RED SKY ENERGY LTD

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

ABN 94 099 116 275

Contents

CORPORATE DIRECTORY

Non-Executive Chairman	Mr Guy Le Page
Non-Executive Director	Mr Clinton Carey
Non-Executive Director	Mr Adrien Wing
Company Secretary	Mr Adrien Wing
Registered & Principal Office	Level 17, 500 Collins Street Melbourne VIC 3000
Auditors	RSM Australia Partners Level 21 55 Collins Street Melbourne VIC 3000
Solicitors	Steinepreis Paganin Level 4 16 Milligan Street Perth WA 6000
Website Address	www.redskyenergy.com.au
Stock Exchange Listings	Red Sky Energy Ltd shares are listed on the Australian Securities Exchange under the code ROG
Share Registry	Link Market Services Limited Level 4, Central Park 152 St George Terrace Perth WA 6000 Telephone: + 61 8 9211 6670

DIRECTORS' REPORT

Your directors present their report consisting of Red Sky Energy Ltd (the Company) and Red Sky Energy Ltd and controlled entities (the Group) as at the end of, or during, the year ended 31 December 2016.

Directors

The following persons were directors of Red Sky Energy Ltd during the whole year and up to the date of this report, unless otherwise stated:

Mr Guy Le Page – Non Executive Chairman (appointed 15 December 2016)
Mr Clinton Carey – Non-Executive Director
Mr Adrien Wing – Non Executive Director (resigned 22 March 2016) (re-appointed 15 December 2016)

Mr Russell Krause – Non-Executive Director (resigned 1 February 2017)
Mr Kerry Smith – Executive Chairman (resigned 15 December 2016)
Mr William Reinhart – Non Executive Director (resigned 15 December 2016)

Company Secretary

Mr Adrien Wing, since 3 February 2011.

Principal Activities

The principal activities of the Group during the year were exploration for economic deposits of oil and gas.

Operating Re*sults*

The net operating loss of the Group for the year ended 31 December 2016 after income tax amounted to $4,954,855 (31 December 2015: net operating loss $2,204,228).

Review of Operations

Highlights

- Finalised a binding Heads of Agreement with RM Corporate Finance Pty Ltd to raise $1.15 million as a convertible note and $500,000 rights issue;
- On March 9th 2017, Shareholders approved for the convertible note and a 50:1 consolidation of the company's securities along with 14 other resolutions;
- During the year 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 oil and gas assets; and
- 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 year, Red Sky Energy Ltd ("Red Sky" or "the Company") entered into a binding head of agreement with RM Corporate Finance Pty Ltd ("RM Corporate") whereby RM Corporate agreed to act as lead manager and/or underwriter for a $1,150,000 Convertible Note placement and a $500,000 non-renounceable rights issue.

The Company has gained shareholder approval for the Convertible Note, as well as, approval for a reconstruction of the Company's securities on a 50:1 consolidation.

The Convertible Note has 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 ($0.005) or 80% five day VWAP together with one for two free attaching options exercisable at 1.0 cent ($0.01) each on or before 30 November 2019 (on a post 50: 1 consolidation basis of ROG)

The advanced funds received under the convertible note have been allocated towards repaying 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 6 months.

Mr Kerry Smith, Mr Russell Krause 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. 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 was stabilising and producing between 100 – 300MCF of gas per day with some days up to 500MCF, however due to a very harsh winter the sub terrain flow pipe froze and inhibited gas flows. Now that the winter thaw is commencing we are looking forward to improved gas returns, however output has been sporadic.

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 starting to pay dividends. 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. 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 2016.

Corporate

In May 2016, the Company held its 2015 Annual general Meeting. All resolutions were passed without amendment.

On 9 March 2017, the Company held a general meeting. All resolutions were passed without amendment.

Significant Changes in the State of Affairs

During the year the company issued 333,370,000 fully paid ordinary shares (pre-consolidation). Refer to Note 15 of this financial report for details.

Events Subsequent to Balance Date

At a general meeting of shareholders held on 9 March 2017, the following resolutions were approved:

- a consolidation of the issued capital of the Company on the basis that every 50 shares be consolidated into 1 share;
- approval for the Company to issue up to 1,050,000 Convertible Notes (post consolidation) at an issue price of $1.00. An advance of $350,000 was received prior to balance date (refer to Note 14 to the financial statements);
- approval for the Company to issue up to 100,000 Convertible Notes (post consolidation) at an issue price of $1.00 to RM Corporate Finance Pty Ltd (or its nominee);
- ratification of the issue of 333,340,000 Shares (pre consolidation);
- approval for the Company to issue up to 4,844,004 Shares (post consolidation) to Cyprus Investments Pty Ltd (or its nominee), together with one free attaching Option for every two Shares issued;
- approval for the Company to issue up to 8,844,000 Shares (post consolidation) to Northern Star Nominees Pty Ltd (or its nominee), together with one free attaching Option for every two Shares issued;
- approval for the Company to issue up to 1,540,000 Shares (post consolidation) to Penause Pty Ltd (or its nominee), together with one free attaching Option for every two Shares issued;
- approval for the Company to issue up to 1,400,000 Shares (post consolidation) to Mr William Reinhart (or his nominee), together with one free attaching Option for every two Shares issued;
- approval for the Company to issue up to 2,250,000 Shares (post consolidation) to Global Resources and Infrastructure Pty Ltd (or its nominee), together with one free attaching Option for every two Shares issued;
- approval for the Company to issue 10,000,000 Options (post consolidation) to Mr Guy Le Page (or his nominee);
- approval for the Company to issue 7,500,000 Options (post consolidation) to Mr Clinton Carey (or his nominee);
- approval for the Company to issue 7,500,000 Options (post consolidation) to Mr Adrien Wing (or his nominee);
- approval for the Company to issue 5,000,000 Options (post consolidation) to Mr Russell Krause (or his nominee);
- approval for the Company to issue up to 35,000,000 Shares (post consolidation), together with one free attaching Option for every two Shares issued, to related and unrelated parties of the Company; and
- approval for the Company to issue up to 13,800,000 Shares (post consolidation), together with one free attaching Option for every two Shares issued, to unrelated parties of the Company nominated by RM Corporate Finance Pty Ltd.

No other matters or circumstances have arisen since 31 December 2016 that have significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future years.

Likely developments

The group will focus on the exploration for economic deposits of oil and gas. It is the intention of the Board to continue the strategy of acquiring an onshore North America oil and gas portfolio.

Dividends Paid or Recommended

No dividend was paid or declared during the period and the Directors do not recommend the payment of a dividend.

Environmental Issues

The Group's operations are subject to various environmental regulations. The majority of the Company's activities involve low level disturbance associated with its exploration drilling programs. As at the date of this report the group complies fully with all such regulations.

Information on Directors and Secretary

Names, qualifications, experience and special responsibilities of current Directors and Company Secretary:

Clinton Carey – Non Executive Director

Mr Carey has over 20 years management and Director level experience in listed companies specializing in mining, oil and gas and technology. Mr Carey was a director of Roper River Resources Limited when it completed a reverse take over of Webjet Limited. He has worked for mining companies in Russia, Brazil, Canada, Australia and England. Mr Carey was appointed Director on 12 January 2015.

Current Directorships:
Nil

Other Directorships within the last three years:
Nil

Adrien Wing – Non Executive Director and Company Secretary, B.Acc, CPA

Mr Wing is a Certified Practicing Accountant. He practiced in the audit and corporate advisory divisions of a chartered accounting firm before working with a number of public companies listed on the Australian Securities Exchange as a corporate/accounting consultant and company secretary. Mr Wing was appointed Company Secretary on 3 February 2011 and Non-Executive Director on 7 March 2014. Mr Wing resigned as a Director on 22 March 2016 and was re-appointed on 15 December 2016.

Current Directorships:
Nil

Other Directorships within the last three years:
Volt Resources Limited (resigned 15 December 2015)
Spirit Telecom Limited (resigned 12 November 2015)

Guy Le Page – Non Executive Director, B.A., B.Sc. (Adel), B.App.Sc. (Hons) (Curt), M.B.A., (Adel) Grad. Dip. App. Fin &Inv. (FINSIA), MAusIMM, FFin

Mr Le Page is currently a Director & Corporate Adviser of RM Research and is actively involved in a range of corporate initiatives from mergers and acquisitions, initial public offerings to valuations, consulting and corporate advisory roles. Mr Le Page was Head of Research at Morgan Stockbroking Limited (Perth) prior to joining Tolhurst Noall as a Corporate Advisor in July of 1998. Prior to entering the stockbroking industry, he spent 10 years as an exploration and mining geologist in Australia, Canada and the United States. His experience spans gold and base metal exploration and mining geology, and he has acted as a consultant to private and public companies. This professional experience included the production of both technical and valuation reports for resource companies.

Mr Le Page holds a Bachelor of Arts, a Bachelor of Science and a Masters Degree in Business Administration from the University of Adelaide, a Bachelor of Applied Science (Hons) from the Curtin University of Technology and a Graduate Diploma in Applied Finance and Investment from the Financial Securities Institute of Australia. Mr Le Page resigned as a Director on 2 February 2015 and was re-appointed on 15 December 2016.

Current Directorships:
Tasman Resources Limited (since 2 June 2001)
Eden Energy Ltd (since 3 February 2006)
Conico Limited (since 30 March 2006)
Mount Ridley Mines Limited (since 19 December 2012)

Other Directorships within the last three years:
Palace Resources Limited (resigned 9 March 2015)
Soil Sub Technologies Ltd (resigned 30 June 2016)

Kerry Smith – Executive Chairman

Mr Smith resigned as a Director on 15 December 2016

Russell Krause – Non-Executive Director

Mr Krause resigned as a Director on 1 February 2017

William Reinhart – Non Executive Director

Mr Reinhart resigned as a Director on 15 December 2016

Meetings of Directors

The number of meetings held by the Company's board of directors during the year and the number of meetings attended by each director were:

Director	Board meetings held	Board meetings attended
Russell Krause	6	6
Clinton Carey	6	6
Adrien Wing	1	1
Kerry Smith	6	6
William Reinhart	6	6
Guy Le Page	-	-

During the year 6 board meetings were held by the Company.

Securities held and controlled by Directors

As at the date of this report, the direct and indirect interests of Directors in shares and options of the Company were as follows:

Holder	Ordinary Shares Number	Option Number
Guy Le Page	-	-
Clinton Carey	4,364,778	-
Adrien Wing	2,750,000	-

Share options granted to directors or senior management

During or since the end of the financial year, no share options were granted by the Company to the Directors and Executives of the Group as part of their remuneration.

Shares under option or issued on exercise of options

There are no unissued shares or interests under option as at the date of this report.

No ordinary shares were issued during the financial year and up to the date of this report on the exercise of options.

Remuneration Report (audited)

The information provided in this remuneration report has been audited as required by section 308(3C) of the Corporation Act 2001.

This report outlines the remuneration arrangements in place for Directors and executives of Red Sky Energy Limited. This report has been set out under the following main headings:

A. Principles Used to Determine the Nature and Amount of Remuneration
B. Service Agreements
C. Details of Remuneration
D. Key Management Personnel Equity Holdings
E. Share-based Compensation
F. Other Transactions with Key Management Personnel
G. Additional Information

A. Principles Used to Determine the Nature and Amount of Remuneration

The Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors and Executive Officers. The Board will assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms to market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- Competitiveness and reasonableness
- Acceptability to shareholders
- Performance linkage/alignment of executive compensation
- Transparency
- Capital management

The board policy is to remunerate non executive Directors at fair market rates for comparable companies for the relevant time, commitment and responsibilities. The board determines payments to the non-executive Directors and reviews their remuneration annually based on market practice, duties and accountability. The maximum amount of fees that can be paid to non executive Directors is subject to approval by shareholders at the Annual General Meeting. The maximum amount approved is $250,000. Fees for non-executive Directors are not linked to the performance of the Group. However, to align Director's interests with shareholder interests the Directors are encouraged to hold shares in the Company and may be issued with additional securities as deemed appropriate.

The Board believes that the remuneration policy is appropriate given the stage of development of the Company and the activities which it undertakes and is appropriate for aligning Director and executive objectives with shareholder and business objectives. The board will continually develop new practices which are appropriate to the Company's size and stage of development.

Executive Officers are those directly accountable for the operational management and strategic direction of the Company and the consolidated entity. All contracts with Directors and executives may be terminated by either party with three months notice.

Fixed remuneration

Fixed remuneration consists of a base remuneration package, which includes Directors' fees (in the case of Directors), salaries, consulting fees and employer contributions to superannuation funds.

B. Service Agreements

The directors and key management personnel during the current and prior year included:

Directors

Mr Kerry Smith – Executive Chairman (resigned 15 December 2016)

- Director fees set at $250,000 per annum.
- A reduction of fees was agreed to for 2016 as a result of reduced operational activity and to improve the working capital position of the company. The current year remuneration was reduced to $30,055.

Mr Russell Krause – Non-Executive Director (resigned 1 February 2017)

- Director fees set at $48,000 per annum from 1 May 2015.
- Payment of consulting fees of $24,000 occurred during the 2015 year for additional corporate advisory services.
- A reduction of fees was agreed to for 2016 as a result of reduced operational activity and to improve the working capital position of the company. The current year remuneration was reduced to $15,000 and amounts owed of $7,700 as at 31 December 2016 were agreed to be satisfied by way of shares and options issued. The proposed issue of this amount in shares and options was approved by shareholders on 9 March 2017.

Mr Clinton Carey – Non-Executive Director, Managing Director until 15 December 2016 (appointed 12 January 2015)

- Managing Director fees set at $200,000 per annum from 1 July 2015 until December 2016.
- Payment of consulting fees of $24,000 occurred during the 2015 year for additional corporate advisory services.
- A reduction of fees was agreed to for 2016 as a result of reduced operational activity and to improve the working capital position of the company. The current year remuneration was reduced to $17,279 and amounts owed of $24,220 as at 31 December 2016 were agreed to be satisfied by way of shares and options issued. The proposed issue of this amount in shares and options was approved by shareholders on 9 March 2017.
- Director fees set at $36,000 per annum from 1 January 2017 in a Non-Executive role.

Mr Adrien Wing – Non-Executive Director (appointed 7 March 2014, resigned 22 March 2016) (re-appointed 15 December 2016), Company Secretary (since 3 February 2011)

- Director fees set at $48,000 per annum from 1 May 2015 until March 2016.
- Payment of consulting fees of $24,000 occurred during the 2015 year for additional corporate advisory services.
- The company has an agreement with Northern Star Nominees Pty Ltd for company secretarial services at a rate of $5,500 per month. Amounts owed of $44,220 as at 31 December 2016 were agreed to be satisfied by way of shares and options issued. The proposed issue of this amount in shares and options was approved by shareholders on 9 March 2017.
- Director fees set at $36,000 per annum from 1 January 2017.

Mr William Reinhart – Non-Executive Director (resigned 15 December 2016)

- Director fees set at $48,000 per annum.
- A reduction of fees was agreed to for 2016 as a result of reduced operational activity and to improve the working capital position of the company. The current year remuneration was reduced to $15,000 and amounts owed of $7,000 as at 31 December 2016 were agreed to be satisfied by way of shares and options issued. The proposed issue of this amount in shares and options was approved by shareholders on 9 March 2017.

Mr Guy Le Page – Non-Executive Director (resigned 2 February 2015) (re-appointed 15 December 2016)

- Consulting fees (including directors' fees) of up to $40,000 per annum up until 2 February 2015.
- Director fees set at $36,000 per annum from 1 January 2017.

C. Details of Remuneration

The key management personnel of Red Sky Energy Limited during the years ended 31 December 2016 and 2015 included all directors and executives mentioned above. There are no other executives of the Company which are required to be discussed.

Remuneration packages contain the following key elements:
- Primary benefits – salary/fees and bonuses;
- Equity – share options and other equity securities; and
- Other benefits.

Nature and amount of remuneration:

2016	Short-term employee benefits	Post -employment benefits	Equity Performance related		
	Salary, consulting fees, director's fees $	Superannuation $	Options $	Performance Rights $	Total $
Executive directors					
K Smith (1)	30,055	-	-	-	30,055
C Carey	17,279	-	-	-	17,279
Non Executive directors					
G Le Page (3)	-	-	-	-	-
R Krause	15,000	-	-	-	15,000
W Reinhart (4)	15,000	-	-	-	15,000
A Wing (5)	12,000	-	-	-	12,000
Total directors' compensation	**89,334**	**-**	**-**	**-**	**89,334**
Other key management personnel					
A Wing	66,000	-	-	-	66,000
Total other key management compensation	**66,000**	**-**	**-**	**-**	**66,000**
TOTAL	**155,334**	**-**	**-**	**-**	**155,334**

2015	Short-term employee benefits	Post -employment benefits	Equity Performance related		
	Salary, consulting fees, director's fees $	Superannuation $	Options $	Performance Rights $	Total $
Executive directors					
K Smith (1)	104,167	-	-	-	104,167
C Carey (2)	167,742	-	-	60,000	227,742
Non Executive directors					
G Le Page (3)	2,000	-	-	-	2,000
R Krause	64,500	-	-	60,000	124,500
W Reinhart (4)	16,000	-	-	-	16,000
A Wing	64,452	-	-	60,000	124,452
Total directors' compensation	**418,861**	**-**	**-**	**180,000**	**598,861**
Other key management personnel					
A Wing	66,000	-	-	-	66,000
Total other key management compensation	**66,000**	**-**	**-**	**-**	**66,000**
TOTAL	**484,861**	**-**	**-**	**180,000**	**664,861**

(1) K Smith was appointed as a Director on 31 July 2015 and resigned on 15 December 2016.
(2) C Carey was appointed as a Director on 12 January 2015.
(3) G Le Page resigned as a Director on 2 February 2015 and re-appointed on 15 December 2016.
(4) W Reinhart was appointed as a Director on 31 July 2015 and resigned on 15 December 2016.
(5) A Wing resigned as a Director on 22 March 2016 and was re-appointed on 15 December 2016.

D. Key Management Personnel Equity Holdings

As at 31 December 2016, the interests of the Directors in shares and options (pre-consolidation) of the Company were:

Ordinary shares

Holder	Balance at beginning of the year	Granted as compensation	Received on satisfaction of performance rights	Net change other *	Final Interest	Balance at end of the year
Russell Krause	137,500,000	-	-	-	-	137,500,000
Adrien Wing	137,500,000	-	-	-	-	137,500,000
Clinton Carey	218,238,912	-	-	-	-	218,238,912
Kerry Smith	520,231,304	-	-	-	(520,231,304)	-
William Reinhart	-	-	-	-	-	-
Guy Le Page	-	-	-	-	-	-

* Net change other includes shares acquired or disposed of during the year.

Options

Holder	Balance at beginning of the year	Granted as compensation	Options exercised	Net other change	Final interest	Balance at end of the year	Vested and exercisable	Vested but not exercisable	Options vested during the year
Russell Krause	-	-	-	-	-	-	-	-	-
Adrien Wing	-	-	-	-	-	-	-	-	-
Clinton Carey	-	-	-	-	-	-	-	-	-
Kerry Smith	-	-	-	-	-	-	-	-	-
William Reinhart	-	-	-	-	-	-	-	-	-
Guy Le Page	-	-	-	-		-	-	-	-

E. Share-based Compensation

During 2015, there were 225,000,000 Performance Rights (2016: nil) granted to key management personnel. Refer to Note 16 for details.

F. Related party transactions with key management personnel

Related party transactions are set out in Note 20.

G. Additional information

Principles used to determine the nature and amount of remuneration: relationship between remuneration and Company performance.

In considering the Company's performance and its effect on shareholder wealth, the Board has regard to a broad range of factors, some of which are financial and others of which relate to the progress on the Company's projects, results and progress of exploration and development activities, joint venture agreements, etc.

The Board also gives consideration to the Company's result and cash consumption for the year. It does not utilise earnings per share as a performance measure or contemplate payment of any dividends in the short to medium term given that all efforts are currently being expended to build the business and establish self-sustaining revenue streams.

END OF AUDITED REMUNERATION REPORT

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, the Company maintained an insurance policy which indemnifies the Directors and Officers of Red Sky Energy Limited in respect of any liability incurred in connection with the performance of their duties as Directors or Officers of the Company. The Company's insurers have prohibited disclosure of the amount of the premium payable and the level of indemnification under the insurance contract.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the court under section 237 of the *Corporations Act 2001*.

NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

There were no non audit services provided during the year.

AUDITOR'S INDEPENDENCE DECLARATION

Section 307C of the *Corporations Act 2001* requires the consolidated entity's auditor, RSM Australia Partners to provide the directors with a written Independence Declaration in relation to their audit of the financial report for the year ended 31 December 2016. The written Auditor's Independence Declaration is attached at page 13 and forms part of this Director's Report.

This report is made in accordance with a resolution of directors.

Clinton Carey
Director

30th March 2017

RSM Australia Partners

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Red Sky Energy Limited for the year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

RSM

RSM AUSTRALIA PARTNERS

P T SEXTON
Partner

30 March 2017
Melbourne, Victoria

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

		Group	
	Notes	2016 $	2015 $
Revenue from continuing operations	5	20,748	10,594
Administration expenses		(365,269)	(563,138)
Consultancy		(106,373)	(481,233)
Directors fees	6	(89,334)	(598,861)
Exploration cost written off		(4,283,596)	-
Legal fees		(4,815)	(163,570)
Interest expense		(40,652)	-
Lease operating costs		(85,564)	(410,662)
Loss from continuing operations before income tax		**(4,954,855)**	**(2,206,870)**
Income tax benefit		-	-
Loss from continuing operations after income tax		**(4,954,855)**	**(2,206,870)**
Profit/(Loss) from discontinued operations	21	-	2,642
Net loss for the year		**(4,954,855)**	**(2,204,228)**
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Foreign currency translation		40,894	51,601
Total comprehensive loss for the year, net of tax		**(4,913,961)**	**(2,152,627)**
Net loss for the year is attributable to:			
Non-controlling interest		(2,137,112)	(205,331)
Equity holders of Red Sky Energy Ltd		(2,817,743)	(1,998,897)
		(4,954,855)	**(2,204,228)**
Total comprehensive loss is attributable to:			
Non-controlling interest		(2,129,408)	(206,101)
Equity holders of Red Sky Energy Ltd		(2,784,553)	(1,946,526)
		(4,913,961)	**(2,152,627)**
Basic and diluted (loss) per share – overall (cents per share)	17	(2.42)	(2.70)
Basic and diluted (loss) per share – continuing operations (cents per share)	17	(2.42)	(2.70)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

		Group	
	Notes	2016 $	2015 $
Current Assets			
Cash and cash equivalents	8	185,604	140,646
Trade and other receivables	9	212	45,132
Prepayments	10	24,445	68,354
Total current assets		**210,261**	**254,132**
Non Current Assets			
Other financial assets	12	40,990	342,779
Exploration and evaluation assets	13	973,231	4,258,541
Total Non-Current Assets		**1,014,221**	**4,601,320**
Total Assets		**1,224,482**	**4,855,452**
Current Liabilities			
Trade and other payables		318,934	104,393
Borrowings	14	650,000	109,906
Total Current Liabilities		968,934	**214,299**
Total Liabilities		**968,934**	**214,299**
Net Assets		**255,548**	**4,641,153**
Equity			
Issued share capital	15	35,646,476	35,118,120
Reserves	16	1,755,561	1,722,371
Accumulated losses		(37,146,489)	(34,328,746)
Equity attributable to the owners of Red Sky Limited		255,548	2,511,745
Non-controlling interest		-	2,129,408
Total Equity		**255,548**	**4,641,153**

The above consolidated statement of financial position should be read in conjunction with the accompanying notes to the financial statements.

CONSOLIDATED STATEMENT OF CASHFLOWS

For the year ended 31 December 2016

		Group	
	Notes	2016 $	2015 $
Cash flows from operating activities			
Payments to suppliers and employees		(301,479)	(1,660,847)
Interest paid		(50,558)	-
Interest received		1,242	3,896
Other income		3,000	2,208
Net cash used in operating activities	18	**(347,795)**	**(1,654,743)**
Cash flows from investing activities			
Exploration and evaluation expenditure		(155,202)	-
Proceeds from sale of interest in permits		-	250,000
Disposal of controlled entities		-	70,000
Loan and funds advanced – Cache Martini Project		-	(193,260)
Deposits paid		(391)	(306,189)
Net cash used in investing activities		**(155,593)**	**(179,449)**
Cash flows from financing activities			
Proceeds from issues of shares		-	1,591,676
Capital raising costs		(1,654)	(108,562)
Repayment of borrowings		(50,000)	-
Proceeds from borrowings		600,000	100,000
Net cash flows provided by financing activities		**548,346**	**1,583,114**
Net increase/ (decrease) in cash and cash equivalents		44,958	(251,078)
Cash and cash equivalents at the beginning of the financial year		140,646	391,724
Cash and cash equivalents at the end of the financial year	8	**185,604**	**140,646**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes to the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

Consolidated	2016				
	Issued Capital	Accumulated Losses	Reserves	Non-controlling Interest	Total Equity
Balance at beginning of year	35,118,120	(34,328,746)	1,722,371	2,129,408	4,641,153
Loss for the year	-	(2,817,743)	-	(2,137,112)	(4,954,855)
Other comprehensive loss for the year	-	-	33,190	7,704	40,894
Total comprehensive loss for the year	-	(2,817,743)	33,190	(2,129,408)	(4,913,961)
Transactions with equity holders in their capacity as equity holders					
Issues of share capital	528,356	-	-	-	528,356
	528,356	-			528,356
Balance at the end of the year	**35,646,476**	**(37,146,489)**	**1,755,561**	**-**	**255,548**

Consolidated	2015				
	Issued Capital	Accumulated Losses	Reserves	Non-controlling Interest	Total Equity
Balance at beginning of year	31,820,725	(32,329,849)	1,490,000	-	980,876
Loss for the year	-	(1,998,897)	-	(205,331)	(2,204,228)
Other comprehensive loss for the year	-	-	52,371	(770)	51,601
Total comprehensive loss for the year	-	(1,998,897)	52,371	(206,101)	(2,152,627)
Transactions with equity holders in their capacity as equity holders					
Acquisition of Cache Martini No.1 LLC	-	-	-	2,335,509	2,335,509
Share based payments	-	-	180,000	-	180,000
Issues of share capital	3,405,957	-	-	-	3,405,957
Equity raising costs	(108,562)	-	-	-	(108,562)
	3,297,395	-	180,000	2,335,509	5,812,904
Balance at the end of the year	**35,118,120**	**(34,328,746)**	**1,722,371**	**2,129,408**	**4,641,153**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the year presented, unless otherwise stated. The financial report includes separate financial statements for Red Sky Energy Limited as an individual entity and the consolidated entity consisting of Red Sky Energy Limited and its subsidiaries.

(a) Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated. The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The Directors have reviewed and applied all new accounting standards and amendments applicable for the first time in the financial year commencing 1 January 2015, and determined that there was no material impact on the financial statements.

(i). Compliance with IFRSs

Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards (AIFRs). Compliance with AIFRSs ensures that the financial report of Red Sky Energy Limited comply with International Financial Reporting Standards (IFRSs).

(ii) Early adoption of standards

The Group has not elected to apply any early pronouncements.

(iii) Historical cost convention

These financial statements have been prepared under the historical cost convention.

(iv) Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies (refer note 3).

(v) Going Concern

The financial report has been prepared on the going concern basis, which contemplates the continuity of normal business activity and the recognition and settlement of liabilities in the normal course of business.

The consolidated entity incurred a loss of $4,954,855 (2015: $2,204,228) and the consolidated entity had net cash outflows from operating activities of $347,795 for the year ended 31 December 2016 (2015: $1,654,743). In addition, as at 31 December 2016, the consolidated entity had a deficiency in working capital of $758,673 (2015: working capital position of $39,833). Notwithstanding this, the Directors are satisfied that the consolidated entity will have sufficient cash resources to meet its working capital requirements in the future. The Directors have reviewed the cashflow forecasts and believe that for a period in excess of 12 months from the date of signature of the financial report, the consolidated entity has the ability to meet its debts as and when they fall due. The Directors believe there are sufficient funding strategies and alternatives to meet working capital requirements should the need arise including:

- Various alternatives to issue securities and raise funds (A binding Heads of Agreement with RM Corporate Finance Pty Ltd was signed on 15 December 2016. Refer to Note 25 for details on the approval from shareholders obtained subsequent to balance date to issue up to $1,150,000 in Convertible Notes.); and
- Consideration of re-arranging agreements on existing projects through sale or deferring expenditure.

On the basis that sufficient cash inflows are expected to be raised from future capital raisings (pursuant to ASX listing rules 7.1 and 7.1A) to fund further activities for at least 12 months after the date of this report, the Directors are of the opinion that the use of the going concern basis of accounting is appropriate. Although the Directors believe they will be successful in these measures, there remains a material uncertainty that may cast significant doubt on the Company and its controlled entities' ability to continue as a going concern and therefore their ability to realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

The financial report does not include any adjustments relating to the amounts or classification of recorded assets or liabilities that might be necessary if the consolidated entity does not continue as a going concern.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(b) Principles of Consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Red Sky Energy Limited ("Company" or "parent entity") as at 31 December 2016 and the results of all subsidiaries for the year then ended. Red Sky Energy Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-Company transactions, balances and recognised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Red Sky Energy Limited.

(ii) Joint arrangements

Under AASB 11 *Joint Arrangements*, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor has, rather than the legal structure of the joint arrangement. The Group has assessed the nature of its joint arrangements and determined to have joint operations.

The proportionate interests in the assets, liabilities, income and expenditure of joint operations have been incorporated in the financial statements under the appropriate headings.

(iii) Business combinations

Business combinations occur where control over another business is obtained and results in the consolidation of its assets and liabilities. All business combinations, including those involving entities under common control, are accounted for by applying the purchase method.

The purchase method requires an acquirer of the business to be indentified and for the cost of the acquisition and fair values of identifiable assets, liabilities and contingent liabilities to be determined as at acquisition date, being the date that control is obtained. Cost is determined as the aggregate of fair values of assets given, equity issued and liabilities assumed in exchange for control. Any deferred consideration payable is discounted to present value using the entity's incremental borrowing rate.

Goodwill is recognised initially at the excess of cost over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If the fair value of the acquirer's interest is greater than cost, the surplus is immediately recognised in the Statement of Comprehensive Income.

(c) Segment reporting

The Group currently operates in the oil and gas industry. Before the disposal of Soleir Pty Ltd the Group also operated in the solar power energy industry segment.

(d) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. Revenue is recognised as follows:

(i) Interest income

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(d) Revenue recognition (continued)

(ii) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(e) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less allowance for doubtful debts. Trade receivables are due for settlement between thirty (30) and ninety (90) days from the date of recognition.

(f) Financial assets

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each reporting date.

All regular way purchases and sales of financial assets are recognised on the trade date (ie. The date that the Group commits to purchase the asset). Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace

(i) Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(iii) Available-for-sale investments

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as any of the three preceding categories. After initial recognition available-for sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is decognised in profit or loss.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments with no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(g) Impairment of financial assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account.

The amount of the loss is recognised in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in profit or loss, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(ii) Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value (because its fair value cannot be reliably measured), or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the current market rate of return for a similar financial asset.

(iii) Available-for-sale investments

If there is objective evidence that an available-for-sale investment is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from equity to the statement of comprehensive income. Reversals of impairment losses for equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses for debt instruments are reversed through profit or loss if the increase in an instrument's fair value can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

(h) Exploration, evaluation and development expenditure

Exploration, evaluation and development expenditure incurred is either written off as incurred or accumulated in respect of each identifiable area of interest. Costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage which permits reasonable assessment of the existence of economically recoverable reserves.

Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

When production commences, the accumulated costs for the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves. Restoration, rehabilitation and environmental costs necessitated by exploration and evaluation activities are expensed as incurred and treated as exploration and evaluation expenditure. Proceeds from the sale of exploration permits or recoupment of exploration costs from farm-in arrangements are credited against exploration costs previously capitalised. Any excess of the proceeds over costs recouped are accounted for as a gain on disposal.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(i) Oil and gas properties

Following commencement of production activities all acquisition, exploration, evaluation and development expenditure in relation to an area of interest is accumulated into an oil and gas property.

When further development expenditure is incurred in respect of a property after the commencement of production, such expenditure is carried forward as part of the cost of that property only when substantial economic benefits are established, otherwise such expenditure is classified as part of the cost of production.

Amortisation of the cost of oil and gas properties is provided on the unit-of-production basis over the proved developed reserves of the field concerned with separate calculations being made for each resource. The unit-of-production basis results in an amortisation charge proportional to the depletion of the economically recoverable reserves. Amortisation is charged from the commencement of production.

The net carrying value of each property is reviewed regularly for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If the asset does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs. If such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount.

The recoverable amount is the greater of fair-value less costs to sell and value in use. In assessing value in use, the estimated cash flows are discounted to their present value using the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the assets.

(j) Fair value estimation

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired at fair value. The fair value of financial assets and financial liabilities must be estimated for recognition and measured or for disclosure purposes.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(k) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year, which remain unpaid at year end. The amounts are unsecured and are usually paid within 60 days of recognition. They are recognised at fair value on initial recognition and subsequently at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(l) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

(m) Employee benefits

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave for services rendered to the reporting date, when it is probable that settlement will be required and they are capable of being measured reliably. The calculation of employee benefits includes all relevant on-costs and is calculated as follows at the reporting date.

(i) Wages and Salaries, Annual Leave and Long Service Leave

Provisions made in respect of employee benefits are measured based on an assessment of the existing benefits to determine the appropriate classification under the definition of short term and long term benefits, placing emphasis on when the benefit is expected to be settled. Short term benefits provisions that are expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Long term benefits provisions that are not expected to be settled within 12 months, and are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date to estimate the future cash flows at a pre-tax rate that reflects current market assessments of the time value of money.

Regardless of the expected timing of settlement, provisions made in respect of employee benefits are classified as a current liability unless there is an unconditional right to defer the settlement of the liability for at least 12 months after the reporting date, in which case it would be classified as a non-current liability. Provisions made for annual leave and unconditional long service leave are classified as a current liability where the employee has a present entitlement to the benefit. A non-current liability would include long service leave entitlements accrued for employees with less than 10 years of continuous service who do not yet have a present entitlement.

(ii) Accumulated superannuation contribution plans

Obligations for contributions to accumulated superannuation contribution plans are recognised as an expense as incurred.

(n) Share Based Payments

The Group may at times provide benefits to employees (including directors) and consultants of the Group in the form of share-based payment transactions, whereby employees and consultants render services in exchange for shares or rights over shares ('equity-settled transactions'). The cost of these equity-settled transactions with employees and consultants is measured by reference to the fair value at the date at which they are granted. The fair value is determined using the Black & Scholes method. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the year in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(o) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(p) Income Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements and are recognised for all taxable temporary differences:

- Except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised:

- Except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future extent that it is probable that the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.
Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(q) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except:

- Where the GST incurred on a purchase of goods and services is not recoverable from the taxation authorities, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense item as applicable; and
- Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows included in receipts from customers or payments to suppliers.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(r) Contributed Equity

Issued and paid up capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction, net of tax, of the share proceeds received.

(s) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary share and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(t) Non-Current Assets (or Disposal Groups) Held for Sale and Discontinued Operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.
Non-current assets classified as held for sale and the assets of the disposal group classified as held for sale are presented separately from the other assets in the statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the statement of financial position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments comprise receivables, payables, cash and short-term deposits. The Group manages its exposure to key financial risks in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets while protecting future financial security.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. The Group does not speculate in the trading of derivative instruments. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rates and assessments of market forecasts for interest rates. Ageing analysis of and monitoring of receivables are undertaken to manage credit risk, liquidity risk is monitored through the development of future rolling cash flow forecasts.

The Board reviews and agrees policies for managing each of these risks as summarised below. Primary responsibility for identification and control of financial risks rests with the Board. The Board reviews and agrees policies for managing each of the risks identified below, including for interest rate risk, credit allowances and cash flow forecast projections.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 1 to the financial statements.

Risk Exposures and Responses

Market Risk

Interest rate risk
The Group's exposure to risks of changes in market interest rates relates primarily to the Group's cash balances. The Group constantly analyses its interest rate exposure. Within this analysis consideration is given to potential renewals of existing positions, alternative financing positions and the mix of fixed and variable interest rates. As the Group has no interest bearing borrowings its exposure to interest rate movements is limited to the amount of interest income it can potentially earn on surplus cash deposits.

At reporting date, the Group had the following financial assets exposed to variable interest rates not designated in cash flow hedges:

	Group	
	2016	**2015**
	$	**$**
Security deposits	40,990	40,599
Cash and cash equivalents (interest-bearing accounts)	185,604	140,646
Net exposure	**226,594**	**181,245**

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date. At the reporting date, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity relating to financial assets of the Group would have been affected as follows:

Judgments of reasonably possible movements:		
Post tax profit – higher / (lower)		
+ 0.5%	1,133	906
- 0.5%	(1,133)	(906)
Equity – higher / (lower)		
+ 0.5%	1,133	906
- 0.5%	(1,133)	(906)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. FINANCIAL RISK MANAGEMENT

Commodity Price and Foreign Currency Risk
The Group's exposure to commodity price is minimal at present.

Foreign currency risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured, monitored and managed using cash flow forecasting. The consolidated entity does not enter into any hedging contracts. The carrying amount of the consolidated entity's foreign currency denominated financials assets and financial liabilities the reporting date was minimal.

Liquidity Risk
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The financial liabilities the Group had at reporting date were trade payables incurred in the normal course of the business. Trade payables were non-interest bearing and were due within the normal 30-60 days terms of creditor payments.

Maturities of financial liabilities
The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Group						
	Less than 1 month $	1 - 3 months $	3 months - 1 year $	1 - 5 years	5+ Years	Total contractual cash flows $	Carrying amount $
As at 31 December 2015							
Non-interest bearing							
Trade and other payables	104,343	-	-	-	-	104,343	104,343
Interest bearing							
Borrowings	-	-	109,906	-	-	109,906	109,906
As at 31 December 2016							
Non-interest bearing							
Trade and other payables	318,934	-	-	-	-	318,934	318,934
Borrowings	350,000	-	-	-	-	350,000	350,000
Interest bearing							
Borrowings	300,000					300,000	300,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

2. FINANCIAL RISK MANAGEMENT

Credit risk
Credit risk arises from the financial assets of the Group, which comprise deposits with banks, security deposits and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with the maximum exposure equal to the carrying amount of these instruments. The carrying amount of financial assets included in the statement of financial position represents the Group's maximum exposure to credit risk in relation to those assets. The Group does not hold any credit derivatives to offset its credit exposure.

The Group trades mainly with recognised, credit worthy third parties and as such collateral is not requested nor is it the Group's policy to securities it trade and other receivables. Receivable balances are monitored on an ongoing basis with the result that the Group does not have a significant exposure to bad debts.

Deposits of $104,044 (2015: $302,180) have been paid on the Gold Nugget gas field in the United States. These deposits were transferred to exploration expenditure upon the acquisition of the project during the current year as disclosed in Note 13.

There are no other significant concentrations of credit risk within the Group.

Capital Management Risk
Management controls the capital of the Group in order to maximise the return to shareholders and ensure that the Group can fund its operations and continue as a going concern.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of expenditure, debt levels and share and option issues.

There have been no changes in the strategy adopted by management to control capital of the Group since the prior year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Exploration expenditure

Exploration expenditure that does not form part of the cash generating units assessed for impairment has been carried forward on the basis that exploration and evaluation activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in relation to the area are continuing. In the event that significant operations cease and/or economically recoverable reserves are not assessed as being present, this expenditure will be expensed to the Income Statement.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

4. SEGMENT REPORTING

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

Based on these reports, management has determined that the Company has one operating segment, being the exploration and development of properties for the development of oil and gas and until the sale of the Soleir subsidiary - solar energy.

Types of products and services
The Group currently has no significant revenue from products or services.

Major customers
The Group has no reliance on major customers.

Geographical areas
The Group's exploration assets are located in the United States.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. REVENUE

	Group	
	2016 $	2015 $
Interest income	1,242	8,386
Other income	19,506	2,208
Total	**20,748**	**10,594**

6. EXPENSES

	Group	
Loss from continuing operations before income tax has been determined after including directors fees as follows:	2016 $	2015 $
Salaries	89,334	598,861
Superannuation	-	-
Total	89,334	598,861

7. INCOME TAX

	Group	
	2016 $	2015 $
The prima facie income tax benefit on pre-tax accounting loss from operations reconciles to the income tax benefit in the financial statements as follows:		
Loss before tax	(4,954,855)	(2,204,228)
Income tax benefit calculated at 30%	(1,486,457)	(661,268)
Effect of expenses that are not deductible in determining taxable profit	1,288,082	260,351
Temporary differences and tax losses in the current year for which no deferred tax asset has been brought to account	198,375	400,917
Income tax benefit	**-**	**-**

Deferred tax assets:		
Deferred tax assets not brought to account arising from tax losses, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(q) occur:	**7,299,747**	**7,239,216**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

8. CASH AND CASH EQUIVALENTS

	Group	
	2016 $	2015 $
Cash at bank	185,604	140,646

9. TRADE AND OTHER RECEIVABLES

	Group	
Current	2016 $	2015 $
Other Receivables	212	45,132

10. PREPAYMENTS

	Group	
Current	2016 $	2015 $
Prepaid expenses	24,445	68,354

11. INVESTMENT IN CONTROLLED ENTITIES

		Ownership Interest	
	Country of Incorporation	2016 %	2015 %
Cydonia Resources Pty Ltd	Australia	100	100
Norwest Hydrocarbons Pty Ltd	Australia	100	100
Surat Resources Pty Ltd	Australia	100	100
Red Sky NT Pty Ltd	Australia	100	100
Summerland Way Energy Pty Ltd	Australia	100	100
Red Sky Gold Nugget LLC	United States	100	100
Red Sky No. 1 LLC	United States	100	100
Cache Martini No. 1 LLC (i)	United States	n/a	50

(i) Upon the resignation of Mr Kerry Smith as a Director on 15 December 2016, this entity no longer met the criteria to be consolidated as a controlled entity.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

12. OTHER FINANCIAL ASSETS

	Group	
	2016 $	2015 $
Security deposits	40,990	40,599
Gold Nugget Deposits	-	302,180
	40,990	**342,779**

13. EXPLORATION ASSETS

	Group	
	2016 $	2015 $
Opening balance	4,258,541	-
Acquisition of Cache Martini No.1 LLC (i)	-	4,258,541
Deposits paid on Gold Nugget project transferred	406,224	-
Acquisition of Gold Nugget project (share based payment) (i)	500,010	-
Additions	51,158	-
Impairment of exploration costs (ii)	(4,283,596)	-
Foreign exchange movement	40,894	-
	973,231	**4,258,541**

(i) The acquisition did not meet the requirements of a business combination. The amount represents the fair value of the exploration assets acquired at the date of purchase.
(ii) An impairment of $4,257,067 on **Cache Martini No.1 LLC** occurred due to the high cost of maintenance and environmental work associated with keeping the lease in good stead along with the low prices for oil produced.

14. BORROWINGS

	Group	
	2016 $	2015 $
Director loans (i)	50,000	100,329
Other loans (i)	250,000	-
Advances for proposed convertible notes (ii)	350,000	-
Loan for insurance funding	-	9,577
	650,000	**109,906**

(j) These loans are secured over the Group's interest in the Gold Nugget gas project (refer to Note 13).
(ii) Refer to Note 25 for details on resolutions approved by shareholders post balance date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

15. ISSUED CAPITAL

(a) Share Capital

Ordinary shares	Group	
	2016	**2015**
	$	**$**
6,161,396,921 fully paid ordinary shares (31 December 2015: 5,798,056,921)	35,118,120	35,118,120
Movements during the year:		
Beginning of year	35,118,120	31,820,725
Shares issued during the prior year	-	3,405,957
30,000,000 shares issued @ $0.001	30,000	-
333,340,000 shares issued @ $0.0015	500,010	-
Equity Raising Expenses	(1,654)	(108,562)
	35,646,476	**35,118,120**

Subsequent to balance date on 9 March 2017 shareholders approved a consolidation of the issued capital of the Company on the basis that every 50 shares be consolidated into 1 share.

(b) Options

Expiry Date	Exercise Price (cents)	Number on issue – 2015	Granted during year	Lapsed during year	Exercised during year	Number on issue - 2016
31/03/2016	2.25	60,000,000 (i)	-	(60,000,000)	-	-
20/12/2016	0.90	100,000,000 (ii)	-	(100,000,000)	-	-
Total Options Issued		**160,000,000**	**-**	**(160,000,000)**	**-**	**-**

(i) Options issued to non-executive directors in 2011 following shareholder approval on 21 March 2011 (Mr Gerrit de Nys 37,500,000, Mr Guy Le Page 15,000,000 and Mr Murray Durham 7,500,000).

(ii) Options issued to consultants as follows:

Granted	**Grant Date**	**Vesting Date**	**Value at Grant Date**	**Exercise Price**	**Expiry Date**
20,000,000	28 Nov 12	28 Nov 12	$0.016	$0.009	20 Dec 16
20,000,000	28 Nov 12	(iii)	$0.016	$0.009	20 Dec 16
20,000,000	28 Nov 12	(iii)	$0.016	$0.009	20 Dec 16
20,000,000	28 Nov 12	(iii)	$0.016	$0.009	20 Dec 16
20,000,000	28 Nov 12	(iii)	$0.016	$0.009	20 Dec 16
100,000,000					

The fair value of the share options granted is estimated as at the date of grant using a Black Scholes model taking into account the terms and conditions upon which the options were granted. The model inputs used an expected volatility of 100%, a risk free rate of 2.76%, and a share price at the grant date of 0.3 cents.

(iii) The vesting conditions of these Options were subject to various performance criteria on Soleir Solar Projects.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

16. RESERVES

	Group	
	2016	**2015**
	$	**$**
Share based payments reserve	1,670,000	1,670,000
Foreign currency translation reserve	85,561	52,371
	1,755,561	**1,722,371**
Opening balance	1,722,371	1,490,000
Movements during the year:		
Share based payments – performance rights issued (i)	-	180,000
Foreign currency translation	33,190	52,371
	1,755,561	**1,722,371**

(i) During the 2015 year, Mr. Clinton Carey, Mr. Russell Krause and Mr. Adrien Wing each received 75,000,000 shares (225,000,000 shares issued in total) as a result of the milestone conditions of the Performance Rights held by each Director being met. Each Performance Right was valued at 0.08 cents ($180,000 in total) based on the most recent share placement price of the Company shares at the time the Performance Rights were approved. The Directors believe this is a reasonable basis upon which to value the remuneration benefit received. These Performance Rights were approved by shareholders at a General Meeting held on 11 March 2015.

Nature and purpose of reserves:

Share based payments reserve records the value of options and performance rights issued which have been taken to expenses.

Foreign currency translation reserve recognises exchange differences arising from translation of the financial statements of foreign operations to Australian dollars.

17. LOSS PER SHARE

	Group	
	2016	**2015**
	$	**$**
Reconciliation of earnings to net loss		
Net loss	**(2,817,743)**	**(1,998,897)**
Profit/(Loss) from discontinued operations	-	2,642
Net loss from continuing operations	(2,817,743)	(2,001,539)
Calculation of basic and dilutive EPS – overall (cents)	(2.42)	(2.70)
Calculation of basic and dilutive EPS – continued operations (cents)	(2.42)	(2.70)
Weighted average number of ordinary shares outstanding during the year used in calculation of basic and dilutive EPS (on a 1 for 50 post consolidation basis)	Number 116,262,560	Number 74,137,186

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

18. CASH FLOW INFORMATION

Reconciliation of cash flow from operations with loss from continuing operations after income tax

	GROUP	
	2016 **$**	**2015** **$**
Loss after income tax	(4,954,855)	(2,204,228)
Non cash flows in loss:		
Share based payments	30,000	576,998
Disposal of controlled entities	-	(33,203)
Exploration costs written off	4,283,596	-
Changes in assets and liabilities:		
Increase/(decrease) in trade creditors and accruals	204,635	36,871
(Increase)/decrease in trade and other receivables	44,920	(15,415)
(Increase)/decrease in prepayments	43,909	(15,167)
(Increase) in other financial assets	-	(599)
Cash flows used in operating activities	**(347,795)**	**(1,654,743)**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

19. DISCONTINUED OPERATIONS

On 8 January 2014, the Group agreed to sell its 20% interests in permits PEL 457 and 479 to ERM Gas for $1.25m.
During the 2015 year the Group sold its interests in the solar power energy projects and an AFSL license held.
Details in relation to these discontinued operations are disclosed below:

	GROUP	
	2016 $	2015 $
Revenue from discontinued operations	-	-
Profit of disposal of controlled entities	-	33,203
Administration expenses	-	(20,561)
Legal fees	-	(10,000)
Consultancy	-	-
Impairment of intangible assets	-	-
Profit/(Loss) after income tax	-	2,642
Income tax expense	-	-
Profit/(Loss) after income tax from discontinued operations		**2,642**
Cash flow information:		
Net cash outflow from operating activities	-	(20,561)
Net cash inflow from investing activities	-	320,000
Net increase in cash and cash equivalents from discontinued operations	**-**	**299,439**
Statement of financial position:		
Carrying amount	-	-

20. RELATED PARTY TRANSACTIONS

(a) Parent entity
Red Sky Energy Ltd is the parent entity.

(b) Subsidiaries
Interests in subsidiaries are set out in Note 11.

(c) Key management personnel
Disclosures in relation to key management personnel are set out in Note 21 and the Remuneration Report in the Directors' Report. The transactions in the table below in Note 20(d) do not include amounts paid to key management personnel for remuneration.

(d) Transactions with related parties

Directors and officers, or their personally-related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

20. RELATED PARTY TRANSACTIONS (Continued)

Entity		Amount $	Relationship
Monument Global Resources, Inc.	**2016**	14,164	Monument Global Resources, Inc. invoices the Group administration charges for management of the Cache Martini oil field. Kerry Smith is a director of Monument Global Resources, Inc. and was a director of Red Sky Energy Ltd from 31 July 2015 until 15 December 2016.
	2015	163,782	

Under the terms of acquisition of 50% of Cache Martini in 2015, to give effect to arrangements between the Vendors, Cache and Cyprus Investments Pty Ltd (a related entity of Mr Clinton Carey) for the provision of advisory services made prior to the Company's entry into the Transaction, 56,619,131 shares at a deemed price of 0.1 cents per share issued to the Vendors as part of the Acquisition Consideration were to be transferred to Cyprus Investments by the Vendors to satisfy prior obligations of the Vendors to Cyprus Investments in respect of the provision of advisory services by Cyprus Investments under arrangements made between the Vendors, Cache and Cyprus Investments prior to the Company's entry into the Transaction.

(e) Details of the amounts accrued but unpaid at the end of the year are as follows:
Cyprus Investments Pty Ltd (a related entity of Mr Clinton Carey) was owed $24,220 (2015: $20,000) for outstanding director fees to be repaid by share and option issues.
Snowcap LLC (a related entity of Mr Kerry Smith) was owed $nil (2015: $19,043) for outstanding director fees.
Mr William Reinhart was owed $7,000 (2015: $nil) for outstanding director fees to be repaid by share and option issues.
Mr Russell Krause was owed $7,700 (2015: $nil) for outstanding director fees to be repaid by share and option issues.
Mr Adrien Wing was owed $44,220 (2015: $nil) for outstanding company secretarial fees to be repaid by share and option issues (total company secretarial fees during the 2016 year amounted to $66,000).

(f) Loans to/from related parties
Mr Clinton Carey and Mr Adrien Wing provided a loan of $50,000 (total of $100,000) to the Company during the 2015 year. A repayment date of 23 December 2016 existed on the loans. The loan of $50,000 from Mr Clinton Carey was repaid in December 2016. The loan of $50,000 from Mr Adrien Wing was repaid in February 2017. Interest was paid at 15% per annum. The loans were secured over the Group's interest in the Gold Nugget gas project.

(g) Terms and conditions
All transactions were made on normal commercial terms and conditions and at market rates.

21. KEY MANAGEMENT PERSONNEL DISCLOSURES

Details of the names and positions of key management personnel and their remuneration are provided in the remuneration report in the Directors' Report. Summary disclosures are as follows:

	Group	
Key Management Personnel Compensation	**2016 $**	**2015 $**
Short-term employee benefits	89,334	484,861
Post-employment benefits	-	-
Long-term benefits	-	-
Termination benefits	-	-
Share-based payments	-	180,000
Total	**89,334**	**664,861**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

22. REMUNERATION OF AUDITORS

	GROUP	
	2016 $	2015 $
Amounts received or due and receivable by RSM Australia Partners for:		
Audit and audit review services	36,900	32,400
Other non audit services	-	-

23. NON-CONTROLLING INTERESTS

Information material to the consolidated entity in relation to non-controlling interests are set out below:

		Ownership Interest	
	Principal Place of Business / Country of Incorporation	2016 %	2015 %
Cache Martini No. 1 LLC (i)	United States of America	n/a	50

(i) Upon the resignation of Mr Kerry Smith as a Director on 15 December 2016, this entity no longer met the criteria to be consolidated as a controlled entity.
Summarised financial information is as follows:

Summarised statement of financial position

	Cache Martini No. 1 LLC	
	2016 $	2015 $
Cash and cash equivalents	-	275
Non-current assets	-	4,258,541
Total assets	**-**	**4,258,816**
Total liabilities	**-**	**-**
Net assets	**-**	**4,258,816**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

23. NON-CONTROLLING INTERESTS (Continued)

Summarised statement of profit or loss and other comprehensive income

	Cache Martini No. 1 LLC	
	2016 $	2015 $
Revenue	-	-
Administration expenses	(2,994)	-
Exploration cost written off	(4,257,067)	-
Lease operating expenses	(14,164)	(410,662)
Loss before income tax	**(4,274,225)**	**(410,662)**
Income tax expense	-	-
Loss after income tax	**(4,274,225)**	**(410,662)**
Other comprehensive income	15,408	(1,541)
Total comprehensive loss	**(4,258,817)**	**(412,203)**

Other financial information

	Cache Martini No. 1 LLC	
	2016 $	2015 $
Net cash used in operating activities	-	(410,662)
Net cash used in investing activities	-	-
Net cash used in financing activities	-	-
Net (decrease) in cash and cash equivalents	**-**	**(410,662)**
Loss attributable to non-controlling interests	**(2,137,112)**	**(205,331)**
Accumulated non-controlling interests at the end of the reporting period	**-**	**(205,331)**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

24. PARENT ENTITY DISCLOSURES

(a) Summary financial information

	Parent	
	2016 $	2015 $
Financial Position		
Assets		
Current assets	200,197	253,008
Non-current assets	942,482	2,528,036
Total assets	**1,142,679**	**2,781,044**
Liabilities		
Current liabilities	832,131	214,299
Non-current liabilities	55,000	55,000
Total liabilities	**887,131**	**269,299**
Net assets	**255,548**	**2,511,745**
Equity		
Issued share capital	35,646,476	35,118,120
Option expense reserve	1,670,000	1,670,000
Accumulated losses	(37,060,928)	(34,276,375)
Total equity	**255,548**	**2,511,745**
Financial Performance		
Loss for the year	(2,784,553)	(1,946,526)
Other comprehensive income	-	-
Total comprehensive income	**(2,784,553)**	**(1,946,526)**

(b) Guarantees

Red Sky Energy Limited has not entered into any guarantees in relation to the debts of its subsidiaries.

(c) Other Commitments and Contingencies

Red Sky Energy Limited has no commitments to acquire property, plant and equipment, and has no contingent liabilities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

25. EVENTS SUBSEQUENT TO BALANCE DATE

At a general meeting of shareholders held on 9 March 2017, the following resolutions were approved:

- a consolidation of the issued capital of the Company on the basis that every 50 shares be consolidated into 1 share;
- approval for the Company to issue up to 1,050,000 Convertible Notes (post consolidation) at an issue price of $1.00. An advance of $350,000 was received prior to balance date (refer to Note 14);
- approval for the Company to issue up to 100,000 Convertible Notes (post consolidation) at an issue price of $1.00 to RM Corporate Finance Pty Ltd (or its nominee);
- ratification of the issue of 333,340,000 Shares (pre consolidation);
- approval for the Company to issue up to 4,844,004 Shares (post consolidation) to Cyprus Investments Pty Ltd (or its nominee), together with one free attaching Option for every two Shares issued;
- approval for the Company to issue up to 8,844,000 Shares (post consolidation) to Northern Star Nominees Pty Ltd (or its nominee), together with one free attaching Option for every two Shares issued;
- approval for the Company to issue up to 1,540,000 Shares (post consolidation) to Penause Pty Ltd (or its nominee), together with one free attaching Option for every two Shares issued;
- approval for the Company to issue up to 1,400,000 Shares (post consolidation) to Mr William Reinhart (or his nominee), together with one free attaching Option for every two Shares issued;
- approval for the Company to issue up to 2,250,000 Shares (post consolidation) to Global Resources and Infrastructure Pty Ltd (or its nominee), together with one free attaching Option for every two Shares issued;
- approval for the Company to issue 10,000,000 Options (post consolidation) to Mr Guy Le Page (or his nominee);
- approval for the Company to issue 7,500,000 Options (post consolidation) to Mr Clinton Carey (or his nominee);
- approval for the Company to issue 7,500,000 Options (post consolidation) to Mr Adrien Wing (or his nominee);
- approval for the Company to issue 5,000,000 Options (post consolidation) to Mr Russell Krause (or his nominee);
- approval for the Company to issue up to 35,000,000 Shares (post consolidation), together with one free attaching Option for every two Shares issued, to related and unrelated parties of the Company; and
- approval for the Company to issue up to 13,800,000 Shares (post consolidation), together with one free attaching Option for every two Shares issued, to unrelated parties of the Company nominated by RM Corporate Finance Pty Ltd.

No other matters or circumstances have arisen since 31 December 2016 that have significantly affected, or may significantly affect the group's operations, the results of those operations, or the group's state of affairs in future financial years.

26. COMMITMENTS AND CONTINGENCIES

The consolidated entity has no commitments or contingencies.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

27. NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2016 reporting periods. The group's assessment of the impact of applicable new standards and interpretations is set out below:

Reference	Title	Summary	Application date (financial years beginning)	Expected Impact
AASB 15 , and relevant amending standards	*Revenue from Contracts with Customers*	This standard establishes a new control-based revenue recognition model which changes the basis for deciding whether revenue is to be recognised over time or at a point in time and provides new and more detailed guidance on specific topics and expands disclosures about revenue.	1 January 2018	No significant impact expected
AASB 9, and relevant amending standards	*Financial Instruments*	Replaces the requirements of AASB 139 for the classification and measurement of financial assets. It reduce the number of categories and simplifying the measurement choices, including the removal of impairment testing of assets measured at fair value. The amortised cost model is available for debt assets meeting both business model and cash flow characteristics tests. All investments in equity instruments using AASB 9 are to be measured at fair value. Amends measurement rules for financial liabilities that the entity elects to measure at fair value through profit and loss. Changes in fair value attributable to changes in the entity's own credit risk are presented in other comprehensive income. AASB 9 includes a new approach to hedge accounting that is intended to more closely align hedge accounting with risk management activities undertaken by entities when hedging financial and non-financial risks.	1 January 2018	No significant impact expected.
AASB 16	*Leases*	AASB 16 will cause the majority of leases of an entity to be brought onto the statement of financial position. The calculation of the lease liability will take into account appropriate discount rates, assumptions about lease term and increases in lease payments. A corresponding right to use asset will be recognised which will be amortised over the term of the lease. Rent expense will no longer be shown, the profit and loss impact of the leases will be through amortisation and interest charges.	1 January 2019	No significant impact expected

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

27. NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS (Continued)

AASB 2016-1	*Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses [AASB 112]*	It amends AASB 112 *Income Taxes* to clarify the requirements on recognition of deferred tax assets for Unrealised losses on debt instruments measured at fair value.	1 January 2017	No significant impact expected
AASB 2016-2	*Disclosure Initiative – Amendment to AASB 107*	This standard amends AASB 107 *Statement of Cash Flows* to require entities preparing general purpose financial statements to provide disclosures about changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.	1 January 2017	No financial impact is expected, but may increase the level of disclosures in the financial report.
AASB 2016-5	*Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*	AASB2016-5 amends AASB 2 *Share-based Payments* to address: • the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; • the classification of share-based payment transactions with a net settlement feature for withholding tax obligations; and • the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled	1 January 2018	There may be changes in the recognition and measurement of share-based payments arrangement in place at the initial application date if those arrangements have features covered by this amendment

DIRECTORS' DECLARATION

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 14 to 43, and the remuneration disclosures contained within the Remuneration Report, are in accordance with the *Corporations Act 2001* and:

   a) give a true and fair view of the financial position of the company and of the group as at 31 December 2016 and of its performance for the year ended on that date;

   b) comply with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   c) the financial statements also comply with *International Financial Reporting Standards* as disclosed in Note 1(a)(i)

2. the Chief Executive Officer and Chief Finance Officer have each declared that:

   a) the financial records of the company for the financial year have been properly maintained in accordance with s 286 of the *Corporations Act 2001*;

   b) the financial statements and notes for the financial year comply with the Accounting Standards; and

   c)) the financial statements and notes for the financial year give a true and fair view;

3. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Clinton Carey
Director

Melbourne, Victoria
30th March 2017

RSM Australia Partners

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INDEPENDENT AUDITOR'S REPORT

To the Members of Red Sky Energy Limited

Opinion

We have audited the financial report of Red Sky Energy Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 31 December 2016 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001,* which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 (a) (v) in the financial report, which indicates that the Group incurred a net loss of $4,954,855 during the year ended 31 December 2016 and, as of that date, the Group's current liabilities exceeded its total assets by $758,673. As stated in Note 1(a) (v), these events or conditions, along with other matters as set forth in Note1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key Audit Matter	How our audit addressed this matter
Carrying value of capitalised Exploration and evaluation assets Refer to Note 13 in the financial statements	
The Group has capitalised exploration expenditure with a carrying value of $973,231, net of an impairment loss recognised in the financial year of $4,283,596. We determined this to be a key audit matter due to the significant management judgment involved in assessing the carrying value in accordance with AASB 6 *Exploration for and Evaluation of Mineral Resources,* including: • Determination of whether expenditure can be associated with finding specific mineral resources, and the basis on which that expenditure is allocated to an area of interest. • Assessing whether any indicators of impairment are present, and if so, judgments applied to determine and quantify any impairment loss. • Determination of whether exploration activities have progressed to the stage at which the existence of an economically recoverable mineral reserve may be assessed.	Our audit procedures in relation to the carrying value of exploration and evaluation assets included: • Critically assessing and evaluating management's assessment that no indicators of impairment existed in relation to the Gold Nugget project; • Agreeing a sample of the additions to Exploration and evaluation assets during the financial year to supporting documentation, and ensuring that the capitalised amounts were in line with the Group's accounting policy and capital in nature; • Discussions with management and a review of the Group's ASX announcements and other relevant documentation, to assess management's determination that exploration activities have not yet progressed to the point where the existence or otherwise of an economically recoverable mineral resource may be determined; and • Assessed the reasonableness of management's determination of the impairment loss in the Cache Martini No1 asset and found it appropriate given that no further exploration activity was planned.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 31 December 2016, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

Other Information (continued)

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/Pronouncements/Australian-Auditing-Standards/Auditors-Responsibilities.aspx. This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 11 of the directors' report for the year ended 31 December 2016.

Report on the Remuneration Report (continued)

In our opinion, the Remuneration Report of Red Sky Energy Limited, for the year ended 31 December 2016, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

RSM

RSM AUSTRALIA PARTNERS

P T SEXTON
Partner
Melbourne, Victoria
30 March 2017

SHAREHOLDER INFORMATION

TWENTY LARGEST SHAREHOLDERS

SHAREHOLDERS (Fully Paid Ordinary) 24 March 2017	NUMBER OF SHARES	Percentage
MR JONATHON RONALD BUSING	5,202,314	4.22
DISTINCT RACING & BREEDING PTY LTD	5,162,314	4.19
CITICORP NOMINEES PTY LIMITED	4,049,009	3.29
MUNGALA INVESTMENTS PTY LTD	4,000,000	3.25
SHERRY FERRELL	3,633,410	2.95
ENERGY INFASTRUCTURE AND RESOURCES PTY LTD	3,600,000	2.92
HUIC NOMINEES PTY LIMITED	3,477,936	2.82
HALCYON CORPORATE PTY LTD	3,293,134	2.67
TADEA PTY LTD	3,211,305	2.61
ERM POWER LIMITED	3,000,000	2.43
PENAUSE PTY LTD	2,750,000	2.23
NORTHERN STAR NOMINEES PTY LTD	2,750,000	2.23
CYPRUS INVESTMENTS PTY LTD	2,632,383	2.14
TIFFANY HILDA EVANS	2,440,592	1.98
MR JOHN ANDREW RODGERS	2,375,324	1.93
VENEX CAPITAL CORP PTY LTD	2,140,870	1.74
GORDON ALFRED SKLENKA	2,140,870	1.74
CHARLES MICHAEL CLIFTON RYAN	2,140,870	1.74
COMSEC NOMINEES PTY LIMITED	2,094,583	1.70
ST BAKER INVESTMENTS PTY LTD	2,010,000	1.63
TOP 20 SHAREHOLDERS	**62,104,914**	**50.40**
TOTAL ISSUED SHARES	**123,228,125**	**100%**

Distribution schedule of the number of fully paid ordinary shareholders in each class of equity security.

By Class	Holder of Ordinary shares	Number of Ordinary shares	Percentage
1 – 1,000	675	340,383	0.27
1,001 - 5,000	794	2,091,658	1.70
5,001 – 10,000	277	2,198,902	1.78
10,001 – 100,000	559	17,785,451	14.43
100,001 and over	125	100,811,731	81.81
Totals	**2,430**	**123,228,125**	**100 %**

ADDITIONAL SHAREHOLDER INFORMATION

A. CORPORATE GOVERNANCE

Refer to the Company's Corporate Governance Statement at www.redskyenergy.com.au

B. SHAREHOLDING

1. Substantial Shareholders

There are no substantial Shareholders listed on the Company's register as at 24 March 2017.

2. Unquoted Securities

There are no shareholders holding greater than 20% of a class of unquoted securities.

3. Number of holders in each class of equity securities and the voting rights attached.

At the general meeting, every ROG shareholder present in person or by proxy, representative or attorney has one vote on a show of hands and on a poll, one vote for each share (which is fully paid). There are 2,430 holders of fully paid ordinary shares. The Company has no partly paid shares on issue.

4. Marketable parcel

There are 2,222 Shareholders with less than a marketable parcel as at 24 March 2017.

C. OTHER DETAILS

1. Company Secretary

Mr Adrien Wing

2. Address and telephone details of the entity's registered and administrative office

The address and telephone details of the registered and administrative office:

Level 17, 500 Collins Street
Melbourne VIC 3000

Telephone: + (61) 03 9614 0600
Facsimile: + (61) 03 9614 0550

3. Address and telephone details of the office at which a register of securities is kept

The address and telephone number of the office at which a registry of securities is kept:

Link Market Services Limited
Level 4, Central Park
152 St George Terrace
Perth WA 6000

Telephone: + (61) 08 9211 6670
Facsimile: + (61) 02 9287 0309

4. Stock exchange on which the Company's securities are quoted

The Company's listed equity securities are quoted on the Australian Stock Exchange.

5. Restricted Securities

The Company has no restricted securities on issue.