

Red Sky Energy Limited – Quarterly Activities Report

31 December 2016

COMPANY INFORMATION

RED SKY ENERGY LIMITED
ABN [94 099 116 275]

COMPANY DIRECTORS

Guy Le Page: Director
Clinton Carey: Director
Russell Krause: Director
Adrien Wing: Director

STOCK EXCHANGE LISTING

ASX Code: ROG

Current Shares on Issue:
6.161M

Options:
100,000,000

Market Capitalisation:
\$6.161m (last sale)

EXISTING PROJECTS

Gold Nugget Gasfield, Wind River Basin,
Wyoming, USA

- Field located is one of largest producing basins in USA
- Discovery well completed to 14,000 ft
- Existing well and associated pipeline cost over \$8 million
- Field is 320 acres
- Wells can be drilled at 5-acre spacing's,
- Each well expected to contain between 2-5BCF of gas with expected production life of 30-50 years

Highlights

- Finalised a binding Heads of Agreement with RM Corporate Finance Pty Ltd to raise \$1 million AUD as a convertible note and AUD\$500K rights issue
- ROG will seek shareholder approval for the convertible note and a 50:1 consolidation of the company's securities.
- During the Quarter ROG continued development of its second acquisition, Gold Nugget Gas field (GN #1-23), under its ongoing strategy of building a quality North American based portfolio of onshore conventional oil and gas assets.
- Due to an harsh winter and unusual snow levels the compressor installed has been experiencing difficulties with consistent gas flow but is now in order
- ROG will now concentrate on further enhancing its interest in the Gold Nugget Gas Field whist looking for other oil and gas assets in North America for investment.

During the quarter ROG entered into a binding heads of agreement with RM Corporate Finance Pty (“RM Corporate”) Ltd whereby RM Corporate has agreed to act as lead manager and/or underwriter for a \$1,000,000 Convertible Note placement and a \$500,000 non-renounceable rights issue.

The Company will seek shareholder approval for the Convertible Note, as well as, seek approval for a reconstruction of the Company’s securities on a 50:1 consolidation.

The Convertible Note will have an interest rate of 8%pa (payable in shares at 80% of the 5 day VWAP at the end of each calendar month). The Convertible Note will convert into shares at the lower of 0.5 cents or 80% five day VWAP together with one for two free attaching options exercisable at 1.0 cent each on or before 30 November 2019 (on a post 50: 1 consolidation basis of **ROG**)

The funds raised under the convertible note will be used to repay the existing short term convertible notes, settle existing creditors, seek other opportunities and working capital.

The terms of the rights issue have yet to be established. The rights issue will take place within 9 months.

Mr Kerry Smith and Mr William Reinhart were replaced as directors with Mr Guy Le Page and Mr Adrien Wing (existing Company Secretary).

With the ongoing development of the Gold Nugget Oil and Gas Field (“Gold Nugget”), Red Sky Energy Limited (“the Company” or “ROG”) is fulfilling its business plan of purchasing and developing producing and profitable North American based, onshore oil and gas fields which have significant in ground reserves and are purchased at a significant discount to the capital invested and the known recoverable resources. These assets will provide the Company with 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. The Company continues to locate, analyse and negotiate for acquisition, cash flow positive oil and gas assets.

Gold Nugget

Gold Nugget is located in the Wind River Basin in Wyoming, 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, that has historically produced 150 mcfpd of gas and 5 barrels of oil per day.

The pressure on the natural gas compressor set on the Gold Nugget 1-23 well has stabilised producing between 300 – 500MCF of gas per day with some days up to 600MCF

We have continued to work toward stabilizing the GN 1-23 well. It has been an exceptionally tough winter this year with temperatures well below the average and snowfall well above. The well continues to show examples of tremendous gas. At the same time it has proven to be difficult to get everything mechanically correct to maximize gas flows. After trying several different methods to keep gas going to the compressor, it seems we have now got a system that works. The extreme weather has made things difficult as every time the compressor would go down the buried flow line from the well would freeze. We would then have to flush it with methanol to try and thaw it. We now have things in order and

should be able to keep the well producing consistently. This will allow it to finally clean up and begin producing good steady volumes of gas.

The Gold Nugget has been drilled to 14,000 ft and has 3000 ft of Lance pay zone of which only 10% of the available porosity has been perforated.

Cache Oilfield, Colorado, USA

Due to the high cost of maintenance and environmental work associated with keeping the lease in good stead along with the low prices for the oil produced at the Cache Oil Field the board fully impaired this asset during the quarter.

Other Business

During the quarter the Company has continued to evaluate oil and gas projects in North America. With oil and gas prices continuing to remain low there have been some exciting opportunities that have presented themselves however the Company has not been in a financial position to capitalise on these opportunities in the timely manner.

With this being the case we have looked for deals that not only represent good value but are not well known to the market and as such have managed to have a quality oil and gas production asset “hold still” while we are completing our due diligence.

ENDS

For further information please contact:

Director	Company Secretary
Clinton Carey	Adrien Wing
clinton@redskyenergy.com.au	adrien@redskyenergy.com.au
+61 488 777 748	+61 3 9614 0600

QUALIFIED PETROLEUM RESERVES AND RESOURCES EVALUATOR

Information in this report relating to hydrocarbon reserve estimates have been compiled by Mr Ian Buckingham, Director of Global Resources and Infrastructure Pty Ltd. Ian has over 40 years of experience in petroleum geophysics and geology and is a member of the AAPG. Ian consented to the inclusion of the information relating to prospective hydrocarbon reserves in the form and context in which it appears in the IVR. The prospective reserve estimates contained in this report are in accordance with the standard definitions set out by the Society of Petroleum Engineers, Petroleum Resource Management System. The Company confirms it is not aware of any new information or data that materially affects the information included in the IVR and that all the material assumptions and technical parameters underpinning the estimates in the IVR continue to apply and have not materially changed.

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, 01/05/13, 01/09/16

Name of entity

Red Sky Energy Limited

ABN

94 099 116 275

Quarter ended ("current quarter")

31 December 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers		
1.2 Payments for		
(a) exploration & evaluation		(124)
(b) development		
(c) production		
(d) staff costs		(74)
(e) administration and corporate costs	(131)	(276)
1.3 Dividends received (see note 3)		
1.4 Interest received		
1.5 Interest and other costs of finance paid	(14)	(36)
1.6 Income taxes paid		
1.7 Research and development refunds		
1.8 Other – GST refunds	7	62
1.9 Net cash from / (used in) operating activities	(138)	(448)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment		
(b) tenements		(55)
(c) investments		
(d) other non-current assets		

Mining exploration entity and oil and gas exploration entity quarterly report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment		
	(b) tenements (see item 10)		
	(c) investments		
	(d) other non-current assets		
2.3	Cash flows from loans to other entities		
2.4	Dividends received (see note 3)		
2.5	Other (provide details if material)		
2.6	Net cash from / (used in) investing activities		(55)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares		
3.2	Proceeds from issue of convertible loans		
3.3	Proceeds from exercise of share options		
3.4	Transaction costs related to issues of shares, convertible notes or options		
3.5	Proceeds from borrowings	350	600
3.6	Repayment of borrowings	(50)	(50)
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other (provide details if material)		
3.10	Net cash from / (used in) financing activities	300	550

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	25	140
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(138)	(448)
4.3	Net cash from / (used in) investing activities (item 2.6 above)		(55)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	300	550
4.5	Effect of movement in exchange rates on cash held		
4.6	Cash and cash equivalents at end of period	187	187

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	187	25
5.2 Call deposits		
5.3 Bank overdrafts		
5.4 Other (provide details)		
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	187	25

6. Payments to directors of the entity and their associates	Current quarter \$A'000
6.1 Aggregate amount of payments to these parties included in item 1.2	27
6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	
6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

Payment of company secretarial fees including amounts for prior periods.

7. Payments to related entities of the entity and their associates	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

None.

Mining exploration entity and oil and gas exploration entity quarterly report

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	750	650
8.2 Credit standby arrangements		
8.3 Other (please specify)		
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

The Company has \$300,000 in convertible loan notes ("Notes") outstanding. These Notes have a term of 12 months with interest rate of 15%. The lenders may request up to 50% of the face value of the Notes to be converted into ordinary shares at a value of 0.1 cents per share. The Notes are secured by a first mortgage over a subsidiary which has acquired an interest in the Gold Nugget project in the United States.

A facility of \$450,000 in loan funds has been provided by RM Corporate Finance Pty Ltd (Amount of \$350,000 drawn down as at 31 December 2016). These loan funds are unsecured and are an advance upon a proposed new Convertible Note placement for up to \$1,000,000 which is subject to shareholder approval yet to be obtained and terms as announced to the ASX on 15 December 2016. RM Corporate Finance Pty Ltd has agreed to act as Lead Manager and/or Underwriter for the new Convertible Note. Interest on the loan funds is 8% per annum, payable via shares issued at 80% of the 5 day VWAP share price at the end of each calendar month. If shareholder approval is not granted, interest is payable at 15% per annum.

9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	
9.2 Development	
9.3 Production	
9.4 Staff costs	
9.5 Administration and corporate costs	(130)
9.6 Other (provide details if material)	
9.7 Total estimated cash outflows	(130)

10. Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1 Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced				
10.2 Interests in mining tenements and petroleum tenements acquired or increased				

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:
(Director)

Date: ...31/1/17.....

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 that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, 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. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.

Red Sky Energy Limited
Exploration Interests
As at 31 December 2016

Location	Permit	Nature of Interest	Extent of Interest
Cache Oilfield, Montezuma County, Colorado, USA	Cache Unit	Lease held by 50% owned controlled entity, Cache Martini No. 1 LLC.	50% operated working interest, 40% net income interest.
Gold Nugget Gas Field, Fremont County, Wyoming, USA	Oil and Gas Lease WYW-132526 comprising 320 acres	Lease 70% interest with an entitlement to 50% of profits from GN 1-23 until final payment of the further US\$240,000 cash component of the purchase price.	The vendors 30% retained interest will be transferred to Red Sky upon the remaining payment of US\$240,000 to be satisfied from profits of the well.
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.