



PROSPECTUS NON-RENOUNCEABLE RIGHTS ISSUE

FULLY UNDERWRITTEN

A fully underwritten pro-rata non-renounceable rights issue to Eligible Shareholders of 1 New Share for each Share held at 4 July 2011 at an issue price of \$0.005 per New Share to raise approximately \$714,255 before costs of the Offer.

This is an important document which should be read in its entirety. You may wish to consult your professional adviser about its contents.

If you do not lodge an Entitlement and Acceptance Form by 22 July 2011, you will not be issued New Shares in Island Sky.

IMPORTANT INFORMATION

This Prospectus is important and requires your immediate attention.

You should read the entirety of this Prospectus carefully before deciding whether to invest in New Shares. In particular, you should consider the key risks that could affect the performance of Island Sky Australia Limited ("**Island Sky**" or "**Company**"), or the value of an investment in Island Sky, some of which are outlined in section 5 of this Prospectus. Note however that the information contained in this Prospectus is not financial product advice and does not take into account the investment objectives, financial situation, tax position or particular needs of individual investors.

Before deciding whether to apply for New Shares, you should consider whether they are a suitable investment for you in the light of your own investment objectives and financial circumstances and having regard to the merits or risks involved. If, after reading the Prospectus, you have any questions about the Offer, you should contact your stockbroker, accountant or other professional adviser.

The potential tax effects of the Offer will vary between investors. All investors should satisfy themselves of any possible tax consequences by consulting their own professional tax advisers.

This Prospectus is dated 24 June 2011. A copy of the Prospectus was lodged with the Australian Securities and Investments Commission ("**ASIC**") on 24 June 2011. Neither ASIC nor ASX take any responsibility for the contents of this Prospectus.

No Securities will be issued on the basis of this Prospectus later than thirteen (13) months after the date of this Prospectus. Application will be made to ASX for admission to Official Quotation of the Securities offered by this Prospectus.

This Prospectus contains an offer to Eligible Shareholders of continuously quoted securities (as defined in the Corporations Act) and has been prepared in accordance with Section 713 of the Corporations Act with respect to the New Shares. As a disclosing entity, the Company is subject to regular reporting and disclosure obligations. Copies of documents lodged with ASIC in relation to the Company may be obtained from, or inspected at, an ASIC office. This Offer is also fully underwritten.

In making the Offer to Eligible Shareholders in New Zealand, the Company is relying on the *Securities Act (Overseas Companies) Exemption Notice 2002 (NZ)*, by virtue of which this Prospectus is not required to be registered in New Zealand.

This Prospectus has not been registered, filed with or approved by any New Zealand regulatory authority under the *Securities Act 1978* (New Zealand). This Prospectus is not an investment statement or prospectus under New Zealand law and is not required to, and may not, contain all the information that an investment statement or prospectus is required to contain under New Zealand law.

The Entitlement Offer is made only to those Eligible Shareholders with registered addresses in Australia and New Zealand and only those Eligible Shareholders will be offered New Shares.

The Company has not made investigations as to the current regulatory requirements in countries outside Australia and New Zealand, in which the Company's shareholders may reside. The distribution of this Prospectus in jurisdictions outside Australia and New Zealand does not constitute an offer to subscribe for shares and may be restricted by law.

Persons who come into possession of the Prospectus should seek advice on and observe those restrictions. Any failure to comply with such restrictions might constitute a violation of applicable securities laws.

Applicants should read this document in its entirety and if in doubt, consult their professional advisers before deciding whether to apply for Securities. There are risks associated with an investment in the Company and the Securities offered under this Prospectus must be regarded as a speculative investment. The Securities offered under this Prospectus carry no guarantee with regard to return on capital or the future value of the Securities.

Certain abbreviations and other defined terms are used throughout this Prospectus. Defined terms are generally identifiable by the use of an upper case first letter. Details of the abbreviations and definitions used are set out in section 7 of this Prospectus.

This Prospectus will be issued in paper form and as an electronic Prospectus which may be accessed on the internet at www.islandsky.com. Persons who access the electronic version of this Prospectus should ensure that they download and read the entire Prospectus. The electronic version of this Prospectus will not include an Entitlement and Acceptance Form.

The Corporations Act prohibits any person from passing on to another person any application form relating to this Prospectus unless it is attached to or accompanied by a complete and unaltered version of the Prospectus. Any person may obtain a hard copy of this Prospectus by contacting the Company.

Future performance and forward looking statements

Applicants should note that the past share price performance of Island Sky provides no guidance as to its future share price performance.

The pro forma financial information provided in this Prospectus is for illustrative purposes only and is not represented as being indicative of Island Sky's future financial performance.

Any forward looking statements in this Prospectus are based on Island Sky's current expectations about future events. They are subject to known and unknown risks, uncertainties and assumptions, many of which are outside the control of Island Sky and its Board which could cause actual results, performance and achievements to differ materially from future results, performance or achievements expressed or implied by any forward looking statements in this Prospectus.

Disclaimer

No person is authorised to give any information, or to make any representation in connection with the Offer that is not contained in this Prospectus.

Any information or representation that is not in this Prospectus may not be relied on as having been authorized by Island Sky in connection with the Offer.

LETTER FROM THE CHAIRMAN

24 June 2011

Dear Shareholder

On behalf of your Directors of Island Sky Australia Limited (**Island Sky**), I am pleased to offer you the opportunity to participate in the fully underwritten pro-rata non-renounceable rights issue in Island Sky which was announced by Island Sky on 7 June 2011 (**Rights Issue**).

Each shareholder eligible to participate in the Rights Issue will be entitled to subscribe for 1 New Share in the capital of the Company for each existing ordinary share registered in their name at 7.00 pm ACDT on 4 July 2011 (the **Record Date**).

The 1 for 1 fully underwritten pro-rata non-renounceable rights issue to shareholders will raise approximately \$714,255 (before costs) through the issue of up to 142,850,998 new fully paid ordinary shares (**New Shares**) (subject to the issue of any further Shares pursuant to the exercise of any Options prior to the Record Date).

The New Shares will be issued at a cost of \$0.005 per share, which represents a 60% discount to the Company's five day Volume Weighted Average Price and a 55% discount to the last sale price of \$0.011 recorded on ASX on the day prior to the date of the announcement of the Rights Issue.

The net proceeds from the Rights Issue will be used:

- for working capital purposes; and
- to investigate suitable business development opportunities identified by the Company.

For more information on the recent developments of the Company, please see the Company's announcements (available on the ASX website at www.asx.com.au).

The Rights Issue will be fully underwritten by Taylor Collison Limited, with 50% of the Rights Issue being sub-underwritten by Adelaide Equity Partners Limited and 20% of the Rights Issue being sub-sub-underwritten by Houmar Nominees Pty. Ltd. and Davan Nominees Pty. Ltd., being entities associated with two of the Company's directors, Mr Neville Martin and Mr David Lindh, as noted in section 6.11.

The Company will apply to ASX for Official Quotation of the New Shares.

I recommend you seek independent investment advice from your stockbroker, accountant or other professional advisor before making any investment decision.

The Board of Island Sky looks forward to your participation in the Rights Issue.

Yours faithfully



DAVID J LINDH OAM
Chairman

KEY DATES

<i>Event</i>	<i>Date</i>
Announcement of Offer	7 June 2011
Prospectus lodged with ASIC and ASX	24 June 2011
Notice in relation to the Issue despatched to Shareholders	27 June 2011
“Ex” date	28 June 2011
Record date for determining Entitlements	4 July 2011
Opening Date	8 July 2011
Despatch Date	8 July 2011
Closing Date*	22 July 2011
Notify ASX of under-subscriptions	27 July 2011
Allotment and dispatch date for holding statements	2 August 2011
Normal trading commences	3 August 2011

These dates are subject to change and are indicative only. Island Sky reserves the right to amend this timetable including, subject to the Corporations Act and Listing Rules, to extend the Closing Date.

*The Directors may extend the Closing Date by giving at least six Business Days notice to ASX prior to the Closing Date. The date that the New Shares are expected to commence trading on the ASX may vary with any change to the Closing Date.

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SECTION 1 KEY INFORMATION

The information set out in this section is not intended to be comprehensive and should be read in conjunction with the full text of this Prospectus.

1.1 Offer

Island Sky is making a fully underwritten pro-rata non-renounceable rights issue offering Eligible Shareholders 1 New Share for each Share held as at the Record Date, at an issue price of \$0.005.

The closing date and time for acceptances and payments is 5.00pm ACDT on 22 July 2011.

The details of the Entitlement Offer are set out in full in section 2 .

1.2 What you need to do

The number of New Shares to which you are entitled is shown on the accompanying Entitlement and Acceptance Form. Fractional entitlements will be rounded up to the nearest whole Share. You may do one of the following:

- take up your Entitlement in full;
- take up part of your Entitlement and allow the balance to lapse; or
- allow all or part of your Entitlement to lapse.

See section 3 for detailed instructions on what you need to do.

1.3 Purposes of the Offer and use of proceeds

If either the Rights Issue under this Prospectus is fully subscribed, or any Shortfall is fully subscribed in accordance with the Underwriting Agreement, the Offer will result in the issue of 142,850,998 New Shares, raising approximately \$714,255 (before the costs of the Offer).

The purpose of the Offer is to raise additional equity funding for working capital purposes and to investigate suitable business development opportunities that may be identified by the Company. The Board is prepared to consider a number of options, which may include a change to the Company's current activities (subject to obtaining any necessary shareholder and regulatory approvals). The Company will comply with the requirements of the ASX Listing Rules regarding shareholder approval for any significant change to the nature or scale of its activities or any significant change involving the Company disposing of all or part of its main undertaking.

The purposes of the Offer are discussed more fully in section 4 .

1.4 Effects of the Offer on the capital of Island Sky

There are 142,850,998 Shares on issue immediately before the Offer. If the Rights Issue under this Prospectus is fully subscribed there will be 285,701,996 Shares on issue. This does not include any Performance Shares that may be issued. Refer to section 4.2 for further details.

A more detailed description of the effects of the Offer is contained in section 4 .

1.5 Risk factors

An investment in Island Sky involves general risks associated with an investment in the share market. The price of Securities may rise or fall.

There are also a number of risk factors, both specific to Island Sky and of a general nature, which may affect the future operating and financial performance of Island Sky and the value of an investment in Island Sky. The specific and general risk factors are described in section 5 . Before deciding to invest in Island Sky, prospective investors should consider those factors carefully.

SECTION 2 DETAILS OF THE OFFER

2.1 The Offer

Island Sky is making a fully underwritten pro-rata non-renounceable rights issue offering Eligible Shareholders 1 New Share for each Share held.

The issue price of \$0.005 per New Share is payable in full on making an Application.

The number of New Shares to which you are entitled is shown on the accompanying Entitlement and Acceptance Form. Fractional entitlements will be rounded up to the nearest whole Share.

Assuming the Offer is fully subscribed, the total number of New Shares issued under the Offer will be 142,850,998. Assuming the subscription for all the New Shares, the gross proceeds (before the costs of the Offer) will be \$714,255.

The closing date and time for acceptances and payments is 5.00pm ACDT on 22 July 2011 (subject to any extension by the Directors).

2.2 Who is entitled to participate in the Entitlement Offer

Every shareholder registered as the holder of fully paid ordinary shares in Island Sky at 7.00pm ACDT on 4 July 2011 (**Record Date**), whose registered address is in Australia or New Zealand, is entitled to participate in the Entitlement Offer. The number of New Shares to which each Shareholder is entitled is shown in the accompanying Entitlement and Acceptance Form.

2.3 Rights trading

This Entitlement Offer is made on a non-renounceable basis such that Eligible Shareholders may not sell or transfer all or part of their Entitlement.

2.4 Underwriting

The Offer will be fully underwritten by Taylor Collison Limited, with 50% of the Rights Issue being sub-underwritten by Adelaide Equity Partners Limited and 20% of the Rights Issue being sub-sub-underwritten by Houmar Nominees Pty. Ltd. and Davan Nominees Pty. Ltd., interests associated with two of the Company's directors, Mr Neville Martin and Mr David Lindh.

Any portion of the Entitlement Offer that is not accepted will lapse and the Lead Underwriter will underwrite the subscription of the Shares not accepted in the Rights Issue. Please see section 6.10 for more details.

2.5 Minimum Subscription

There is no minimum subscription for the Offer.

2.6 ASX quotation

Island Sky will make an application to ASX for admission of the New Shares to quotation on ASX within 7 days after the date of this Prospectus.

If the New Shares are not admitted to Official Quotation on the ASX within three months after the date of this Prospectus, or such longer period as is permitted by the Corporations Act, none of the Securities will be granted. In that circumstance, all Applications will be dealt with in accordance with Section 724 of the Corporations Act.

2.7 Issue of New Shares

New Shares will be issued no later than 2 August 2011. Holding statements are anticipated to be despatched on the third Business Day from allotment.

Issues of New Shares under this Prospectus will only be made after permission for their quotation on ASX has been granted.

Subscription money will be held in a subscription account until the New Shares are issued. This account will be established and kept by Island Sky on behalf of each participating Eligible Shareholder and Applicant.

Interest earned on the subscription money will be for the benefit of Island Sky, and will be retained by Island Sky irrespective of whether New Shares are issued.

2.8 Foreign Shareholders

This Entitlement Offer is made only to Shareholders with a registered address in Australia or New Zealand.

Island Sky is of the view that it is unreasonable to make the Entitlement Offer to other overseas Shareholders (that is, those without registered addresses in Australia or New Zealand) (**Foreign Shareholders**) having regard to:

- the number of Foreign Shareholders;
- the number and value of New Shares that would be offered to Foreign Shareholders; and
- the cost of complying with overseas legal and regulatory requirements.

Accordingly, the Offer is not being made, and no New Shares will be issued to, any Shareholders whose registered address is in a country other than Australia or New Zealand.

Where this Offer has been sent to Shareholders or others domiciled outside Australia or New Zealand and where the country's securities code and/or legislation prohibits or restricts in any way the making of the offers contemplated by this Offer, this Offer is provided for information purposes only.

Shareholders resident in Australia or New Zealand holding Shares on behalf of persons who are resident overseas are responsible for ensuring that taking up Entitlements under the Offer does not breach regulations in the relevant overseas jurisdiction.

Return of a duly completed Entitlement and Acceptance Form will be taken by Island Sky to constitute a representation that there has been no breach of such regulations.

3.1 What Eligible Shareholders may do

The number of New Shares to which Eligible Shareholders are entitled (**Entitlement**) is shown on the accompanying Entitlement and Acceptance Form.

If you take up your full Entitlement under the Entitlement Offer, you will not have your shareholding in Island Sky diluted.

As an Eligible Shareholder, you may:

- take up all of your Entitlement (refer section 3.2);
- take up part of your Entitlement and allow the balance to lapse (refer section 3.3); or
- allow all or part of your Entitlement to lapse (refer section 3.4).

Non-qualifying Foreign Shareholders may not take any of the steps set out in sections 3.2 – 3.5. See section 2.8 above.

3.2 Taking up all of your Entitlement

If you wish to take up all of your Entitlement, complete the accompanying Entitlement and Acceptance Form for the New Shares, in accordance with the instructions set out in that form.

You should then forward your completed Entitlement and Acceptance Form together with your Application Monies, in accordance with section 3.5, to reach the Company's Share Registry no later than 5.00pm on 22 July 2011. You may also pay your Application Monies by BPAY®.

3.3 Taking up part of your Entitlement and allowing the balance to lapse

If you wish to take up part of your Entitlement and allow the balance to lapse, complete the accompanying Entitlement and Acceptance Form for the number of New Shares you wish to take up, and follow the steps required in accordance with section 3.2. If you take no further action, the balance of your Entitlement will lapse.

3.4 Allow all or part of your Entitlement to lapse

If you do not take up your full Entitlement, your shareholding in Island Sky will be diluted with respect to your right to future earnings and net assets of Island Sky.

3.5 How do I accept all, or part, of my Entitlement

You may accept your Entitlement following the despatch of this Offer (expected to be 8 July 2011). Island Sky will accept Applications until the Closing Date.

You should read this Offer in its entirety before deciding to complete and lodge your Entitlement and Acceptance Form.

You may make payment of your Application Monies by BPAY® or by cheque, bank draft or money order.

(a) Payment by BPAY®

For payment by BPAY®, please follow the instructions on the personalised Entitlement and Acceptance Form (which includes the Biller Code and your unique Reference Number). You can only make a payment via BPAY® if you are the holder

of an account with an Australian financial institution that supports BPAY® transactions.

Please note that should you choose to pay by BPAY®:

- you do not need to submit the personalised Entitlement and Acceptance Form but are taken to have made the declarations on that Entitlement and Acceptance Form; and
- if you do not pay for your Entitlement, you are deemed to have taken up your Entitlement in respect of such whole number of New Shares which is covered in full by your Application Monies.

Please make sure to use the specific Biller Code and unique Reference Number on your personalised Entitlement and Acceptance Form. If you receive more than one personalised Entitlement and Acceptance Form, please only use the Reference Number specific to the Entitlement on that form.

It is your responsibility to ensure that your BPAY® payment is received by the Share Registry by no later than 5.00pm ACDT on 22 July 2011. You should be aware that your financial institution may implement earlier cut-off times with regard to electronic payment and you should therefore take this into consideration when making payment.

(b) Payment by cheque, bank draft or money order

You should complete your personalised Entitlement and Acceptance Form in accordance with the instructions on the form and return it accompanied by a cheque, bank draft or money order in Australian currency for the amount of the Application Monies drawn on an Australian branch of an Australian bank for the Issue Price of the New Shares for which application is made. All cheques must be made payable to 'Island Sky Australia Limited Rights Issue' and crossed 'Not Negotiable'. Do not forward cash or money orders. Receipts for Application Monies will not be issued.

Completed Entitlement and Acceptance Forms and accompanying cheques, bank drafts or money orders must be returned to the following address and received no later than 5.00pm ACDT on 22 July 2011.

By mail:

Island Sky Australia Limited
c/o Computershare Investor Services Pty Ltd
GPO Box 2987
ADELAIDE SA 5001

By delivery:

Island Sky Australia Limited
c/o Computershare Investor Services Pty Ltd
Level 5
115 Grenfell Street
ADELAIDE SA 5000

A reply paid envelope is enclosed for your convenience. If mailed in Australia, no postage stamp is required.

3.6 Acceptance of Applications under the Entitlement Offer

Lodgement of a completed Entitlement and Acceptance Form creates a legally binding contract between the Applicant and the Company for the number of New Shares applied for and is not revocable. The Entitlement and Acceptance Form does not need to be signed to be a binding acceptance of New Shares. If the Entitlement and Acceptance Form is not completed correctly it may still be treated as valid. The Directors' decision as to whether to treat the acceptance as valid and how to construe, amend or complete the Entitlement and Acceptance Form is final.

4.1 Purpose of the Offer and use of proceeds

The purpose of the Offer is to raise additional equity funding for working capital purposes and to enable the Company to investigate any business development opportunities which may be identified by the Company.

The current economic circumstances are causing difficult market conditions, and as a consequence, the Board has conducted a review of the Company's current operations, products and anticipated working capital requirements. The Company is also considering whether the interests of shareholders would be best served by a change to the Company's current operations. In particular, the Board is concerned that if the current difficult market conditions persist, it may not be possible to fund the Company's future capital requirements for its current products on competitive terms, and that the Company's current business model may need to be substantially modified or replaced. While no decisions have been made as at the date of this Prospectus, shareholders should be aware that there is a possibility that the Company will not continue in its current form. The Company will comply with the requirements of the ASX Listing Rules regarding shareholder approval for any significant change to the nature or scale of its activities or any significant change involving the Company disposing of all or part of its main undertaking.

The proceeds of the Offer will be used to fund the Company's increased working capital requirements, as well as to explore possible changes or alternatives to the Company's current activities.

The funds to be raised by the Offer may not be sufficient for all of these this purposes, and accordingly the Company anticipates that it may need to raise further funds in the future, regardless of the success of the Offer.

4.2 Capital Structure – Shares

The table in this section shows the current structure of Island Sky and the capital structure on completion of the Rights Issue* (assuming full subscription):

<i>Shares</i>	<i>Number</i>
Issued Shares before the Offer	142,850,998**
New Shares offered under this Prospectus	142,850,998
Total issued Shares on close of the Offer	285,701,996

* subject to the exercise of any Options prior to the Record Date

** this does not include any of the Performance Shares (up to a total of 48,000,000 Shares) the Company may be obliged to issue to Founders pursuant to the terms upon which it acquired Island Sky Florida. The terms for the issue of the Performance Shares were as follows:

- (a) As part of the consideration for the acquisition of Island Sky Florida, the Company agreed to issue 48,000,000 Performance Shares to the Founders on the terms set out in this section 4.2.

- (b) Performance Shares indicated in the table below will be issued to the Founders in equal proportions if, within the period of 36 months from the date of admission of the Company to the Official List of ASX (**Listing Date**), the revenue recognised by the Company (and its subsidiaries) from the sale of products exceeds the revenue indicated in the table below opposite the relevant number of Performance Shares:

<i>Cumulative No. of Performance Shares to be issued</i>	<i>Cumulative Sales Revenue required to be received (\$AUD)</i>
6,000,000	\$5,000,000
12,000,000	\$10,000,000
18,000,000	\$15,000,000
24,000,000	\$20,000,000
30,000,000	\$30,000,000
36,000,000	\$36,000,000

- (c) An additional number of Performance Shares up to 12,000,000 were to be issued to the Founders in equal portions in the event that at any time within the period commencing 6 months after the Listing Date and ending 36 months after the Listing Date either:

- (i) if the Earnings Before Depreciation and Amortisation (**EBDA**) of the Company and its subsidiaries is positive (calculated from the Listing Date), then 12,000,000 Performance Shares shall be issued to the Founders, or
- (ii)(A) if the closing price for the Company's Shares listed on the ASX exceeds 25 cents for any period of 30 consecutive days, then 6,000,000 Performance Shares shall be issued to the Founders; and
- (iii)(B) if the closing price for the Company's Shares listed on the ASX exceeds the price indicated in the following table for a period of 30 consecutive days, that number of the remaining Performance Shares appearing opposite such price in the table shall be issued to the Founders:

<i>No. of Performance Shares to be issued</i>	<i>Closing Price in cents per Share (\$AUD)</i>
1,000,000	26
1,000,000	27
1,000,000	28
1,000,000	29
2,000,000	30

36,000,000 of the Performance Shares failed to vest. However, the Company's closing price exceeded 29 cents for 32 consecutive days during the period from 4 November 2008 to 30 January 2009 and an obligation to issue a total of 10,000,000 Performance Shares to the Founders has been triggered pursuant to paragraph (c) above.

Approval for the issue of 2,500,000 Performance Shares to Richard Groden (a director of Island Sky and a Founder) is the subject of a resolution in Island Sky's Notice of Annual General Meeting announced to the market on 21 June 2011. Following that approval, the Company anticipates issuing the 10,000,000 Performance Shares to those entitled. The issue of 2,500,000 Performance Shares to Richard Groden will be subject to shareholder approval.

4.3 Capital Structure – Options

The table in this section shows the current Options on issue of Island Sky:

<i>Options</i>	<i>Exercise Price</i>	<i>Expiry date</i>	<i>Number</i>
2014 Options (unlisted)	\$0.40	30 April 2014	300,000
2011 A Class Options (unlisted)	\$0.40	31 December 2011	24,288,000
2011 B Class Options (unlisted)	\$0.60	31 December 2011	19,423,968
2011 C Class Options (unlisted)	\$1.00	31 December 2011	12,000,000
2011 Options (listed)	\$0.25	30 November 2011	1,629,003
Total issued Options	-	-	57,640,971

Please refer to the Company's 2010 Annual Report and the Company's Appendix 3B announcement made on 5 May 2011 (available on the ASX website at www.asx.com.au) for more details of the Options currently on issue. The terms of those Options may be varied as a result of the Offer, in accordance with the requirements of the ASX Listing Rules and the terms on which those Options were granted.

4.4 Balance Sheet Information

The pro-forma balance sheet of Island Sky below:

- shows the effect of the Offer at 4 July 2011 assuming that a total of 142,850,998 New Shares were issued pursuant to this Prospectus to raise approximately \$604,255 after deducting the estimated cash expenses of the Offer of \$110,000; and
- is based on Island Sky's audited financial statements for the 12 month period ended 31 December 2010.

<i>Balance Sheet item</i>	<i>Actual</i> \$	<i>Proforma</i> \$
CURRENT ASSETS	1,561,228	2,165,483
Cash and cash equivalents	66,480	670,735
Trade and other receivables	15,390	15,390
Financial Assets	36,999	36,999
Inventories	1,395,485	1,395,485
Other current assets	46,874	46,874
NON CURRENT ASSETS:		
Property, plant and equipment (net)	96,549	96,549
Intangibles (net)	131,243	131,243
Other	917,154	917,154
TOTAL NON CURRENT ASSETS	1,144,946	1,144,946
TOTAL ASSETS	2,706,174	3,310,429
CURRENT LIABILITIES	1,331,104	1,331,104
TOTAL LIABILITIES	1,331,104	1,331,104
NET ASSETS	1,375,070	1,979,325
EQUITY	1,375,070	1,979,325

5.1 Overview

There are a number of factors, both specific to Island Sky and of a general nature, which may affect the future operating and financial performance of Island Sky and the outcome of an investment in Island Sky. There can be no guarantee that Island Sky will achieve its stated objectives, that forecasts will be met or that forward looking statements will be realised.

As discussed in section 4.1 above, the Board is prepared to consider options, which may include a change to Island Sky's current activities (subject to obtaining any necessary shareholder and regulatory approvals). In particular, the Board is concerned that it may not be possible to fund the Company's future capital requirements for its current products on competitive terms, and that the Company's current business model may need to be substantially modified or replaced.

As discussed below, Island Sky currently requires additional working capital in order to implement its growth strategies, expand its distribution capacity, and explore other business development opportunities. The year ended 31 December 2010 was challenging for the Company, and at balance date the Company did not have sufficient funding to drive sales growth and product development. There can be no assurance that the Company's operations will be profitable.

While no decisions have been made as at the date of this Prospectus, shareholders should be aware that there is a possibility that the Company will not continue in its current form. There can be no guarantees that Island Sky will be able to successfully change its activities, should it seek to do so.

This section describes certain, but not all, risks associated with an investment in Island Sky. Prior to making an investment decision, prospective investors should carefully consider the following risk factors, as well as the other information contained in this Offer or of which they are otherwise aware.

5.2 Specific risk factors**(a) Share Market**

Share market conditions may affect the quoted Securities regardless of the Company's operating performance. Share market conditions are affected by many factors such as:

- economic conditions and general economic outlook;
- changes in Australian and international stock markets;
- interest rates and inflation rates;
- currency fluctuations;
- changes in investor sentiment towards particular market sectors;
- taxation, government and monetary policies;
- the demand for, and supply of capital; and
- war, terrorism or other hostilities.

(b) Economic Factors

Factors such as inflation, currency fluctuation, interest rates, supply and demand and industrial disruption have an impact on operating costs, commodity prices and stock market prices. The Company's future possible profitability and the market price of its

quoted Securities can be affected by these factors, which are beyond the control of the Company and its Directors, particularly due to the number of jurisdictions in which Island Sky markets its products and the current global economic difficulties.

(c) Government Policy

The introduction of new legislation or amendments to existing legislation and regulations by governments, and the decisions of courts and tribunals, can impact adversely on the assets, operation and, ultimately, the financial performance of the Company and its Securities. Any adverse changes in political and regulatory conditions in the countries where the Company manufactures or exports its products could markedly affect the Company's prospects. Political changes such as changes in both monetary and fiscal policies, import regulations and tariffs, taxation, methods of taxation and currency exchange could affect the profitability of the Company and adversely affect the return of Shareholders.

(d) Manufacturing

There is no assurance that Island Sky products will be manufactured to required standards or on a timely basis. Failure in manufacturers standards or delays in manufacturing the product or in providing the product ready for distribution may occur as the result of technical difficulties, lack of components, industrial strikes, wars, natural disasters, political unrest, insufficient financing and other factors beyond the control of Island Sky. In the event of such delays, the Company's operations could be delayed, which could have a material adverse effect on its financial performance and share price.

(e) Intellectual Property

Securing rights to patents pending for Island Sky's air-to-water technology is an integral part of protecting its licensing value. The Company has been granted an Australian patent in relation to its unique air to water technology (**Australian Patent**). The Australian Patent covers the underlying technology that is used in both the Skywater14 machine and the Skywater300 machine.

The Company also has a number of pending patent applications in both the USA and countries outside USA, and failure of the relevant authority to grant these applications may have an adverse effect upon the Company.

The enforceability of a patent is dependent on a number of factors, which may vary between jurisdictions. These factors include the validity of the patent and the scope of protection it provides. Patent validity depends upon factors such as the novelty, and the requirement in many jurisdictions that the invention not be obvious in light of the prior art (including any prior use of documentary disclosure of the invention). The legal interpretation of these requirements often varies between jurisdictions. The scope of rights provided by a patent can also differ between jurisdictions, and the granting of a patent does not guarantee that the rights of competitors have not been infringed.

Island Sky Florida has been granted two USA patents, and other patents outside the USA, and has a number of patents pending for its air-to-water technology in the USA and in countries outside the USA. Island Sky has also applied for international patent protection. While the patented technology is advanced with inbuilt barriers to reverse engineering, it is possible that third parties may attempt to imitate or copy the intellectual property, and in doing so, attempt to design their product in such a way as to circumvent Island Sky's patent rights. In addition, the ability of the legal process to provide efficient and effective procedures for dealing with actual or suspected infringements can vary considerably between jurisdictions.

Island Sky is continuing to develop its technology and products in a relatively new industry. There is no guarantee that Island Sky will be able to rely on its patented technology to successfully develop, manufacture and market its technology and products.

(f) Capital Requirements

While Island Sky believes it will have sufficient funds after completion of the Offer to meet its immediate business goals, Island Sky's operations are capital intensive. There can be no assurance that the Company will not seek to exploit business opportunities of a kind which will require it to raise additional capital from equity or debt sources.

There can be no assurance that such funding, if required, will be available or, if available, will be on favourable terms. If the Company is unable to obtain such additional capital, it may be required to reduce the scope of its anticipated operations, which could adversely affect its business and financial position.

(g) Product Performance

The performance of Island Sky's products is critical to Island Sky's reputation, and its ability to achieve market acceptance. Island Sky's business exposes it to potential product liability, particularly through manufacturing, transportation, distribution and marketing.

There can be no assurance that a product liability or other claim would not materially and adversely affect the business or financial condition of Island Sky.

(h) Regulatory Approvals

Regulatory approvals for the continued operation of Island Sky's business and the marketing of its products need to be obtained from time to time. Island Sky is not aware of any circumstances which might give rise to the cancellation or suspension of any existing approvals. If any of those approvals are cancelled or suspended, Island Sky's business may be adversely affected.

The Company's operations are subject to a range of laws, regulations and policies in Australia and other jurisdictions, and the introduction of new legislation or amendments to existing legislation and regulations by governments, and the decisions of courts and tribunals, can impact adversely on the assets, operation and, ultimately the financial performance of the Company and its Securities.

(i) Increased Working Capital

Island Sky currently requires additional working capital in order to implement its growth strategies, expand its distribution capacity, and explore other business development opportunities. While the funds to be raised by the Offer should be sufficient for the Company's immediate needs, those funds will not be sufficient for the Company's medium term business goals. Accordingly the Company anticipates that it may need to raise further funds in the future, regardless of the success of the Offer.

The year ended 31 December 2010 was challenging for the Company, and at balance date the Company did not have sufficient funding to drive sales growth and product development in the manner and to the extent it would want. There can be no assurance that the Company's operations will be profitable.

(j) Managing Growth

Growth in the Company's operations may place considerable strain on its managerial, operational and financial resources. To manage its potential growth, Island Sky aims to improve its operational and financial systems and develop, expand, and manage its staff. No assurance can be given as to the Company's ability to achieve this aim or to manage future growth.

(k) Competition

Island Sky faces competition in the air-to-water industry. There are various companies developing and manufacturing air-to-water products. Island Sky will need to sustain and develop its intellectual property to ensure it maintains its competitive edge in the market.

The risk exists that a competitor's product will be more efficient and cost effective than an Island Sky product. There is also a risk that a competitor could develop and market new products in a way that creates extensive competition for Island Sky. Where this occurs, it could increase Island Sky's research and development costs, decrease the value of its products and its research projects, and reduce the profitability of the Company.

(l) Market Acceptance

While Island Sky believes its technology and products are equivalent to or superior to other air-to-water products in the market, there is no assurance that this position can be sustained. As the Company implements its growth strategies, it will need to ensure that its products are acceptable to the market. If for any reason its products do not achieve market acceptance, this could materially and adversely affect the Company.

Island Sky could be adversely affected by a change in consumer preferences resulting from a multitude of factors including increases in electricity costs, changes to regulatory requirements and atmospheric conditions.

(m) Contract Risks

Island Sky is a party to various agreements relating to its products, including numerous distribution arrangements, which are important to the future of its business.

Any failure by a party to perform its obligations under, or the termination of any of, its material agreements could have an adverse affect on Island Sky and there can be no assurance that Island Sky would be successful in enforcing its contractual rights. In addition, due to the relevant jurisdictions in which it operates, in some cases it may be prohibitively expensive for Island Sky to seek to enforce its contractual rights.

(n) Research and Development

One of Island Sky's business strategies is to develop new products and cost-efficient processes, through continued research and development efforts. Island Sky's competitiveness is dependent on its ability to develop new products to meet customers' requirements and to improve the quality of its products and expand its product range to meet changing market demands.

In the event that the results of its research and development efforts are not commercially viable and cannot be utilised for commercial production or for any reason cannot gain market acceptance, Island Sky's profitability may be adversely affected, as it may have incurred substantial research and development expenses.

(o) Reliance on Key Executives

The success of the Company is dependent upon a number of highly qualified and experienced personnel, the loss of whose services could materially and adversely affect the Company and impede the achievement of its business goals.

Due to the specialised nature of Island Sky's business, its ability to achieve its business goals partly relies on its ability to attract and retain suitably qualified personnel.

There can be no assurance that Island Sky will be able to retain its key personnel or find suitable replacements, if required. The failure to retain key personnel and attract highly qualified personnel could materially affect Island Sky's financial position.

(p) Termination of Underwriting Agreement

The Underwriting Agreement is summarised below at section 6.10, and prospective investors should note the termination events set out in that section. If one or more of these events occur, the Lead Underwriter has the discretion to terminate the Underwriting Agreement.

In the event that the Underwriting Agreement is terminated, there may be a shortfall of Shares taken up and less funds than expected may be raised from the Offer. As a result, Island Sky may not be able to progress its expenditure plans as set out in this Prospectus and this may negatively impact upon the value of the Shares.

The directors and management of Island Sky will use their best business judgment to address any issues arising from the termination of the Underwriting Agreement, if such a situation arises.

SECTION 6 ADDITIONAL INFORMATION

6.1 Nature of this Prospectus

This Prospectus is a prospectus issued pursuant to Section 713 of the Corporations Act. That provision allows the issue of a more concise prospectus in relation to offers of securities in a class which has been continuously quoted by ASX for the three months prior to the date of the prospectus (and offers of options over such securities). Shares and New Shares in the Company meet these criteria as required by Section 713.

As a company listed on the ASX, Island Sky has provided ASX with a substantial amount of information regarding its activities and that information is publicly available. This Prospectus is intended to be read in conjunction with that publicly available information. Therefore, Eligible Shareholders and investors who are considering subscribing for New Shares should also have regard to that publicly available information before making any investment decision.

6.2 Inspection of documents lodged with ASIC

Island Sky is a disclosing entity for the purposes of the Corporations Act and as such is subject to regular reporting and disclosing obligations under the Corporations Act.

Copies of documents lodged with ASIC in relation to Island Sky (which are not documents of the type referred to in section 1274(2)(a) of the Corporations Act) may be obtained from, or inspected at, an office of ASIC.

6.3 Obtaining copies of Documents

Island Sky will provide free of charge to any person who asks before the Offer closes, a copy of:

- the annual financial report of Island Sky for the year ended 31 December 2010, being the most recently lodged annual financial report of Island Sky before the date of this Prospectus; and
- any continuous disclosure notices given by Island Sky to ASX after the lodgement of the annual financial report of Island Sky for the year ended 31 December 2010 with ASIC and before lodgement of a copy of this Prospectus with ASIC.

6.4 ASX Announcements

Island Sky has lodged the following announcements with ASX in the last six months:

Date	Announcement
21 June 2011	Notice of Annual General Meeting/Proxy Form
16 June 2011	Emergency Water Product Joint Venture Project
9 June 2011	Annual General Meeting Update
7 June 2011	Underwritten Rights Issue
2 June 2011	ISK Annual General Meeting Update
25 May 2011	Orders Placed for the Republic of the Philippines

Date	Announcement
5 May 2011	Response to ASX query
5 May 2011	Appendix 3B
2 May 2011	2010 Annual Report to shareholders
29 April 2011	Quarterly Cashflow Report – Appendix 4C
8 April 2011	Reinstatement to Official Quotation
8 April 2011	Audited Financial Statements 2010
8 April 2011	Fundraising Update
31 March 2011	Suspension from Official Quotation
15 March 2011	Italian Military Report Skywater300 Tests
4 March 2011	Corporate Update
28 February 2011	Appendix 4E and Preliminary Final Report 2010
25 February 2011	ISK Earnings Update
3 February 2011	Response to ASX re Appendix 4C query
31 January 2011	Appendix 4C – quarterly
31 January 2011	Market Update
31 December 2010	Securities Trading Policy

Copies of the announcements are available on the ASX website at www.asx.com.au.

6.5 CHESS

The New Shares will participate from the date of commencement of quotation in the Clearing House Electronic Subregister System (**CHESS**), operated by ASX Settlement Pty Limited. They may be held in uncertificated form (that is, no share certificate will be issued) on the CHESS subregister under sponsorship of a broker or on the issuer-sponsored subregister. New Shares subscribed for under the Entitlement Offer must be allotted to the registered holder in accordance with the applicable Entitlement and Acceptance Form.

If you wish to hold your Shares on the CHESS subregister under sponsorship of a broker, you should provide your HIN (Holder Identification Number) in the space provided in the Entitlement and Acceptance Form accompanying this Prospectus. If you do not provide an HIN, your Shares will be held on the issuer-sponsored subregister.

Arrangements can be made at any subsequent time to convert your holding from the issuer-sponsored subregister to the CHESS subregister under sponsorship of a broker or vice versa by contacting Island Sky or your broker.

6.6 Rights attaching to New Shares

There is only one class of shares in Island Sky; fully paid ordinary Shares. The New Shares will rank *pari passu* with existing fully paid ordinary Shares of Island Sky.

The rights attaching to Shares in Island Sky are:

- set out in the Constitution of Island Sky, a copy of which is available for inspection at Island Sky's registered office; and
- in certain circumstances, regulated by the Corporations Act, the Listing Rules, the ASTC Settlement Rules and the general law.

The following is a summary of the principal rights of the holders of Shares in Island Sky.

(a) Voting

Subject to any rights or restrictions for the time being attached to any class or classes of shares, at a general meeting of members every member present in person or by proxy, attorney or representative has one vote on a show of hands, and one vote per Share on a poll. In the case of a vote on a poll, persons who hold a share which is not fully paid shall be entitled to a fraction of a vote equal to that proportion of a vote that the amount paid on the relevant share bears to the total issue price of the share.

(b) Dividends

Subject to the rights of holders of shares issued with any special rights (at present there are none), the profits of the Company, which the Directors may from time-to-time determine to distribute by way of dividend, are divisible among the Shareholders in proportion to the number of Shares held by them, and in proportion to the amount paid on the Share in respect of which the dividend is paid. All Shares, including the New Shares, are fully paid shares.

(c) Future Issues

Subject to the Company's Constitution, the Corporations Act and the Listing Rules, the Directors may, on behalf of the Company, issue, grant options over, or otherwise dispose of unissued shares in the Company on terms determined by the Directors. The Company may issue preference shares.

(d) Transfer of Shares

A Shareholder may transfer Shares by a proper ASTC registered transfer or an instrument in writing in any usual form, or in any form approved by the Directors. The Directors may refuse to register any transfer of Shares only if that refusal would not contravene the Listing Rules or the ASTC Settlement Rules. The Directors must not register a transfer if the Corporations Act, Listing Rules or ASTC Settlement Rules forbid registration. The Company must not refuse to register, give effect to, delay or in any way interfere with a proper ASTC transfer of other Securities.

(e) Meetings and Notices

Each Shareholder is entitled to receive notice of, and to attend, general meetings of the Company and to receive all notices, accounts and other documents required to be sent to Shareholders under the Constitution, Corporations Act or Listing Rules.

Shareholders may requisition meetings in accordance with the Corporations Act and the Constitution.

(f) Winding Up

Subject to the Constitution and the rights and liabilities attaching to Shares (at present there are no liabilities), Shareholders will be entitled in a winding up to any surplus assets of the Company in proportion to the number of Shares held by them, less any amounts which remain unpaid on the Shares at the time of distribution. However, if this deduction results in the distribution to the Shareholder being a negative amount, the Shareholder must contribute that amount to the Company.

If the Company is wound up the liquidator may, with the sanction of a special resolution of the Shareholders:

- divide among the Shareholders the whole or any part of the assets of the Company; and
- determine how the division is to be carried out as between the Shareholders or different classes of Shareholders, with the approval of separate general meetings of the members of each of the several classes (if applicable).

Any such division may not be otherwise than in accordance with the legal rights of the Shareholders and, in particular, any class may be given preferential or special rights or excluded altogether or in part. Where a division is otherwise than in accordance with the legal rights of the Shareholders, a Shareholder is entitled to dissent and to exercise the same rights as if the special resolution sanctioning that division were a special resolution passed under Section 507 of the Corporations Act.

(g) Shareholder Liability

As the New Shares to be issued pursuant to this Prospectus are all fully paid Shares, they are not subject to any calls for money and will therefore not become liable for forfeiture.

(h) Alteration to the Constitution

The Constitution can only be amended by a special resolution passed by at least 75% of the votes cast by members entitled to vote on the resolution. At least 28 days written notice specifying the intention to propose the resolution as a special resolution must be given.

(i) Listing Rules

While the Company is admitted to the Official List of ASX, then despite anything in the Constitution, if the Listing Rules prohibit an act being done, that act must not be done. Nothing in the Constitution prevents an act being done that the Listing Rules requires to be done. If the Listing Rules require an act to be done or not to be done, authority is given for that act to be done or not to be done (as the case may be). If the Listing Rules require the Constitution to contain a provision or not to contain a provision, the Constitution is deemed to contain that provision or not to contain that provision (as the case may be). If any provision of the Constitution is or becomes inconsistent with the Listing Rules, the Constitution is deemed not to contain that provision to the extent of the inconsistency.

6.7 Taxation

Shareholders should be aware that there may be taxation implications of participating in the Offer. Shareholders should consult their own professional taxation advisers to obtain advice in relation to the taxation laws and regulations applicable to their personal circumstances.

6.8 Legal Proceedings

The Company is not aware of any litigation, arbitration or proceedings pending against or involving the Company as at the date of this Prospectus. The Company has received notice of a dispute from its US distributor, Skywater Distributing, Inc (**SDI**) concerning pre-payment of US\$252,000 made by SDI for two containers of the Company's Skywater14 machines, in May 2010. SDI alleges that the Company's products were defective. The Company denies that allegation, and is currently seeking to resolve this dispute with SDI.

The Company is also seeking to recover machines held by a former Australian distributor Waternauts LLP, following the non-renewal of the non-exclusive distribution agreement with that company.

6.9 Interests of directors

Except as set out below or elsewhere in this Prospectus:

- no Director or proposed Director of Island Sky holds or has held in the two years before the date of this Prospectus, any interest in:
 - the formation or promotion of Island Sky;
 - the property acquired or proposed to be acquired by Island Sky in connection with its formation or promotion or the Offer; or
 - the Offer; and
- no amount has been paid or agreed to be paid and no value or any benefit has been given or agreed to be given to:
 - any Director, or proposed Director, to induce him or her to become, or to qualify as, a director of Island Sky; or
 - any Director or proposed Director of Island Sky for services that he or she has provided in connection with the formation or promotion of Island Sky or the Offer.

Directors' share and option holdings (includes interests held directly and indirectly)

<i>Director</i>	<i>Ordinary Shares</i>	<i>Options</i>
David Lindh	606,146*	-
Richard Groden	13,096,913**	3,840,000 2011 A Class Options 2,000,000 2011 C Class Options
Michael Paragon	1,199,129	3,840,000 2011 A Class Options 2,880,000 2011 B Class Options 2,000,000 2011 C Class Options
Neville Martin	1,092,450***	-

* 506,146 of the Shares are held by Davan Nominees Pty. Ltd.. Mr Lindh is a Director and shareholder of Davan Nominees Pty. Ltd.. In addition, 100,000 of the Shares are held by Mr Lindh directly.

**Included in these Shares are 12,000,000 shares held in the joint names of Richard Jay Groden and Susan Groden. Also included are 302,522 Shares held by Mr Groden directly and 794,391 Shares held in Rhythm & Blues Holdings Inc, a company associated with Richard Groden. Richard Groden, a director of this Company, has an interest in 2,500,000 of these Performance Shares however they will only be issued with the approval of shareholders to be sought at Island Sky's Annual General Meeting on 22 July 2011.

***540,000 of the Shares are held by Mr Martin directly. In addition, 510,000 of the Shares are held by Houmar Nominees Pty. Ltd. as trustee for the Martin Superannuation Fund. Mr Martin is a Director and shareholder of Houmar Nominees Pty. Ltd. and a beneficiary of the Martin Superannuation Trust. Mr Martin is a potential beneficiary of Chaffey Consulting Pty Ltd, which as trustee of the Minter Ellison Investment Trust, holds 32,450 shares on behalf of Mr Martin. Stansbury Petroleum Investments Pty Ltd, a company associated with Mr Martin, holds 10,000 of the Shares.

Shareholding qualifications

The Directors are not required to hold any shares in Island Sky under the constitution of Island Sky.

Remuneration of Directors

The constitution of Island Sky provides that the non-executive Directors are entitled to remuneration as determined by Island Sky in general meeting, but until so determined, that remuneration must not exceed \$500,000, to be apportioned among them in the manner that the Directors in their absolute discretion determine.

For the current financial year ending 31 December 2011, it is expected that the non-executive Director's fees will not exceed \$250,000.

The non-executive Directors have an entitlement to their fees but are presently not receiving any payments on that account. The entitlement to the non-executive Director's fees is currently accruing.

A Director may be paid fees or other amounts as the Directors determine where a Director performs special duties or otherwise performs services outside the scope of the duties of a Director. A Director may also be reimbursed for out of pocket expenses incurred as a result of their directorship or any special duties.

6.10 Material Contracts

(a) Underwriting Agreement

Island Sky has entered into an Underwriting Agreement dated 6 June 2011 with Taylor Collison Limited.

Under the Underwriting Agreement, Taylor Collison Limited agrees to underwrite the subscription of 142,850,998 ordinary shares to be offered at \$0.005 per Share under this Prospectus by subscribing or procuring the subscription of any Shortfall. The amount underwritten is approximately \$714,255. The Underwriting Agreement contains a number of termination events whereby the Lead Underwriter may terminate the Underwriting Agreement prior to the allotment of Shares in this Rights Issue upon certain events occurring. These events are as follows (capitalised words in this section below have the meaning given to them in the Underwriting Agreement):

- (i) **(Documents):** the Company does not lodge the Key Documents on the respective lodgement date (or other date agreed to by the Underwriter) or the Offer is withdrawn by the Company;

- (ii) **(No Listing Approval):** Listing Approval has not been granted by the Shortfall Notice Deadline Date or, having been granted, is subsequently withdrawn, withheld or qualified;
- (iii) **(Corrective Disclosure):**
 - (A) the Underwriter, having elected not to exercise its right to terminate its obligations under this Agreement as a result of an occurrence as described in clause 10.2 (k)(4) of the Underwriting Agreement, forms the view on reasonable grounds that a corrective document should be lodged with ASX to comply with the Corporations Act and the Company fails to lodge a corrective document in such form and content and within such time as the Underwriter may reasonably require; or
 - (B) the Company lodges a corrective document without the prior written agreement of the Underwriter;
- (iv) **(Non compliance with disclosure requirements):** subject always to clause 10.3 of the Underwriting Agreement, it transpires that the Key Documents do not contain all the information required by the Corporations Act;
- (v) **(Misleading Documents):** subject always to clause 10.3 of the Underwriting Agreement, it transpires that there is a statement in the Key Documents that is misleading or deceptive or likely to mislead or deceive, or that there is an omission from the Key Documents or if any statement in the Key Documents becomes misleading or deceptive or likely to mislead or deceive or if the issue of the Key Documents is or becomes misleading or deceptive or likely to mislead or deceive;
- (vi) **(Restriction on allotment):** the Company is prevented from allotting the Underwritten Shares within the time required by this Agreement, the Corporations Act, the Listing Rules, any statute, regulation or order of a court of competent jurisdiction by ASIC, ASX or any court of competent jurisdiction or any governmental or semi governmental agency or authority;
- (vii) **(ASIC application):** an application is made by ASIC for an order under section 1324B or any other provision of the Corporations Act in relation to the Offer, the Shortfall Notice Deadline Date has arrived, and that application has not been dismissed or withdrawn;
- (viii) **(Takeovers Panel):** the Takeovers Panel makes a declaration that circumstances in relation to the affairs of the Company are unacceptable circumstances under Pt 6.10 of the Corporations Act, or an application for such a declaration is made to the Takeovers Panel;
- (ix) **(Hostilities):** subject always to clause 10.3 of the Underwriting Agreement, there is an outbreak of hostilities or a material escalation of hostilities (whether or not war has been declared) after the date of this agreement involving Australia, or a terrorist act is perpetrated on Australia or any diplomatic, military, commercial or political establishment of Australia anywhere in the world;
- (x) **(Indictable offence):** subject always to clause 10.3 of the Underwriting Agreement, a director or senior manager of the Company is charged with an indictable offence; or

- (xi) **(Termination Events)**: subject always to clause 10.3 of the Underwriting Agreement, any of the following events occurs:
- (A) **(Default)**: default or breach by the Company under this Agreement of any terms, condition, covenant or undertaking;
 - (B) **(Incorrect or untrue representation)**: any representation, warranty or undertaking given by the Company in this Agreement is or becomes untrue or incorrect;
 - (C) **(Contravention of constitution or Act)**: a contravention by the Company of any provision of its constitution, the Corporations Act, the Listing Rules or any other applicable legislation or any policy or requirement of ASIC or ASX;
 - (D) **(Adverse change)**: an event occurs which gives rise to a Material Adverse Effect or any adverse change or any development including a prospective adverse change after the date of this Agreement in the assets, liabilities, financial position, trading results, profits, losses, prospects, business or operations of the Company;
 - (E) **(Misleading information)**: any information supplied at any time by the Company or any person on its behalf to the Underwriter in respect of any aspect of the Offer or the Issue or the affairs of the Company is or becomes misleading or deceptive or likely to mislead or deceive;
 - (F) **(Official Quotation qualified)**: the official quotation is qualified or conditional other than as set out in clause 1.3 of the Underwriting Agreement;
 - (G) **(Change in Act or policy)**: there is introduced, or there is a public announcement of a proposal to introduce, into the Parliament of Australia or any of its States or Territories any Act or prospective Act or budget or the Reserve Bank of Australia or any Commonwealth or State authority adopts or announces a proposal to adopt any new, or any major change in, existing, monetary, taxation, exchange or fiscal policy;
 - (H) **(Prescribed Occurrence)**: a Prescribed Occurrence occurs;
 - (I) **(Suspension of debt payments)**: the Company suspends payment of its debts generally;
 - (J) **(Event of Insolvency)**: an Event of Insolvency occurs in respect of the Company;
 - (K) **(Judgment against the Company)**: a judgment in an amount exceeding \$100,000 is obtained against the Company and is not set aside or satisfied within seven days;
 - (L) **(Litigation)**: litigation, arbitration, administrative or industrial proceedings are after the date of this Agreement commenced against the Company;
 - (M) **(Board and senior management composition)**: there is a change in the composition of the Board or a change in the senior management of the Company before the issue of the Underwritten Shares without the prior written consent of the Underwriter;

- (N) **(Change in shareholdings)**: a takeover offer or scheme of arrangement pursuant to Chapter 5 or 6 of the Corporations Act is publicly announced in relation to the Company;
- (O) **(Timetable)**: there is a delay in any specified date in the Timetable which is greater than 3 Business Days, without the prior written consent of the Underwriter;
- (P) **(Force Majeure)**: a Force Majeure affecting the Company's business or any obligation under the Agreement lasting in excess of seven days occurs;
- (Q) **(Certain resolutions passed)**: the Company passes or takes any steps to pass a resolution under section 254N, section 257A or section 260B of the Corporations Act or a resolution to amend its constitution without the prior written consent of the Underwriter;
- (R) **(Capital Structure)**: the Company alters its capital structure in any manner not contemplated by the Key Documents;
- (S) **(Market Movement)**: the S&P Materials index falls by more than 7.5% after the date of execution of the Underwriting Agreement;
- (T) **(Investigation)**: any person is appointed under any legislation in respect of companies to investigate the affairs of the Company;
- (U) **(Hostilities)**: hostilities not presently existing commence (whether war has been declared or not) or a major escalation in existing hostilities occurs (whether war has been declared or not) involving any one or more of Australia, New Zealand, the United States of America, the United Kingdom, any member state of the European Union, Indonesia, Japan, Russia or the Peoples Republic of China, or a terrorist act is perpetrated on any of those countries or any diplomatic or political establishment of any of those countries elsewhere in the world, or a national emergency is declared by any of those countries; or
- (V) **(Adverse Change in Financial Markets)**: there occurs any material adverse change or material adverse disruption to the political or economic conditions of financial markets in Australia, the United Kingdom, the United States of America or the international financial markets or any change or development involving a prospective change in national or international political, financial or economic conditions.

If the Shortfall Shares (as defined in the Underwriting Agreement) do not exceed 40,000,000 Shares then the Lead Underwriter has the right to require Island Sky to place 16,000,000 Shares at \$0.005 per Share (**Placement Shares**) to the Lead Underwriter's clients as directed by the Lead Underwriter, provided that the placement of further shares in Island Sky does not trigger the prohibition on acquisitions under section 606 of the Corporations Act other than as a consequence of either item 8, 9 or 13 of section 611 of the Corporations Act. The placement of these shares must be completed within 60 days of the notification to the Underwriter of the Shortfall Shares (as defined in the Underwriting Agreement).

The Lead Underwriter is also entitled to receive an additional 1% management fee (plus GST where applicable) and 5,000,000 three year unlisted options exercisable at \$0.005.

The remaining provisions of the Underwriting Agreement are considered standard for this type of agreement.

(b) Sub-Underwriting Agreement

The Lead Underwriter has entered into a Sub-Underwriting Agreement dated 7 June 2011 with Adelaide Equity Partners Limited.

Under the Sub-Underwriting Agreement, Adelaide Equity Partners Limited agrees to underwrite the subscription of 71,425,500 ordinary shares to be offered at \$0.005 per Share under this Prospectus by subscribing or procuring the subscription of any shortfall. The amount underwritten is approximately \$357,127.50. Under the Sub-Underwriting Agreement, the Sub-Underwriter has no right to terminate the Sub-Underwriting Agreement.

Adelaide Equity Partners Limited is also entitled to receive 2,500,000 Island Sky options.

The remaining provisions of the Sub-Underwriting Agreement are considered standard for this type of agreement.

(c) Sub-Sub-Underwriting Agreement

Adelaide Equity Partners Limited has entered into a Sub-Sub-Underwriting Agreement dated 24 June 2011 with Houmar Nominees Pty. Ltd. and Davan Nominees Pty. Ltd., interests respectively associated with two of the Company's directors, Mr Neville Martin and Mr David Lindh.

Under the Sub-Sub-Underwriting Agreement, Houmar Nominees Pty. Ltd. and Davan Nominees Pty. Ltd. agree to sub-sub-underwrite 20%, in equal proportions, of the subscription of 142,850,998 ordinary shares to be offered at \$0.005 per Share under this Prospectus. The amount total sub-sub-underwritten is approximately \$142,851. The Sub-Sub-Underwriters are not entitled to receive any fees under the Sub-Sub-Underwriting Agreement.

6.11 Related party issues

The Lead Underwriter has entered into the Sub-Underwriting Agreement with Adelaide Equity Partners Limited, and Adelaide Equity Partners Limited has entered into a Sub-Sub-Underwriting Agreement with Houmar Nominees Pty. Ltd. and Davan Nominees Pty. Ltd., interests associated with two of the Company's directors, Mr Neville Martin and Mr David Lindh. The Corporations Act requires that any financial benefits given by a public company (or an entity controlled by that company) must only be given either under an exception to that section, or with the approval by members in accordance with the requirements of sections 217 – 227 of the Corporations Act.

Mr David Lindh, one of the Company's directors, is a director and shareholder of Davan Nominees Pty. Ltd.. Mr David Lindh is also a director and shareholder of Adelaide Equity Partners Limited. Houmar Nominees Pty. Ltd. is controlled by one of the Company's directors, Mr Neville Martin.

To the extent that these are related party transactions, the Company may utilise the 'arm's length terms' exception under section 210(a) of the Corporations Act, without the requirement for shareholder approval under section 208 of the Corporations Act. The terms of the Sub-Underwriting Agreement and the Sub-Sub-Underwriting Agreement are no more favourable to the Sub-Underwriter and the Sub-Sub-Underwriters than the terms of the Underwriting Agreement are favourable to the Lead Underwriter, which is not a related party of the Company.

6.12 Interests of professionals or other advisers

Except as set out below or elsewhere in this Prospectus:

- all persons named in the Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus do not hold, and have not held in the two years before the date of this Prospectus, any interest in:
 - the formation or promotion of Island Sky;
 - property acquired or proposed to be acquired by Island Sky in connection with its formation or promotion or the Offer; or
 - the Offer; and
- no amount has been paid or agreed to be paid and no value or benefit has been given or agreed to be given to other persons named in the Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus for services provided in connection with the formation or promotion of Island Sky or the Offer.

Minter Ellison has acted as lawyers to Island Sky in relation to the Offer, for which they will be paid approximately \$40,000.

Neville Martin is a director of Island Sky and is also a partner with Minter Ellison. Minter Ellison has acted as Legal Advisor to Island Sky and will be paid the fees referred to in this section 6.12. Neville Martin is also a director and shareholder of Houmar Nominees Pty. Ltd. as trustee of the Martin Superannuation Fund. Houmar Nominees Pty. Ltd. holds 510,000 shares in Island Sky and Mr Martin is a beneficiary of the Martin Superannuation Fund.

David Lindh is a consultant to Minter Ellison and is also a director and shareholder of Davan Nominees Pty. Ltd.. Davan Nominees Pty. Ltd. holds 506,146 shares in Island Sky. David Lindh is also a director and shareholder of Adelaide Equity Partners Limited. Adelaide Equity Partners Limited has acted as Corporate Advisor to Island Sky and will be paid the fees referred to in this section 6.12. Adelaide Equity Partners Limited is also sub-underwriting 50% of the Rights Issue as set out in section 6.10.

Chaffey Consulting Pty Ltd holds 500,000 shares in Island Sky Australia. Four partners of Minter Ellison are directors of Chaffey Consulting Pty Ltd which acts as trustee for the Minter Ellison Investment Trust. Some of the partners in the Adelaide office of Minter Ellison are potential beneficiaries of this trust.

Adelaide Equity Partners Limited has acted as corporate advisors to Island Sky in relation to the Offer, for which they will be paid 2.5% of the total amount raised under this Offer. If the Offer is fully subscribed, Adelaide Equity Partners Limited will be entitled to \$17,856.

Taylor Collison Limited has acted as the Lead Underwriter in respect of the Offer, and it is entitled to receive fees being 5% of the \$714,255 (plus GST where applicable), an additional 1% management fee (plus GST where applicable) and 5,000,000 three year unlisted options exercisable at \$0.005. If the Lead Underwriter places the Placement Shares (as defined in the Underwriting Agreement) then the Lead Underwriter is entitled to receive a placement fee of 5% of the funds raised from the Placement Shares (exclusive of GST). Further, Taylor Collison Limited will be responsible for any fees payable to the Sub-Underwriters.

Adelaide Equity Partners Limited has also acted as the Sub-Underwriter in respect of the Offer, and it is entitled to receive fees being 5% of \$357,127.50 and 2,500,000 Island Sky options when issued.

Houmar Nominees Pty. Ltd. and Davan Nominees Pty. Ltd., interests respectively associated with two of the Company's directors, Mr Neville Martin and Mr David Lindh, have acted as the

Sub-Sub-Underwriters in respect of the Offer. Houmar Nominees Pty. Ltd. and Davan Nominees Pty. Ltd. are not entitled to receive any fees under this arrangement.

6.13 Consents to be named

The following persons have given and have not, before the issue of this Prospectus, withdrawn their written consent to be named in this document in the form and context in which they are named:

- Minter Ellison Lawyers – Lawyers to the Offer;
- Adelaide Equity Partners Limited – Corporate Advisor to the Offer;
- Taylor Collison Limited – Lead Underwriter;
- Adelaide Equity Partners Limited – Sub-Underwriter;
- Houmar Nominees Pty. Ltd. – Sub-Sub-Underwriter;
- Davan Nominees Pty. Ltd. – Sub-Sub-Underwriter; and
- Computershare Investor Services Pty Ltd – Share Registry.

6.14 Responsibility statements

Each person named in section 6.13, to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Prospectus, other than consenting to be named in this Prospectus in section 6.13.

6.15 Costs of the Offer

If the Offer proceeds, the total estimated costs of the Offer, including legal fees, registration fees, ASIC fees, ASX Listing fees, printing, stamp duty and other miscellaneous expenses, together with corporate advisory fees will be approximately \$110,000.

6.16 Documents for inspection

Verified copies of the following documents:

- the experts' consents referred to in section 6.13; and
- Island Sky's constitution,

will be available for inspection free of charge during business hours after seven days from lodgement of this Prospectus, for a period of not less than 13 months after the date of the lodgement of this Prospectus at the registered office of Island Sky.

SECTION 7 DEFINED TERMS

2011 Options means the listed Options issued by the Company on the terms set out in the Company's Rights Issue Prospectus dated 11 November 2009 (including further Options issued on the same terms in 2010) having an exercise price of \$0.25 and being exercisable by 30 November 2011;

2011 A Class Options or 'A' Class Options means the Options issued by the Company on the terms set out in Part 14.3 of the IPO Prospectus having an exercise price of \$0.40 and being exercisable by 31 December 2011;

2011 B Class Options or 'B' Class Options means the Options issued by the Company on the terms set out in Part 14.3 of the IPO Prospectus having an exercise price of \$0.60 and being exercisable by 31 December 2011;

2011 C Class Options or 'C' Class Options means the Options issued by the Company on the terms set out in Part 14.3 of the IPO Prospectus having an exercise price of \$1.00 and being exercisable by 31 December 2011;

2014 Options means the Options issued by the Company, in accordance with an Island Sky Florida employee agreement, to an employee of Island Sky Florida, having an exercise price of \$0.40 and being exercisable by 30 April 2014;

ABN means Australian Business Number;

ACDT means Australian Central Daylight Time;

Applicant means an Eligible Shareholder who submits an Entitlement and Acceptance Form;

Application means an application by way of a completed Entitlement and Acceptance Form to subscribe for New Shares under this Prospectus;

Application Monies means the monies received from Applicants in respect to their Application;

ASIC means the Australian Securities and Investments Commission;

ASX means ASX Limited ACN 008 624 691;

ASTC means ASX Settlement Pty Ltd (ABN 49 008 504 532);

ASTC Settlement Rules means the operating rules of the ASTC and, to the extent they are applicable, the operating rules of the ASX and the operating rules of the Australian Clearing House Pty Ltd;

Board means the board of directors of Island Sky;

Business Day means Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, and any other day that ASX declares is not a business day;

Closing Date means the last date for accepting an offer for New Shares, being 5.00pm ACDT on 22 July 2011;

Company means Island Sky Australia Limited (ABN 73 122 948 805);

Constitution means the constitution of the Company;

Corporations Act means the *Corporations Act 2001* (Cth);

Directors means the directors of Island Sky;

Eligible Shareholders means a person who is a Shareholder at 7.00pm (ACDT) on the Record Date who is not a Foreign Shareholder;

Entitlement means the pro-rata non-renounceable right of an Eligible Shareholder to subscribe for New Shares pursuant to this Prospectus as set out in section 2.1;

Entitlement and Acceptance Form means the personalised form attached to or accompanying this Prospectus;

Entitlement Offer means the offer of Entitlements to New Shares pursuant to this Prospectus;

Foreign Shareholder means a Shareholder described in section 2.8;

Founders means Richard Groden and Susan Groden jointly, Thomas Merritt, Brian Stamp and Douglas Cox, the founders of Island Sky Florida;

IPO Prospectus means the Company's initial public offer prospectus dated 31 August 2007;

Island Sky means Island Sky Australia Ltd ABN 73 122 948 805;

Island Sky Florida means Island Sky Corporation, a company incorporated in Florida, USA, and a wholly owned subsidiary of Island Sky;

Issue Price means \$0.005 per New Share;

Lead Underwriter means Taylor Collison Limited ACN 008 172 450;

Listing Rules means the official listing rules of ASX;

New Shares means, where the context requires, Shares to be issued pursuant to the Offer;

Offer means the Entitlement Offer;

Official Quotation means official quotation by ASX in accordance with the Listing Rules;

Option means a right to subscribe for a Share;

Performance Shares means the Shares referred to in section 4.2;

Proper ASTC Transfer has the same meaning as in the *Corporations Regulations 2001* (Cth);

Prospectus means this prospectus dated 24 June 2011;

Record Date means 7.00pm ACDT on 4 July 2011;

Right means the right to subscribe for 1 New Share for each Share held on the Record Date;

Rights Issue means the issue of New Shares upon receipt of valid acceptances under this Offer;

Securities means Shares and Options;

Share means an ordinary share in the capital of Island Sky and 'Shares' has a corresponding meaning;

Shareholders means the registered holders of Shares as at the Record Date;

Share Registry means Computershare Investor Services Pty Ltd ACN 078 279 277;

Shortfall means the number of New Shares for which Applications in response to Entitlements under the Prospectus have not been received by the Closing Date;

Sub-Underwriter means Adelaide Equity Partners Limited;

Sub-Sub-Underwriter means Houmar Nominees Pty. Ltd. and Davan Nominees Pty. Ltd., being entities respectively associated with two of the Company's directors, Mr Neville Martin and Mr David Lindh, as noted in section 6.11;

Sub-Sub-Underwriting Agreement means the sub-sub-underwriting agreement dated 24 June 2011 between the Sub-Underwriter and Sub-Sub-Underwriter;

Sub-Underwriting Agreement means the sub-underwriting agreement dated 7 June 2011 between the Lead Underwriter and Adelaide Equity Partners Limited; and

Underwriting Agreement means the underwriting agreement dated 6 June 2011 between Island Sky and Taylor Collison Limited.

SECTION 8 AUTHORISATION

This Prospectus is issued by the Company and each of the Directors has consented to the lodgement of this Prospectus with ASIC.

24 June 2011

A handwritten signature in blue ink, appearing to read 'David Lindh', with a stylized flourish at the end.

DAVID J LINDH OAM
Chairman

CORPORATE DIRECTORY

DIRECTORS

David John Lindh OAM, Chairman

Richard Jay Groden, Managing Director

Michael Murphy Paragon, Executive Director

Neville Wayne Martin, Non Executive Director

SECRETARY

Rajita Shamani Alwis

REGISTERED OFFICE

Level 3
100 Pirie Street
ADELAIDE SA 5000

Telephone: + 61 8 8232 2550
Facsimile: +61 8 8232 2540

CORPORATE ADVISORS

Adelaide Equity Partners Limited ACN 119 059 559
Level 3
100 Pirie Street
ADELAIDE SA 5000

LAWYERS TO THE OFFER

Minter Ellison Lawyers
Level 10
25 Grenfell Street
ADELAIDE SA 5000

LEAD UNDERWRITER

Taylor Collison Limited ACN 008 172 450 AFSL 247083
Level 16
211 Victoria Square
ADELAIDE SA 5000

SHARE REGISTRY

Computershare Investor Services Pty Ltd ACN 078 279 277
Level 5
115 Grenfell Street
ADELAIDE SA 5000

How to complete the Entitlement and Acceptance Form

Note that photocopies will not be accepted. These instructions are cross-referenced to each section of the Entitlement and Acceptance Form.

A Details of your Entitlement based on your Securityholding at 5:00pm (ACST) on Monday 4 July 2011 are shown in box A on the front of this Entitlement Form.

B New Securities Accepted

You can apply to accept either all or part of your Entitlement. Enter in box B the number of New Shares you wish to accept from your Entitlement.

Please ensure you complete Section B on the bottom of the form.

C Acceptance Monies

Enter the amount of Acceptance Monies. To calculate the amount payable, multiply the number of New Shares applied for by A\$0.005

Please ensure you complete Section C on the bottom of the form.

D Payment Details

You can apply for shares utilising the payment options detailed below. **Please note that funds are unable to be directly debited from your bank account.**

By making your payment using either electronic means or by cheque, bank draft or money order, you confirm that you:

- agree to all of the terms and conditions as detailed in the Prospectus dated 24 June 2011

Your cheque, money order or bank draft must be made in Australian currency and drawn on an Australian branch of a financial institution. Such payment must be made payable to Island Sky Australia Limited Rights Issue and crossed "Not Negotiable". Payments not properly drawn may be rejected.

Cheques will be processed on the day of receipt and as such, sufficient cleared funds must be held in your account as cheques returned unpaid may not be re-presented and may result in your Acceptance form being rejected. Paperclip (do not staple) your cheque(s) to the form where indicated. Cash will not be accepted. Receipt of payment will not be forwarded.

E Contact Details

Enter the name of a contact person and telephone number. These details will only be used in the event that the registry has a query regarding the slip below.

The directors reserve the right to make amendments to this form where appropriate.

Lodgement of Acceptance

If you are applying for shares and your payment is being made by BPAY®, you do not need to return the slip below. Your payment must be received by no later than 5:00pm (ACST) on Friday 22 July 2011. Applicants should be aware that their own financial institution may implement earlier cut off times with regards to electronic payment, and should therefore take this into consideration when making payment. Ensure you have read and accurately followed your banking institution's BPAY FAQ or other instructions prior to making multiple payments for multiple holdings under this offer. Neither CIS nor Island Sky Australia Limited accepts any responsibility for loss incurred through incorrectly completed BPAY payments. It is the responsibility of the applicant to ensure that funds submitted through BPAY are received by this time.

If you are paying by cheque, bank draft or money order the slip below must be received by Computershare Investor Services Pty Limited (CIS) Adelaide by no later than 5:00pm (ACST) on Friday 22 July 2011. You should allow sufficient time for this to occur. A reply paid envelope is enclosed for security holders in Australia. New Zealand holders will need to affix the appropriate postage. Return the slip below with cheque attached.

Neither CIS nor the Company accepts any responsibility if you lodge the slip below at any other address or by any other means.

Privacy Statement

Personal information is collected on this form by CIS, as registrar for securities issuers ("the issuer"), for the purpose of maintaining registers of securityholders, facilitating distribution payments and other corporate actions and communications. Your personal information may be disclosed to our related bodies corporate, to external service companies such as print or mail service providers, or as otherwise required or permitted by law. If you would like details of your personal information held by CIS, or you would like to correct information that is inaccurate, incorrect or out of date, please contact CIS. In accordance with the Corporations Act 2001, you may be sent material (including marketing material) approved by the issuer in addition to general corporate communications. You may elect not to receive marketing material by contacting CIS. You can contact CIS using the details provided on the front of this form or e-mail privacy@computershare.com.au

If you have any enquiries concerning this form or your entitlement, please contact CIS on 1300 135 697.

This form may not be used to notify your change of address. For information please contact CIS on 1300 135 697 or visit the share registry at www.computershare.com (Certificated/Issuer Sponsored Holders only).

CHESS holders must contact their Controlling Participant to notify a change of address.

© Registered to BPAY Pty Ltd ABN 69 079 137 518

Payment Options:



Billers Code:

Ref No:

Telephone & Internet Banking – BPAY

Call your bank, credit union or building society to make this payment from your cheque or savings account. More info: www.bpay.com.au



**Island Sky Australia Limited
Computershare Investor
Services Pty Limited
GPO Box 2987, Adelaide,
South Australia 5001
AUSTRALIA**

