

## Corporate Update

### Highlights:

- Island Sky executes agreements for the potential acquisition of US based unconventional oil and gas assets with T.H. McElvain Oil & Gas LLLP
- Island Sky has the right to acquire interests in those oil and gas assets, subject to a number of conditions
- The transaction is subject to shareholder approval and the Company addressing other associated matters
- If the transaction proceeds, Island Sky's focus will change to managing its interest in these oil and gas assets

Island Sky Australia Limited (ASX:ISK) ("Island Sky" or the "Company") is pleased to advise that it has formalised agreements to invest in oil and gas prospects that provides the Company with the right to acquire non-operated interests in three unconventional oil and gas prospects, located in the States of Kansas and Colorado in the United States (the "Transaction"). The Transaction follows the sale of a 75% interest in the Company's air to water machine subsidiary in October 2012, since which time the Company has been seeking additional business opportunities.

The directors of Island Sky believe that the investments, if completed, will provide shareholders with a significant opportunity to maximise shareholder value. The Company, has in the last 12 months, assessed a number of investment opportunities, and believes that this potential Transaction provides shareholders with the best opportunity of those that have been considered by the Company.

### Transaction Agreements

Island Sky has entered into agreements with T.H. McElvain Oil & Gas LLLP ("McElvain") under which the Company has secured certain rights to acquire an interest in each of the Tiger Prospect, Pawnee Prospect and SE Colorado Prospect (location of prospects shown in Appendix). The proposed Transaction provides Island Sky with low cost entry into highly prospective oil exploration and development acreage in the US, alongside an experienced operator.

### Tiger Prospect

The Tiger Prospect is an emerging oil resource prospect located on the western edge of the Central Kansas Uplift in Ellis County, Kansas. McElvain intends to acquire 3D seismic to identify drill targets in the first quarter of 2014, with drilling activity to target the Pennsylvanian aged Pawnee formation from horizontal completions, along with Lansing/Kansas City formations from vertical completions.

The key terms of the Tiger Prospect Agreement include:

- A fee of US\$100,000 will be paid to McElvain to secure the right to acquire a 25% working interest (82% net revenue interest that will be reduced to 78% by the Lateral Overriding Royalty discussed below) in:
  - ~7,400 gross acres already in hand for US\$500/acre (ISK share of ~US\$0.925M); and,
  - any additional acreage leased by McElvain at the actual lease cost.
- Island Sky will seek to settle on the acquisition of the Tiger Prospect within 90 days from the date the agreement was executed.

#### Pawnee Option

The Pawnee Prospect is located nearby the Tiger Prospect in Trego County, Kansas. This Prospect is covered by 3D seismic with future drilling activity planned to primarily target the Pennsylvanian aged Pawnee formation from horizontal completions.

The key terms of the Pawnee Option Agreement include:

- 25% working interest (79.25% net revenue interest that will be reduced to 76% by the Lateral Overriding Royalty discussed below) in ~5,000 gross acres to be acquired at a purchase price of US\$500/acre (ISK share ~US\$0.625M) subject to:
  - McElvain settling on the acquisition of the acreage from a third party;
  - Island Sky electing to participate in the Pawnee acreage within 5 days of its offer, finalising a Purchase and Sale Agreement and paying a nominal deposit of 10% of the purchase price (~US\$62,500) within 10 days of electing to participate.

#### South East Colorado Exploration Agreement

The SE Colorado Prospect provides Island Sky with the option to explore for and develop entry level acreage leasing opportunities alongside McElvain, in an emerging oil play in SE Colorado. Should acreage be secured under the terms of the Exploration Agreement, McElvain intends to acquire 3D seismic to identify drill targets primarily focusing upon the Pennsylvanian and Mississippian aged formations similar to the Kansas prospects.

The key terms of the SE Colorado Exploration Agreement include:

- McElvain and Island Sky will jointly explore for suitable oil and gas acreage to be leased within specified project areas targeting an ultimate accumulation of ~15,000 gross acres in SE Colorado.



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- Island Sky can participate in leasing activity within the specified area for a 30% working interest at the actual lease cost.
- The Exploration Agreement will expire on 31 May 2016, unless otherwise renewed.

#### Facilitation Agreement

As part of the proposed Transaction, Island Sky has entered into an agreement with Lateral Energy, LLC under which the Company has agreed to the following arrangements in consideration for Lateral Energy, LLC identifying the prospects and facilitating the acquisition by Island Sky:

- A prospect fee of US\$150,000 payable upon final completion of the Transaction;
- A share fee of 4 million ordinary Island Sky shares (following consolidation) for nil consideration; and
- An overriding royalty interest in the Prospects including:
  - The difference between 22% and any existing royalties, overriding royalties and other burdens on the Tiger Prospect;
  - The difference between 23.5% and any existing royalties, overriding royalties and other burdens on any interests acquired under the Pawnee Option agreement; and
  - A 5% overriding royalty over and above any existing royalties, overriding royalties and other burdens on any interests acquired under the SE Colorado Exploration Agreement.

#### **Re-compliance with ASX Listing Rules**

Island Sky has received in-principle advice from the ASX that the proposed Transaction will constitute a change in the nature and scale of the Company's activities under ASX Listing Rule 11.1. Accordingly, Island Sky will be required to re-comply with Chapters 1 and 2 of the ASX Listing Rules and seek shareholder approval for the Transaction. Consequently, the Company will shortly convene a General Meeting of shareholders seeking approval of the Transaction and associated matters. As part of this process, the Company will also undertake a consolidation of its securities.

#### **Key Transaction Terms**

Completion of the Transaction is subject to various conditions precedent, including, among others:

- Island Sky receiving all regulatory and shareholder approvals or consents, including shareholder approval of the Transaction;
- Island Sky receiving approval from the ASX for re-listing in compliance with Chapters 1 and 2 of the ASX Listing Rules; and



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- Island Sky raising requisite funds to settle on the Transaction in accordance with the timing required under the relevant agreements.

### Board of Directors

On completion of the Transaction, it is envisaged that significant changes will be made to the existing Board, with new members of the Board to be appointed. Details of the composition of the Board will be advised to the market once finalised and be incorporated in the Notice of Meeting for Shareholder Approval.

### Funding

As a component of the proposed Transaction, Island Sky intends to make changes to its capital structure as outlined below, full details of which will be provided in the Notice of Meeting and Prospectus document.

- Undertake a consolidation of Island Sky's issued capital. At this point in time the ratio of consolidation has not been determined. However, the Company will ensure compliance with ASX Listing Rule 2.1, Condition 2 (\$0.20 rule).
- Conduct a capital raising allowing the Company to have sufficient capital to meet its acquisition obligations and provide for sufficient working capital funding for project development.

### Timetable

An indicative timetable for the completion of the proposed Transaction and re-compliance with the ASX Listing Rules is set out below. The timetable is indicative only and the dates are subject to change.

Event	Date
Announce Proposed Transaction	6 September 2013
Dispatch Notice of Meeting	17 October 2013
Shareholder Meeting	14 November 2013
Closing Date of Capital Raising	22 November 2013



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### **Next Steps**

Further details on all of the items outlined above will be contained in the Notice of Meeting which the Company will seek to finalise and distribute to shareholders in mid-October.

### **Trading halt**

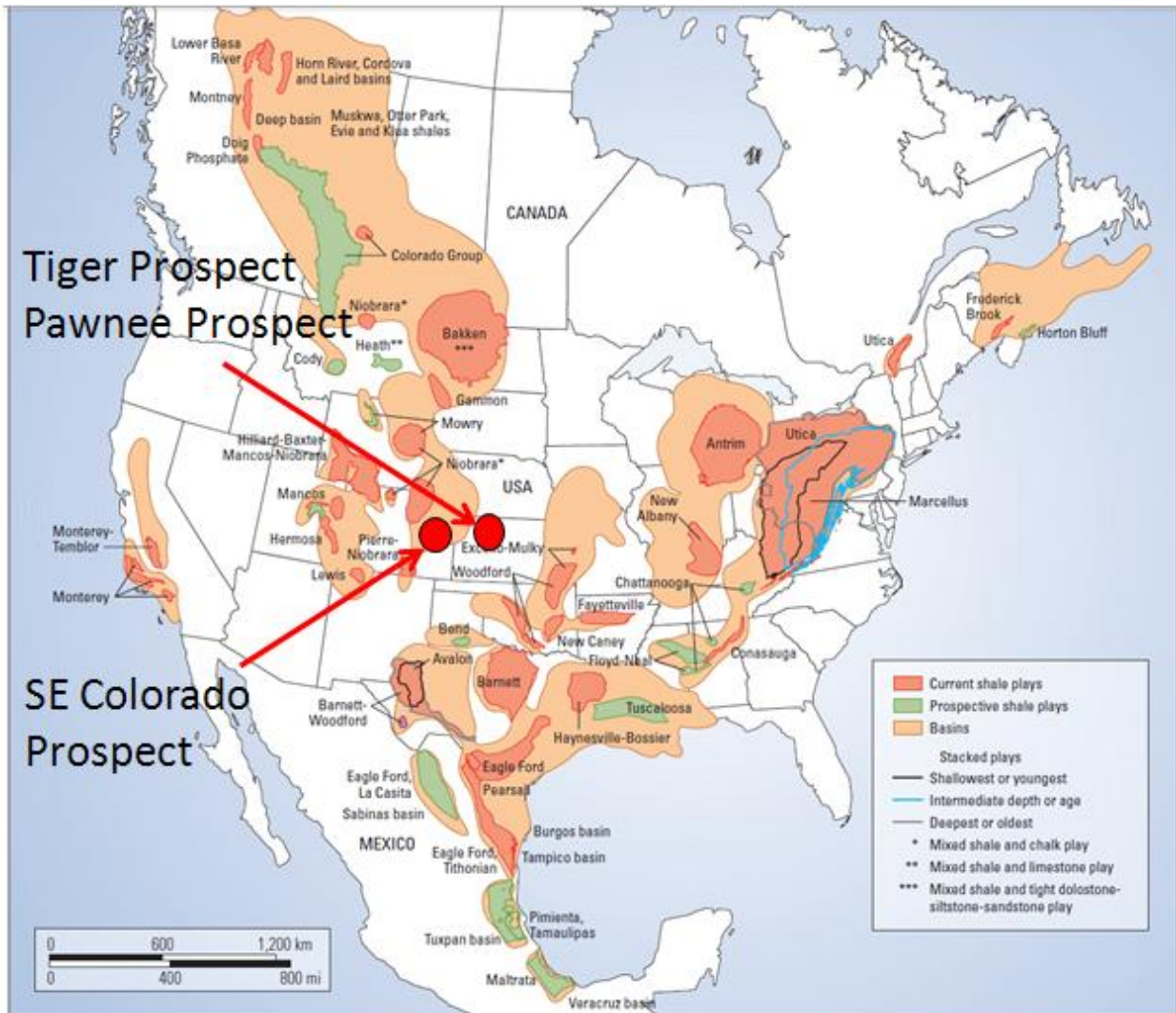
The Company requests that this announcement lift the trading halt of the Company's securities.

### **For further information please contact:**

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## Appendix: Prospect Location



### Registered Office

Level 3, 100 Pirie Street, Adelaide SA 5000

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