

## Activities Report for the Quarter Year ended 30 December 2015

### Summary

- The Company continued to develop a quality portfolio of US based onshore conventional oil and gas assets, with the further partial funding and option extension for the Gold Nugget Gas Field in Wyoming, USA.
- Better than expected results from the well enhancement techniques adopted for the Gold Nugget Gas Field.
- ROG continued planning and approval work for the Cache Unit Oil Field, after a small set back entailing the plugging of an existing well before any new drilling licenses are to be approved.
- Further analysis of low cost profitable oil and gas assets in the US was conducted

### Review of Operations

With the ongoing development of the Cache Unit Oil Field ("Cache") and the extension of the Gold Nugget Oil and Gas Field option ("Gold Nugget"), Red Sky Energy Limited ("the Company" or "ROG") is continuing to acquire profitable and develop US based, onshore oil and gas fields which have significant in ground reserves and are available to be purchased at a significant discount to the capital invested and the known recoverable resources. These assets will provide the Company with good cash flow even in the current price environment but more importantly will provide the Company with strong leverage into any environment of rising energy prices. We continue to locate, analyse and negotiate profitable oil and gas assets in this low priced, buyers market, for oil and gas.

### Gold Nugget Gas Field, Wyoming, USA

During the quarter the company paid an additional \$100,000AUD to extend its binding term sheet to acquire a 100% working interest, and an 80% net revenue interest in Gold Nugget Gas Field. The total consideration for Gold Nugget is US\$800,000, to be satisfied by a combination of cash and shares, which is yet to be finalised. In executing this agreement ROG has paid a deposit of US\$100,000 with an additional \$100,000AUD paid before 31<sup>st</sup> of December to further the completion date which is now to be finalised March 31<sup>st</sup> 2016. To satisfy the consideration Red Sky is in advanced discussions with a number of groups to procure a funding facility.

Gold Nugget is located in the Wind River Basin in Wyoming, which is one of the largest gas producing basins in the USA. Gold Nugget is a proven gas field with a discovery well (completed to 14,000ft in 2004), well #1-23, already was producing 150 MCF of gas and 5 barrels of oil per day. Under the term sheet a \$100,000USD deposit was spent on optimizing the existing well showing returns of between 350 – 1600MCF of gas per day providing approximate revenue of between \$40,000 and \$70,000AUD per month. The existing well and associated pipeline cost over \$8 million USD to complete but ROG was able to purchase this for US\$800,000 which continues to demonstrate the opportunities available to the Company to develop a significant portfolio of quality oil and gas assets.

Initially the Gold Nugget 1-23 well began production with rates at 100 -150 mcfpd. The shut-in pressure was 7000 psi. Due to several factors, which mainly concerned the configuration of the surface facilities, the well continued to load up with fluid. By reworking the facility and cleaning out the flow lines and pipeline we have increased the wells capabilities greatly. The range of daily production has ranged from 350 – 1,000 mcfpd. The highest production rate has been 1,600 mcfpd. The fluctuation in rates has been caused by the freezing of the flow and by the continued adjustment to pressure operated valves. We are adding a heat tap, insulation, and a glycol drip to the well, to combat the freezing problem. Once that is under control we will be able to fine-tune the valves. The expected settled rate of the well should be somewhere between 500 and 1,000 mcfpd.

Gold Nugget is 320 acres and wells can be drilled at 5 acre spacing's, with each well expecting to contain between 2-5BCF of gas and having an expected production life of between 30 and 50 years. Due to the depth of any new well being 8,600 to 13,500ft, the Company is unlikely in the short to medium term to complete any further wells but ROG now has a significant in ground gas asset in its portfolio.

Whilst Gold Nugget will provide substantial leverage to rising gas prices the Company and also will continue to assess how best to develop the asset most likely to be that through joint venture.

### **Cache Oilfield, Colorado, USA**

Development and licensing work continued throughout the quarter in preparation for the first new production well to be completed at Cache since the 1970's. There has been some delays in the Federal and native approvals for this field due to natives requiring an old production well to be plugged prior to any new drilling licenses being granted. This work was contracted and paid for in December with finalisation expected to be completed by the end of January 2016, and final approvals expected to be received in February.

Cache was discovered in 1964 by Amoco and is located in the Paradox Basin, Montezuma County, Colorado, USA. The field covers 1,840 acres and is 16kms east of the Greater Aneth Field (1.5bn barrels original oil in place ("OOIP") & peak production of 100,000 BOPD). Production records indicate that approximately 5 million barrels of high quality, sweet, 44 - 45° API, oil have been produced from Cache. Early field studies indicated that OOIP was estimated to be ~24 million barrels, suggesting that only about 20% of the OOIP has been produced.

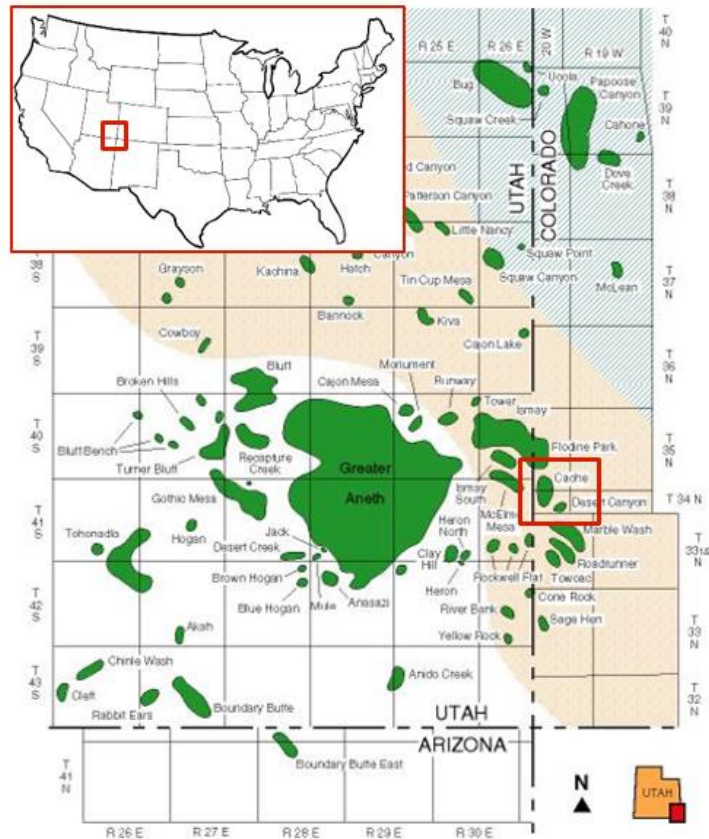


Figure 1. Regional Location map

The estimated reserve in the Independent Valuation Report (IVR) is 19.58 million barrels for Cache with an estimated recoverable reserve of between 5.1 and 6 million barrels providing the opportunity for substantial redevelopment.

The Company intends to use modern horizontal-multilateral drilling and completion techniques to potentially enhance the oil production rates. By drilling laterally within the reservoir intervals the Company believes it can maximise the probability of intersecting zones of higher porosity and permeability leading to sustainable oil flow rates. Within the IVR it has assumed production rates of between 250 and 500 BOPD for the first well, with a preferred production rate of 350 BOPD.

### Strategy

The Company is continuing to actively seek opportunities in brownfields oil and gas projects in the US that are operating on the margin, but are still at break even in the current environment of depressed energy prices. As such the company evaluated 12 such opportunities during this quarter

The Directors and management team are continuing to evaluate these additional projects for possible acquisition in the near term. ROG has assembled a team with a strong track record of in the development and operation of oil and gas fields within the United States.

The strategy is to acquire existing producing oil and gas fields, which have been underexploited whereby modern techniques can enhance production. ROG's management team have over 100 years combined experience in, locating, evaluating and developing oil and gas interests in mainland USA.

## Appendix 5B

### Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96 Origin Appendix 8 Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/2013

Name of entity

Red Sky Energy Limited

ABN

94 099 116 275

Quarter ended ("current quarter")

31 December 2015

#### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from product sales and debtors	-	-
1.2 Payments for (a) exploration & evaluation	-	-
(b) development	-	-
(c) production	-	-
(d) administration	(320)	(1,209)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	1	5
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other - Solar project costs	(19)	(29)
- Agistment income	1	3
- Other income	-	1
<b>Net Operating Cash Flows</b>	<b>(337)</b>	<b>(1,229)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	-	-
1.9 Proceeds from sale of: (a) prospects	-	250
(b) equity investments - Soleir	30	30
(c) other fixed assets	-	-
1.10 Loans to other entities		
- Cache Oilfield project	-	(86)
1.11 Loans repaid by other entities	-	-
1.12 Other – sale of AFSL entity	-	40
– Funds advanced to associated company,		
Cache oilfield project	(128)	(535)
- Gold Nugget gas field deposits	(306)	(306)
<b>Net investing cash flows</b>	<b>(404)</b>	<b>(607)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(741)</b>	<b>(1,836)</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity and oil and gas exploration entity quarterly report**

1.13	Total operating and investing cash flows (brought forward)	(741)	(1,836)
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	-	1,592
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	100	100
1.17	Repayment of borrowings	-	-
1.18	Dividends paid	-	-
1.19	Other – Cost of share issues	-	(116)
	<b>Net financing cash flows</b>	100	1,576
	<b>Net increase (decrease) in cash held</b>	(641)	(260)
1.20	Cash at beginning of quarter/year to date	792	391
1.21	Exchange rate adjustments to item 1.20	(11)	9
1.22	<b>Cash at end of quarter</b>	140	140

**Payments to directors of the entity, associates of the directors, related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.23	Aggregate amount of payments to the parties included in item 1.2	125
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

None

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

None

+ See chapter 19 for defined terms.

### Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	-
4.2 Development	-
4.3 Production	-
4.4 Administration	200
<b>Total</b>	<b>200</b>

The Company will rely on its existing cash resources and consider raising further funds from the placement of equity securities, including the utilisation of the equity available under Chapter 7 of ASX Listing Rules. The Company will also consider other fund raising alternatives such as debt instruments, if so required.

In light of the above factors, the Company believes that it will have sufficient cash to fund its activities. The Company expects to have negative cashflows from operations of approximately \$200,000 for the forthcoming quarter. The Company's Board and Management is focused on meeting its current objectives and confirm that it is in compliance with ASX Listing Rules, in particular, Listing Rule 3.1;

### Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	140	792
5.2 Deposits at call	-	-
5.3 Bank overdraft	-	-
5.4 Other	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>140</b>	<b>792</b>

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+ See chapter 19 for defined terms.

## Appendix 5B

### Mining exploration entity and oil and gas exploration entity quarterly report

#### Changes in interests in mining tenements and petroleum tenements

	Tenement reference and location	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements and petroleum tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements and petroleum tenements acquired or increased	Refer to attached schedule.		

#### Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1	<b>Preference securities</b> (description)			
7.2	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions			
7.3	<b>+Ordinary securities</b>	5,798,056,921	5,798,056,921	
7.4	Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs			
7.5	<b>+Convertible debt securities</b> (description)			

+ See chapter 19 for defined terms.



**Appendix 5B**  
**Mining exploration entity and oil and gas exploration entity quarterly report**

7.6	Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7	<b>Options</b> (description and conversion factor)	60,000,000 100,000,000		<i>Exercise price</i> 2.25 cents 0.90 cents	<i>Expiry date</i> 31/03/2016 20/12/2016
7.8	Issued during quarter				
7.9	Exercised during quarter				
7.10	Expired during quarter				
7.11	<b>Debentures</b> (totals only)				
7.12	<b>Unsecured notes</b> (totals only)				

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does give a true and fair view of the matters disclosed.

Sign here:



Director

Date: 29 January 2016

Print name: Clinton Carey

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements and petroleum tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement or petroleum tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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**Red Sky Energy Limited**  
**Exploration Interests**  
**As at 31 December 2015**

Location	Permit	Nature of Interest	Extent of Interest
Cache Oilfield, Montezuma County, Colorado, USA	Cache Unit	Lease held by 50% owned associated company, Cache Martini No. 1 LLC.	50% operated working interest, 40% net income interest.
Clarence Moreton Basin, Australia	PELA 135 (formerly PSPA 37)	application	right to earn 100%. ERM Power holds an option to purchase from Red Sky.

**Changes during the Quarter**

No changes occurred during the quarter.

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+ See chapter 19 for defined terms.