expense)		(1,009)	(7,810)
(Loss)/Profit for the period from continuing operations		(1,490,643)	(2,168,060)
(Loss)/Profit for the period		(1,490,643)	(2,168,060)
Other comprehensive income			
Foreign Currency Translation Adjustment gain/(loss)		(52,024)	(209,937)
Total comprehensive income for the period		(1,542,667)	(1,958,123)
Profit attributable to:			
Members of the parent entity		(1,490,643)	(2,168,060)
Total comprehensive income attributable to:			
Members of the parent entity		(1,542,667)	(1,958,123)
Overall and Continuing Operations			
Basic earnings per share (cents per share)		(0.0104)	(1.67)
Diluted earnings per share (cents per share)		(0.0104)	(1.67)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

	Consolidated Group	
	30.06.11	31.12.10
	\$	\$
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	11,926	66,480
Trade and other receivables	17,638	15,390
Financial Assets	-	36,999
Inventories	1,082,841	1,268,134
Other assets	179,071	174,225
TOTAL CURRENT ASSETS	1,291,476	1,561,228
NON-CURRENT ASSETS		
Plant and equipment	66,815	96,549
Inventories	567,058	917,154
Intangible assets	1	131,243
TOTAL NON-CURRENT ASSETS	633,874	1,144,946
TOTAL ASSETS	1,925,350	2,706,174
CURRENT LIABILITIES		
Trade and other payables	2,090,178	1,328,335
Provisions	2,769	2,769
TOTAL CURRENT LIABILITIES	2,092,947	1,331,104
TOTAL LIABILITIES	2,092,947	1,331,104
NET ASSETS	(167,597)	1,375,070
EQUITY		
Issued capital	13,777,803	13,777,803
Reserves	(1,084,114)	(1,032,090)
Retained losses	(12,861,286)	(11,370,643)
TOTAL EQUITY	(167,597)	1,375,070

The accompanying notes form part of these financial statements.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE HALF-YEAR ENDED 30 JUNE 2011

	Issued Capital Ordinary	Reserves	Retained Losses	Total
	\$	\$	\$	\$
CONSOLIDATED GROUP				
Balance at 1 January 2010	13,341,777	(769,321)	(5,976,442)	6,596,014
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	13,777,803	(559,384)	(8,144,502)	5,073,917
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	13,777,803	(1,084,114)	(12,861,286)	(167,597)

The accompanying notes form part of these financial statements.

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

CONSOLIDATED STATEMENT OF CASHFLOWS FOR THE HALF-YEAR ENDED 30 JUNE 2011

	Consolidated Group	
	Half Year	Half Year
	30.06.11	30.06.10
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	149,972	361,139
Payments to suppliers and employees	(326,120)	(1,658,477)
Finance Costs	(408)	(5,947)
Interest received	707	16,082
Net cash (used in)/provided by operating activities	(175,849)	(1,287,203)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	-	(11,220)
Net cash (used in)/provided by investing activities	-	(11,220)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	-	453,914
Proceeds from borrowings	122,506	-
Payment of share issue costs	-	(25,554)
Net cash provided by/(used in) financing activities	122,506	428,360
Net decrease in cash held	(53,343)	(870,063)
Cash at beginning of the period	66,480	1,338,727
Effect of exchange rates on cash holdings in foreign currencies	(1,211)	(42,952)
Cash at end of period	11,926	425,712

The accompanying notes form part of these financial statements.

Island Sky Australia Limited and Controlled entity

ABN 73 122 948 805

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF-YEAR ENDED 30 JUNE 2011

NOTE 1: BASIS OF PREPARATION

These general purpose financial statements for the interim half-year reporting period ended 30 June 2011 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 2010, 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	
	30.06.2011	30.06.2010
	\$	\$
The following revenue and expense items are relevant in explaining the financial performance for the interim period:		
Revenue		
Sales Revenue	161,650	112,822
Expenses		
Other Expenses:		
— Development Costs	2,200	33,297
— Donations	-	75,463
Total Other Expenses	2,200	108,760
Administration		
— Travel, accommodation and entertaining	2,259	135,753
— Other	66,047	220,352
Total Administration costs	68,306	356,105
Impairment		
— Patents and Trademarks	127,576	-
— Promissory Note – Marie Baier Foundation	41,919	243,450
	169,495	243,450

Island Sky Australia Limited and Controlled entity

ABN 73 122 948 805

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 2011.

(i) Segment performance

	Australia	United States of America	Asia	Total
Six months ended 30.06.2011	\$	\$	\$	\$
Revenue				
External Sales	-	161,650	-	161,650
Inter-segment sales	264,882	-	-	264,882
Interest revenue	669	6,601	-	7,270
Total segment revenue	265,551	168,251	-	433,802
<i>Reconciliation of segment revenue to group revenue</i>				
Inter-segment elimination	-	-	-	(264,882)
Total group revenue	-	-	-	168,920
Segment net profit before tax	(232,369)	(1,257,265)	-	(1,489,634)
<i>Reconciliation of segment result to group net profit/(loss) before tax</i>				
Net profit before tax from continuing operations	-	-	-	(1,489,634)

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

NOTE 3: OPERATING SEGMENTS (continued)

(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)

(ii) Segment assets

	Australia	United States of America	Asia	Total
30.06.2011	\$	\$	\$	\$
Segment Assets	10,585,340	874,888	567,058	12,027,286
Segment asset increases for the period:				
• Property, Plant & Equipment	-	-	-	-
• Patent & Development Costs	-	-	-	-
	-	-	-	-
<i>Reconciliation of segment assets to group assets</i>				
Inter-segment eliminations	(10,101,936)	-	-	(10,101,936)
Total group assets from continuing operations	483,404	874,888	567,058	1,925,350

Island Sky Australia Limited and Controlled entity

ABN 73 122 948 805

NOTE 3: OPERATING SEGMENTS (continued)

(ii) Segment assets

	Australia	United States of America	Asia	Total
31.12.2010	\$	\$	\$	\$
Segment Assets	10,346,623	2,574,705	917,154	13,838,482
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	(9,809,255)	-	-	(9,809,255)
Total group assets from continuing operations	537,368	2,574,705	917,154	4,029,227

(iii) Segment liabilities

	Australia	United States of America	Asia	Total
30.06.2011	\$	\$	\$	\$
Segment liabilities	445,623	11,749,260	-	12,194,883
<i>Reconciliation of segment liabilities to group liabilities</i>				
Inter-segment eliminations	-	(10,101,936)	-	(10,101,936)
Total liabilities from continuing operations	445,623	1,647,324	-	2,092,947

	Australia	United States of America	Asia	Total
31.12.2010	\$	\$	\$	\$
Segment liabilities	239,420	10,900,939	-	11,140,359
<i>Reconciliation of segment liabilities to group liabilities</i>				
Inter-segment eliminations	-	(9,809,255)	-	(9,809,255)
Total liabilities from continuing operations	239,420	1,091,684	-	1,331,104

Island Sky Australia Limited and Controlled entity

ABN 73 122 948 805

NOTE 4: EVENTS SUBSEQUENT TO REPORTING DATE

The Company completed a 1 for 1 non-renounceable pro-rata rights issue that opened on 8 July 2011 and closed on 22 July 2011. The rights issue was fully underwritten that resulted in 142,850,998 ordinary shares being issued raising \$714,255.

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 \$1,490,643 during the half-year ended 30 June 2011 and, as of that date, the consolidated entity's current liabilities exceeded its total assets by \$167,597. 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.

Island Sky Australia Limited and Controlled entity

ABN 73 122 948 805

NOTE 7: ISSUED CAPITAL

	30.06.11	31.12.10
	\$	\$
142,850,998 (31 December 2010: 142,850,998) fully paid ordinary shares	13,777,803	13,777,803
<hr/>		
a. Ordinary shares		
At the beginning of reporting period	13,777,803	13,341,778
Shares issued during the half-year	-	-
Total shares issued during the year	-	-
<hr/>		
Shares Issued during the prior year:		
27 January 2010	-	25,000
1 June 2010	-	428,914
Total shares Issued during the prior year	-	453,914
<hr/>		
Share issue costs	-	(25,555)
Tax effect of transaction costs	-	7,666
At the end of the reporting period	13,777,803	13,777,803
<hr/>		
	30.06.11	31.12.10
	No.	No.
At the beginning of reporting period	142,850,998	128,298,168
Shares issued during the half-year:	-	-
Total shares issued during the year	-	-
<hr/>		
Shares Issued during the prior year:		
— 12 January 2010	-	77,142
— 27 January 2010	-	178,571
— 1 June 2010	-	14,297,117
Total shares issued during the prior year	-	14,552,830
<hr/>		
At the end of the reporting period	142,850,998	142,850,998
<hr/>		

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

ABN 73 122 948 805

NOTE 7: ISSUED CAPITAL (CONT)

b. Listed Options

	2011 Listed Options	
	30.06.11	31.12.10
	No.	No.
At the beginning of reporting period	1,629,003	1,501,145
Options issued during the year:	-	-
Options issued during the prior year:		
12 January 2010	-	38,571
27 January 2010	-	89,287
	-	127,858
At the end of the reporting period	<u>1,629,003</u>	<u>1,629,003</u>

In the event that all Listed Options were exercised, the Company would be required to issue a further 1,629,003 (31 December 2010: 1,623,003) 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

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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 2011 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.



David Lindh

Chairman

Dated this 31st day of August 2011

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67 Greenhill Rd
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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 2011, 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 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 2011 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.

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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 2011 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 5 to the financial statements which indicate that the consolidated entity incurred a net loss of \$1,490,643 during the half-year ended 30 June 2011 and, as of that date, the consolidated entity's current liabilities exceeded its total assets by \$167,597. 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.

These conditions, along with other matters as set forth in Note 5, indicate the existence of a material uncertainty which may cast 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



S J Gray
Partner

Adelaide, 31 August 2011