RED SKY ENERGY LTD

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

ABN 94 099 116 275

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CORPORATE DIRECTORY

Non-Executive Chairman	Mr Guy Le Page
Managing Director	Mr Andrew Knox
Non-Executive Director	Mr Clinton Carey
Non-Executive Director	Mr Adrien Wing
Company Secretaries	Mr Adrien Wing Ms Pauline Moffatt
Registered & Principal Office	Level 17, 500 Collins Street Melbourne VIC 3000
Auditor	RSM Australia Partners Level 21 55 Collins Street Melbourne VIC 3000
Solicitors	Quinert Rodda & Associates Level 6 400 Queen Street Melbourne VIC 3000
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	Advanced Share Registry 110 Stirling Highway Nedlands WA 6009 Telephone: + 61 8 9389 8033

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 2018.

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
Mr Andrew Knox – Managing Director (appointed 6 July 2018)
Mr Clinton Carey – Non-Executive Director
Mr Adrien Wing – Non-Executive Director

Company Secretaries

Mr Adrien Wing
Ms Pauline Moffatt (appointed 15 January 2019)

Principal Activities

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

Operating Res*ults*

The net operating loss of the Group for the year ended 31 December 2018 after income tax amounted to $1,156,287 (31 December 2017: net operating loss $992,875).

Review of Operations

Highlights

- During the year the Company raised $703,174 at a price of $0.004 per ordinary share before costs.

- Subsequent to year end the Company received ministerial consent to transfer the Innamincka Dome licences to its wholly owned subsidiary Red Sky (NT) Pty Ltd from Beach Energy Ltd (Beach, ASX: BPT). The South Australian Minister for Energy and Mining approved the registration of the Sale and Purchase Agreement (SPA). Consequently, the licences have been transferred to Red Sky (NT) Pty Ltd.

- The Company entered into a sale and purchase agreement with Bengal Energy Limited to acquire the remaining 25% in PRL182 subject to completion of the Beach Energy interests.

- On 20 March 2019 the Company placed 190 million fully paid ordinary shares at an issue price of $0.0018 (0.18 cents) per share to raise $342,000 before associated costs.

Overview

On 21 March 2019 the Company received ministerial consent to transfer the Innamincka Dome licences to its wholly owned subsidiary Red Sky (NT) Pty Ltd.

The South Australian Minister for Energy and Mining has approved the registration of the Sale and Purchase Agreement (SPA) with Acer Energy Pty Ltd, a Beach subsidiary, to acquire that subsidiary's interests in the Innamincka Dome Project in the Cooper Basin, South Australia. Consequently, the licences have been transferred to Red Sky (NT) Pty Ltd.

Only nominal consideration of $1 is payable for the assets acquired under the SPA. However the Company is responsible for discharging all obligations arising in respect of the assets purchased, including all liabilities relating to the decommissioning, abandonment, rehabilitation, remediation or restoration of those assets.

This application follows agreement to amend the SPA with Acer Energy Pty Ltd, a Beach subsidiary, to acquire that subsidiary's interests in the Innamincka Dome Project in the Cooper Basin, South Australia. The principal term of which is that Beach will continue to provide financial security for the licences. Red Sky has provided an escrowed financial assurance of $800,000 and should Beach not be released from the financial security within six months then the licences will revert back to Beach and the escrowed funds are forfeited.

The Innamincka Dome Project comprises a portfolio of six highly prospective petroleum tenements (PRLs) near the township of Innamincka in northeast South Australia. Beach's interest in this portfolio comprises a 100% owned and operated stake in:

- PRL14 (Flax oil field which was previously producing);
- PRL17 (Yarrow gas field);
- PRL18 (Juniper oil field);
- PRL180;
- PRL181; and
- a 75% interest in PRL182 (remaining 25% being purchased from Bengal Energy (Australia) Pty Ltd).

The purchase of Beach's interest in the Innamincka Dome Project is inclusive of all existing production infrastructure, storage tanks, yards and camp facilities. This infrastructure is modern and in excellent operating condition. The project was suspended in 2015 due to the downturn in oil and gas markets.

The Company has commenced re-commissioning planning for the Innamincka Dome Project with a focus on resuming oil and gas production at Flax as soon as possible.

The acquisition affords Red Sky with a significant opportunity to leverage the recovery from the oil price downturn by returning quality shut-in assets to production at the Flax field. Further significant opportunities exist within the unexploited Yarrow gas field and the Juniper oil field. Evaluation of the remaining highly prospective tenements provides even more opportunities.

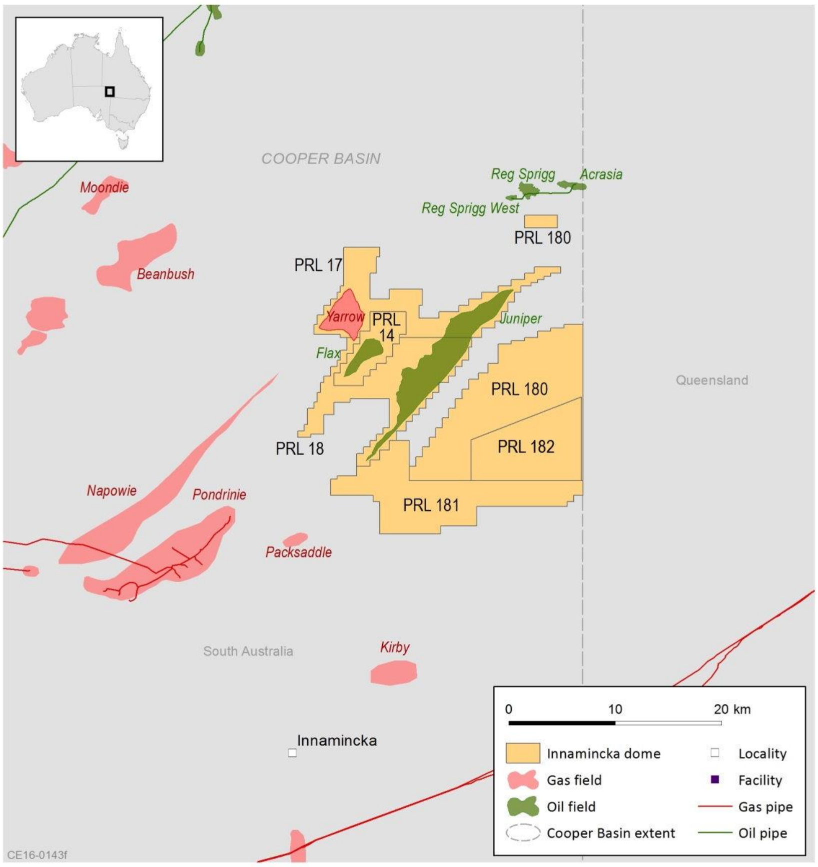
Mr. Andrew Knox, CEO of Red Sky, has agreed to lend to the Company the escrow amount ($800,000) as an unsecured loan which he has agreed will not become repayable in circumstances where the demand for repayment would create an event of insolvency for the Company. The term is for up to 18 months at an interest rate of 10% per annum. The loan terms provide for the issue of 66,670,000 ordinary fully paid shares to Mr Knox, the issue of which is subject to shareholder approval. If that approval is not obtained, the Company will pay Mr Knox an establishment fee of $100,000. Otherwise, the loan contains terms which are typical for agreements of a similar nature.

Business Strategy

The Company intends to:

- recommence production from the shut-in field using existing infrastructure. Information reviewed by the Company indicated that oil production at Flax was previously being carried out at a rate of over 200 barrels of oil per day and the field has produced approximately 180,000 barrels of 54 API oil to date. The existing production facilities at the Flax field, which have been inspected by the Company, have a processing capacity of 1,000bopd and 2,400bbl storage capacity based on information reviewed by the Company; and

- initiate a 3D seismic acquisition over the Yarrow gas field and prospects within the PRL17 licence to the north of the field. In conjunction with this the Company has commissioned a gas development plan for the field which is being prepared.



Courtesy of Beach Energy

Gold Nugget

The Gold Nugget #1-23 well is currently not producing as there are ongoing technical problems with the well which are being addressed. Indications are that the well could flow up to 2,600mcfpd. Upcoming work will enable the well to flow continuously in the near future. 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 single production well (completed to 14,000ft in 2004).

The Company continues to review other opportunities in Australasia and South East Asia.

Capital Raising

During the year the Company raised $703,174 at a price of $0.004 per ordinary share before costs. On 20 March 2019 the Company placed 190 million fully paid ordinary shares (81,070,879 per LR7.1A and 108,929,121 per LR7.1) at an issue price of $0.0018 (0.18 cents) per ordinary share raising $342,000 before associated costs.

In addition, the Company will issue 100 million shares to Taylor Collison upon Completion of the arrangement with Beach (see ASX announcement 10 July 2018).

As a means of minimizing cash spend, the Directors have agreed to receive shares in lieu of their outstanding fees and accruals up until the end of January 2019. These shares will be settled at the same price and terms as those issued under the placement on 20 March 2019. These shares will be subject to shareholder approval at a soon-to-be-convened shareholders meeting.

ENDS

Various statements in this report constitute statements relating to intentions, future acts and events. Such statements are generally classified as forward-looking statements and involve unknown risks, expectations, uncertainties and other important factors that could cause those future acts, events and circumstances to differ from the way or manner in which they are expressly or impliedly portrayed herein. Some of the more important of these risks, expectations and uncertainties are pricing and production levels from the properties in which the Company has interests and the extent of the recoverable reserves at those properties. In addition, the Company has a number of exploration permits. Exploration for oil and gas is expensive, speculative and subject to a wide range of risks. Individual investors should consider these matters in light of the personal circumstances (including financial and taxation affairs) and seek professional advice from their accountant, lawyer or other professional advisor as to the suitability for them of an investment in the Company.

Significant Changes in the State of Affairs

Details on share issues during the year is included in Note 15 of the financial report.

Events Subsequent to Balance Date

On 8 March 2019 the Sale and Purchase Agreement (SPA) with Acer Energy Pty Ltd, a Beach subsidiary, to acquire that subsidiary's interests in the Innamincka Dome Project in the Cooper Basin, South Australia was amended. The principal term of which is that Beach will continue to provide financial security for the licences. Red Sky will provide an escrowed financial assurance of $800,000 and should Beach not be released from the financial security within six months then the licences will revert back to Beach and the escrowed funds are forfeit. This amendment now means all conditions have been satisfied under the SPA once Ministerial consent has been granted.

The Company has entered into a loan agreement with Mr Andrew Knox, Managing Director, for the escrow amount ($800,000). This agreement is an unsecured loan, not repayable in circumstances where the demand for repayment would create an event of insolvency for the Company. The term is for up to 18 months at an interest rate of 10% per annum. The loan terms provide for the issue of 66,670,000 ordinary fully paid shares to Mr Knox, the issue of which is subject to shareholder approval. If that approval is not obtained, the Company will pay Mr Knox an establishment fee of $100,000. Otherwise, the loan contains terms which are typical for agreements of a similar nature.

On 20 March 2019 the Company placed 190 million fully paid ordinary shares (81,070,879 per LR7.1A and 108,929,121 per LR7.1) at an issue price of $0.0018 (0.18 cents) per share to raise $342,000 before associated costs.

On 21 March 2019 the Company received ministerial consent to transfer the Innamincka Dome licences to its wholly owned subsidiary Red Sky (NT) Pty Ltd. The South Australian Minister for Energy and Mining has approved the registration of the Sale and Purchase Agreement (SPA) with Acer Energy Pty Ltd, a Beach subsidiary, to acquire that subsidiary's interests in the Innamincka Dome Project in the Cooper Basin, South Australia. Consequently, the licences have been transferred to Red Sky (NT) Pty Ltd.

Only nominal consideration of $1 is payable for the assets acquired under the SPA. However the Company is responsible for discharging all obligations arising in respect of the assets purchased, including all liabilities relating to the decommissioning, abandonment, rehabilitation, remediation or restoration of those assets. The Directors have not yet completed a detailed estimate of these liabilities. As stated above, Beach will provide financial security for these obligations for a period of at least six months. Following this period, the South Australian government has advised a bond of $5 million is required to be in place with an amount of $1 million able to be delayed for six months.

No other matters or circumstances have arisen since 31 December 2018 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 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 Secretaries

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:
Soil Sub Technologies Ltd (resigned 30 June 2016)

Andrew Knox – Managing Director – B.Comm, CA, CPA, FAICD

Mr Knox has over 35 years of experience in the upstream oil and gas sector. He has worked extensively throughout Australasia, South East Asia and North America with several entities and has been a director of several public resource companies. He was formerly a director and CFO of Cue Energy Resources Limited, a position he had held for 22 years. His prior role was CFO at Cultus Petroleum Limited. Mr Knox was appointed Director on 6 July 2018.

Current Directorships:
Nil

Other Directorships within the last three years:
Nil

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:
Challenger Energy Limited (since 13 June 2018)

Other Directorships within the last three years:
Nil

Adrien Wing – Non Executive Director and Joint 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:
High Grade Metals Limited (since 8 October 2018)

Other Directorships within the last three years:
Nil

Pauline Moffatt – Joint Company Secretary, B.Comm, GAICD, FGIA ICSA

Ms Moffatt is a graduate of the Australian Institute of Company Directors (GAICD) and a fellow GIA ICSA of the Governance Institute of Australia. Ms Moffatt has a wealth of experience, providing specialised accounting and company secretary services to public companies for over 20 years. Ms Moffatt was appointed Joint Company Secretary on 15 January 2019.

Meetings of Directors

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

Director	Board meetings held	Board meetings attended
Guy Le Page	9	8
Clinton Carey	9	9
Adrien Wing	9	8
Andrew Knox	6	6

Securities held and controlled by Directors

As at the date of this report, the interests of Directors in securities of the Company were as follows:

Holder	Ordinary Shares	Options	Performance Rights
Guy Le Page	1,000,000	500,000	10,000,000
Andrew Knox	-	-	30,000,000
Clinton Carey	9,208,783	9,922,002	10,000,000
Adrien Wing	11,594,000	11,922,000	10,000,000
Total	**21,802,783**	**22,344,002**	**60,000,000**

Performance Rights granted to directors

Performance Rights were issued to directors following shareholder approval on 10 September 2018 (Mr Andrew Knox 30,000,000, Mr Guy Le Page 10,000,000, Mr Clinton Carey 10,000,000 and Mr Adrien Wing 10,000,000) as included above.

The 30,000,000 Performance Rights issued to the Non-Executive Directors are subject to the following vesting condition:

- The achievement of production (of a saleable quantity) at the Innamincka Dome Project no later than 11 September 2020.

The 30,000,000 Performance Rights issued to Mr Knox in 3 tranches of 10,000,000 each are subject to the following vesting conditions:

- Tranche 1: The volume weighted average price (VWAP) of the Company's shares over 14 consecutive days on which trades in the Company's shares are recorded meets or exceeds 0.6 cents.
- Tranche 2: The VWAP of the Company's shares over 14 consecutive days on which trades in the Company's shares are recorded meets or exceeds 1.2 cents.
- Tranche 3: The VWAP of the Company's shares over 14 consecutive days on which trades in the Company's shares are recorded meets or exceeds 2.4 cents.

During the financial year no shares or options were granted by the Company to the Directors as part of their remuneration.

Shares under option or issued on exercise of options

There are no unissued shares. Interests under option as at the date of this report are as follows:

Expiry Date	Exercise Price (cents)	Number on issue – 2017	Issued during year	Lapsed during year	Exercised during year	Number on issue
30/11/2019	1.00	248,309,480	32,500,000	-	-	280,809,480
Total Options Issued		**248,309,480**	**32,500,000**	**-**	**-**	**280,809,480**

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 year included:

Directors

Mr Andrew Knox – Managing Director (appointed 6 July 2018)

- Director salary set at $156,000 per annum plus superannuation.
- 30,000,000 Performance Rights were issued following shareholder approval on 10 September 2018. The 30,000,000 Performance Rights issued in 3 tranches of 10,000,000 each are subject to the following vesting conditions:
  - Tranche 1: The volume weighted average price (VWAP) of the Company's shares over 14 consecutive days on which trades in the Company's shares are recorded meets or exceeds 0.6 cents.
  - Tranche 2: The VWAP of the Company's shares over 14 consecutive days on which trades in the Company's shares are recorded meets or exceeds 1.2 cents.
  - Tranche 3: The VWAP of the Company's shares over 14 consecutive days on which trades in the Company's shares are recorded meets or exceeds 2.4 cents.
- In addition to annual reviews, Mr Knox's base salary may:
  - increase to $312,000 per annum plus superannuation upon the Company's EBITDA exceeding $2,000 per day for 90 consecutive days (average); and
  - increase to $468,000 per annum plus superannuation upon the Company's EBITDA exceeding $4,000 per day for 90 consecutive days (average); and
  - increase to $624,000 per annum plus superannuation upon the Company's EBITDA exceeding $6,000 per day for 90 consecutive days (average).
- The Company may terminate Mr Knox's salary by giving not less than 6 months written notice, or upon payment of 6 months' base salary in lieu of notice.

Mr Guy Le Page – Non-Executive Chairman

- Director fees set at $36,000 per annum from 1 January 2017.
- 10,000,000 Performance Rights following shareholder approval on 10 September 2018 were issued to Mr Le Page subject to the following vesting condition:
  - The achievement of production (being production of a saleable quantity) at the Innamincka Dome Project no later than 11 September 2020.

Mr Clinton Carey – Non-Executive Director

- Director fees set at $36,000 per annum from 1 January 2017.
- Consulting fees of $85,425 earned during 2018 for corporate advisory services.
- 10,000,000 Performance Rights following shareholder approval on 10 September 2018 were issued to Mr Carey subject to the following vesting condition:
  - The achievement of production (being production of a saleable quantity) at the Innamincka Dome Project no later than 11 September 2020.

Mr Adrien Wing – Non-Executive Director and Company Secretary

- Director fees set at $36,000 per annum from 1 January 2017.
- The company has an agreement with Northern Star Nominees Pty Ltd for company secretarial services at a rate of $5,500 per month.
- 10,000,000 Performance Rights following shareholder approval on 10 September 2018 were issued to Mr Wing subject to the following vesting condition:
  - The achievement of production (being production of a saleable quantity) at the Innamincka Dome Project no later than 11 September 2020.

C. Details of Remuneration

The key management personnel of Red Sky Energy Limited during the years ended 31 December 2018 and 2017 included all directors mentioned above. There are no other executives of the Company which are required to be disclosed.

Remuneration packages contain the following key elements:

- Primary benefits – salary and consulting fees;
- Equity – share options, performance rights and other equity securities; and
- Other benefits.

Nature and amount of remuneration:

2018	Short-term employee benefits			Post - employment benefits	Equity Performance related		
	Director Fees/Salary $	Company secretarial, or consulting fees $	Annual Leave Accrual $	Superannuation $	Options $	Performance Rights $	Total $
Directors							
G Le Page	36,000	-	-	-	-	-	36,000
A Knox (1)	73,864	-	5,991	7,017	-	87,700	174,572
C Carey	36,000	85,425	-	-	-	-	121,425
A Wing (2)	36,000	66,000	-	-	-	-	102,000
TOTAL	**181,864**	**151,425**	**5,991**	**7,017**	**-**	**87,700**	**433,997**

2017	Short-term employee benefits		Post -employment benefits	Equity Performance related		
	Director Fees $	Company secretarial, or consulting fees $	Superannuation $	Options $	Performance Rights $	Total $
Directors						
G Le Page	36,000	-	-	23,000	-	59,000
R Krause (3)	-	-	-	-	-	-
C Carey	36,000	93,183	-	17,250	-	146,433
A Wing (2)	36,000	66,000	-	17,250	-	119,250
TOTAL	**108,000**	**159,183**	**-**	**57,500**	**-**	**324,683**

(1) A Knox was appointed as a Director on 6 July 2018.
(2) The fees for Mr Wing include $66,000 per annum for company secretarial services.
(3) R Krause resigned on 1 February 2017.

D. Key Management Personnel Equity Holdings

As at 31 December 2018, the interests of the Directors in shares and options of the Company were:

Ordinary shares

Holder	Balance at beginning of the year	Granted as compensation	Options exercised	Net change other *	Final Interest	Balance at end of the year
Andrew Knox	-	-	-	-	-	-
Adrien Wing	11,594,000	-	-	-	-	11,594,000
Clinton Carey	9,208,783	-	-	-	-	9,208,783
Guy Le Page	1,000,000	-	-	-	-	1,000,000

* 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*
Andrew Knox	-	-	-	-	-	-	-	-	-
Adrien Wing	11,922,000	-	-	-	-	11,922,000	11,922,000	-	-
Clinton Carey	9,922,002	-	-	-	-	9,922,002	9,922,002	-	-
Guy Le Page	500,000	-	-	-	-	500,000	500,000	-	-

Performance Rights

Holder	Balance at beginning of the year	Granted as compensation	Rights exercised	Rights lapsed	Final Interest	Balance at end of the year
Andrew Knox	-	30,000,000	-	-	-	30,000,000
Adrien Wing	-	10,000,000	-	-	-	10,000,000
Clinton Carey	-	10,000,000	-	-	-	10,000,000
Guy Le Page	-	10,000,000	-	-	-	10,000,000

E. Share-based Compensation

Other than the above Performance Rights granted as compensation, there was no share-based compensation granted to key management personnel.

F. Related party transactions with key management personnel

Related party transactions are set out in Note 19.

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

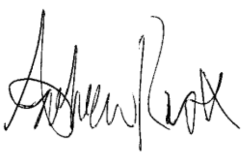
The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

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 2018. The written Auditor's Independence Declaration is attached at page 15 and forms part of this Director's Report.

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



Andrew Knox
Managing Director

29 March 2019

RSM Australia Partners

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the annual financial report of Red Sky Energy Limited for the year ended 31 December 2018, 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

29 March 2019
Melbourne, Victoria

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

		Group	
	Notes	2018 $	2017 $
Revenue from continuing operations	5	2,416	2,152
Administration expenses		(375,924)	(281,971)
Corporate advisory and consulting fees		(223,042)	(354,445)
Director remuneration	6	(433,997)	(324,683)
Employee entitlements		(77,100)	-
Legal fees		(43,496)	(11,049)
Interest expense		(4,056)	(60,717)
Profit on sale of subsidiary		-	37,838
Depreciation		(1,088)	-
Loss from continuing operations before income tax		**(1,156,287)**	**(992,875)**
Income tax benefit		-	-
Net loss for the year		**(1,156,287)**	**(992,875)**
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Foreign currency translation		115,345	(105,531)
Total comprehensive loss for the year, net of tax		**(1,040,942)**	**(1,098,406)**
Basic and diluted (loss) per share – overall (cents per share)	17	(0.17)	(0.27)

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 2018

		Group	
	Notes	2018 $	2017 $
Current Assets			
Cash and cash equivalents	8	90,801	209,178
Trade and other receivables	9	19,788	56,213
Prepayments		43,172	40,680
Total current assets		**153,761**	**306,071**
Non-Current Assets			
Plant and equipment	10	4,073	1,406
Other financial assets	12	21,929	41,478
Exploration and evaluation assets	13	1,047,833	917,819
Total Non-Current Assets		**1,073,835**	**960,703**
Total Assets		**1,227,596**	**1,266,774**
Current Liabilities			
Trade and other payables		355,049	348,424
Provisions		11,289	-
Borrowings	14	112,550	22,794
Total Current Liabilities		**478,888**	**371,218**
Total Liabilities		**478,888**	**371,218**
Net Assets		**748,708**	**895,556**
Equity			
Issued share capital	15	38,302,284	37,495,890
Reserves	16	252,075	49,030
Accumulated losses		(37,805,651)	(36,649,364)
Total Equity		**748,708**	**895,556**

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 2018

	Notes	Group 2018 $	Group 2017 $
Cash flows from operating activities			
Payments to suppliers and employees (inclusive of GST)		(799,430)	(455,763)
Interest paid		(3,998)	(9,669)
Interest received		2,338	2,152
Net cash used in operating activities	18	**(801,090)**	**(463,280)**
Cash flows from investing activities			
Exploration and evaluation expenditure		(42,856)	(56,648)
Payments for plant and equipment		(3,755)	(1,818)
Deposits refunded/(paid)		19,549	(488)
Net cash used in investing activities		**(27,062)**	**(58,954)**
Cash flows from financing activities			
Proceeds from issues of shares		663,574	130,000
Proceeds from issues of convertible loans		50,000	750,000
Capital raising costs		(37,180)	-
Repayment of borrowings		(56,619)	(334,192)
Proceeds from Director loans		90,000	-
Net cash flows provided by financing activities		**709,775**	**545,808**
Net (decrease)/increase in cash and cash equivalents		(118,377)	23,574
Cash and cash equivalents at the beginning of the financial year		209,178	185,604
Cash and cash equivalents at the end of the financial year	8	**90,801**	**209,178**

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 2018

Consolidated	2018			
	Issued Capital	Accumulated Losses	Reserves	Total Equity
Balance at beginning of year	37,495,890	(36,649,364)	49,030	895,556
Loss for the year	-	(1,156,287)	-	(1,156,287)
Other comprehensive loss for the year	-	-	115,345	115,345
Total comprehensive loss for the year	-	(1,156,287)	115,345	(1,040,942)
Transactions with equity holders in their capacity as equity holders				
Issues of share capital (net of costs)	806,394	-	-	806,394
Share based payments – Performance Rights	-	-	87,700	87,700
	806,394	-	87,700	894,094
Balance at the end of the year	**38,302,284**	**(37,805,651)**	**252,075**	**748,708**

Consolidated	2017			
	Issued Capital	Accumulated Losses	Reserves	Total Equity
Balance at beginning of year	35,646,476	(37,146,489)	1,755,561	255,548
Loss for the year	-	(992,875)	-	(992,875)
Other comprehensive loss for the year	-	-	(105,531)	(105,531)
Total comprehensive loss for the year	-	(992,875)	(105,531)	(1,098,406)
Transactions with equity holders in their capacity as equity holders				
Issues of share capital	1,669,414	-	-	1,669,414
Share based payments - Options	-	-	69,000	69,000
Transfer of reserves (Performance Rights)	180,000	-	(180,000)	-
Transfer of reserves (expired Options)	-	1,490,000	(1,490,000)	-
	1,849,414	1,490,000	(1,601,000)	1,738,414
Balance at the end of the year	**37,495,890**	**(36,649,364)**	**49,030**	**895,556**

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 2018

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 and Interpretations and the *Corporations Act 2001*. Red Sky Energy Limited and its subsidiaries (the Group) is a for-profit entity for the purpose of preparing the financial statements.

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 2018 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 the Group complies 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 $1,156,287 and had net cash outflows from operating activities of $801,090 for the year ended 31 December 2018. In addition, as at 31 December 2018, the consolidated entity had a deficiency in working capital of $325,127. The various matters detailed above give rise to the existence of a material uncertainly that cast significant doubt on the ability of the group to continue as a going concern.

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:

- Cash inflows are expected to be raised from future capital raisings; 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 2018

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 2018 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 concluded that the correct classification is '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.

(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. 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.

(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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(f) Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless, an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

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

Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

(ii) Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income include equity investments which the consolidated entity intends to hold for the foreseeable future and has irrevocably elected to classify them as such upon initial recognition.

(g) Impairment of financial assets

The consolidated entity recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the consolidated entity's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is 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 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(i) Plant and Equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Computer equipment	3 Years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

(i) 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.

(l) 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.

(m) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(n) 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.

(o) 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.

(p) 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 or Monte-Carlo simulation methods. 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 2018

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(q) 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.

(r) 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.

(s) 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 2018

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	
	2018 **$**	**2017** **$**
Security deposits	21,929	41,478
Cash and cash equivalents (interest-bearing accounts)	90,801	209,178
Net exposure	**112,730**	**250,656**

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%	564	1,253
- 0.5%	(564)	(1,253)
Equity – higher / (lower)		
+ 0.5%	564	1,253
- 0.5%	(564)	(1,253)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

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 2018							
Non-interest bearing							
Trade and other payables	355,049	-	-	-	-	355,049	355,049
Interest bearing							
Borrowings	112,750	-	-	-	-	112,750	112,750
As at 31 December 2017							
Non-interest bearing							
Trade and other payables	348,424	-	-	-	-	348,424	348,424
Interest bearing							
Borrowings	22,794	-	-	-	-	22,794	22,794

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

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.

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.

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 oil and gas properties.

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 were located in the United States during the year ended 31 December 2018.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. REVENUE

	Group	
	2018 $	2017 $
Interest income	2,416	2,152
Total	**2,416**	**2,152**

6. EXPENSES

	Group	
Loss from continuing operations before income tax has been determined after including directors fees and consulting as follows:	2018 $	2017 $
Salaries and consulting fees	339,280	267,183
Superannuation	7,017	-
Share based remuneration	87,700	57,500
Total	**433,997**	**324,683**

7. INCOME TAX

	Group	
	2018 $	2017 $
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	(1,156,287)	(992,875)
Income tax benefit calculated at 27.5% (2017: 30%)	(317,979)	(297,863)
Effect of expenses that are not deductible in determining taxable profit	28,359	116,415
Temporary differences and tax losses in the current year for which no deferred tax asset has been brought to account	289,620	181,448
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(r) occur:	**7,058,692**	**7,415,985**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

8. CASH AND CASH EQUIVALENTS

	Group	
	2018 $	2017 $
Cash at bank	90,801	209,178

9. TRADE AND OTHER RECEIVABLES

	Group	
Current	2018 $	2017 $
Other Receivables	21,321	56,213

10. PLANT AND EQUIPMENT

	Group	
Non-Current	2018 $	2017 $
Computer equipment	5,572	1,818
Less: Accumulated depreciation	(1,499)	(412)
	4,073	**1,406**
Reconciliations of movements:		
Opening Balance	1,406	-
Additions	3,755	1,818
Depreciation expense	(1,088)	(412)
Closing Balance	**4,073**	**1,406**

11. INVESTMENT IN CONTROLLED ENTITIES

		Ownership Interest	
	Country of Incorporation	2018 %	2017 %
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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

12. OTHER FINANCIAL ASSETS

	Group	
	2018 $	2017 $
Security deposits	21,929	41,478

13. EXPLORATION AND EVALUATION ASSETS

	Group	
	2018 $	2017 $
Opening balance	917,819	973,231
Additions	14,669	28,187
Foreign exchange movement	115,345	(83,599)
	1,047,833	**917,819**

14. BORROWINGS

	Group	
	2018 $	2017 $
Director loans	90,000	-
Loan for insurance funding	22,550	22,794
	112,550	**22,794**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

15. ISSUED CAPITAL

(a) Share Capital

Ordinary shares	Group	
	2018 **$**	**2017** **$**
823,208,794 fully paid ordinary shares (31 December 2017: 608,727,909)	38,302,284	37,495,890
Movements during the year:		
Beginning of year - 608,727,909 fully paid ordinary shares (2017: 6,161,396,921)	37,495,890	35,646,476
Shares issued during the prior year	-	1,669,414
Consolidation of share capital 1 for 50 (reduction 6,038,168,796) (i)	-	-
175,793,509 shares issued @ $0.004	703,174	-
38,687,376 shares issued for corporate advisory services	180,000	-
Transfer from reserves (Performance Rights)	-	180,000
Equity Raising Expenses	(76,780)	-
	38,302,284	**37,495,890**

(i) 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 – 2017	Issued during year	Lapsed during year	Exercised during year	Number on issue - 2018
30/11/2019	1.00	248,309,480	32,500,000	-	-	280,809,480
Total		**248,309,480**	**32,500,000**	**-**	**-**	**280,809,480**

Options issued to non-executive and a former director in 2017 following shareholder approval on 9 March 2017 (Mr Guy Le Page 10,000,000, Mr Clinton Carey 7,500,000, Mr Adrien Wing 7,500,000 and Mr Russell Krause 5,000,000) are included above.

The fair value of the share options granted is estimated at 0.23 cents per option 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 2.08%, and a share price at the grant date of 0.5 cents based on the price offered for the conversion of the convertible notes.

During the current year, 32,500,000 free Options were issued to investors as part of a placement announced on 28 June 2017. The issue of these Options was approved by shareholders on 23 May 2018.

(c) Performance Rights

Expiry Date	Fair Value per Right (cents)	Amount expensed $	Recipients	Issued during year	Lapsed during year	Number on issue at year end
11/9/2020	0.4 *	nil *	Non-Executive Directors	30,000,000	-	30,000,000
11/9/2023	0.377	37,700	A Knox - Tranche 1	10,000,000	-	10,000,000
11/9/2023	0.29	29,000	A Knox - Tranche 2	10,000,000	-	10,000,000
11/9/2023	0.21	21,000	A Knox - Tranche 3	10,000,000	-	10,000,000
Total		**87,700**		**60,000,000**	**-**	**60,000,000**

Performance Rights were issued to directors following shareholder approval on 10 September 2018 (Mr Andrew Knox 30,000,000, Mr Guy Le Page 10,000,000, Mr Clinton Carey 10,000,000 and Mr Adrien Wing 10,000,000) as described above.

The 30,000,000 Performance Rights issued to the Non-Executive Directors are subject to the following vesting condition:

- The achievement of production (being production of a saleable quantity) at the Innamincka Dome Project no later than 11 September 2020.

The 30,000,000 Performance Rights issued to Mr Andrew Knox in 3 tranches of 10,000,000 each are subject to the following vesting conditions:

- Tranche 1: The volume weighted average price (VWAP) of the Company's shares over 14 consecutive days on which trades in the Company's shares are recorded meets or exceeds 0.6 cents.
- Tranche 2: The VWAP of the Company's shares over 14 consecutive days on which trades in the Company's shares are recorded meets or exceeds 1.2 cents.
- Tranche 3: The VWAP of the Company's shares over 14 consecutive days on which trades in the Company's shares are recorded meets or exceeds 2.4 cents.

The fair value of the Performance Rights granted is estimated using a Monte-Carlo model taking into account the terms and conditions upon which the Performance Rights were granted. The model inputs used an expected volatility of 100%, and a share price at the grant date of 0.4 cents.

* The probability of the non-market condition being met is ignored for assessing fair value. At year end it was not considered probable that the non-market condition would be achieved and therefore no expense has been recorded for these Performance Rights.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

16. RESERVES

	Group	
	2018 $	2017 $
Share based payments reserve	156,700	69,000
Foreign currency translation reserve	95,375	(19,970)
	252,075	**49,030**
Opening balance	49,030	1,755,561
Movements during the year:		
Converted to share capital	-	(180,000)
Transfer to accumulated losses	-	(1,490,000)
Share based payments – share options issued	--	69,000
Share based payments – performance rights issued	87,700	-
Sale of Cache Martini	-	(37,838)
Foreign currency translation	115,345	(67,693)
	252,075	**49,030**

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	
	2018 $	2017 $
Reconciliation of earnings to net loss		
Net loss	(1,156,287)	(992,875)
Calculation of basic and dilutive EPS – overall (cents)	(0.17)	(0.27)
Calculation of basic and dilutive EPS – continued operations (cents)	(0.17)	(0.27)
Weighted average number of ordinary shares outstanding during the year used in calculation of basic and dilutive EPS	Number 697,659,292	Number 361,557,317

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

18. CASH FLOW INFORMATION

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

	GROUP	
	2018 $	2017 $
Loss after income tax	(1,156,287)	(992,875)
Non cash flows in loss:		
Share based payments	267,700	364,048
Disposal of controlled entity	-	(37,838)
Depreciation	1,088	412
Changes in assets and liabilities:		
Increase in trade creditors and accruals	91,187	168,223
Increase in provisions	11,289	-
(Increase)/decrease in trade and other receivables	(13,575)	(6,001)
(Increase)/decrease in prepayments	(2,492)	40,751
Cash flows used in operating activities	**(801,090)**	**(463,280)**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

19. 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 20 and the Remuneration Report in the Directors' Report. The transactions in the table below in Note 19 (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.

Entity		Amount $	Relationship
RM Corporate Finance Pty Ltd	2018	60,000	Corporate advisory services provided. RM Corporate Finance Pty Ltd is a related entity of Mr Guy Le Page, a director.
	2017	364,000	

(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 $62,133 (2017: $45,400) for outstanding consulting and director fees.
Mr Guy Le Page was owed $6,000 (2017: $nil) for outstanding director fees.
RM Corporate Finance Pty Ltd (a related entity of Mr Guy Le Page) was owed $nil (2017: $120,000) for outstanding corporate advisory fees.
Mr Andrew Knox was owed $14,235 (2017: $nil) for salary and superannuation and $8,160 (2017: $nil) for outstanding consulting fees and expenses.
Mr Adrien Wing was owed $64,075 (2017: $84,700) for outstanding director and company secretarial fees (total company secretarial fees during the 2018 year amounted to $66,000).

(f) Loans to/from related parties
Mr Andrew Knox, Mr Clinton Carey and Mr Adrien Wing provided an unsecured loan of $30,000 each (total of $90,000) to the Company during the 2018 year. There is no repayment date on the loans. Interest is charged at 10% per annum and $58 was owing at year end.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

20. 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	**2018 $**	**2017 $**
Short-term employee benefits	339,280	267,183
Post employee benefits	7,017	-
Share-based payments	87,700	57,500
Total	**433,997**	**324,683**

21. REMUNERATION OF AUDITORS

	GROUP	
	2018 $	**2017 $**
Amounts received or due and receivable by RSM Australia Partners for:		
Audit and audit review services	38,460	40,229

22. COMMITMENTS AND CONTINGENCIES

The consolidated entity has no commitments or contingencies.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

23. PARENT ENTITY DISCLOSURES

(a) Summary financial information

	Parent	
	2018 **$**	**2017** **$**
Financial Position		
Assets		
Current assets	153,550	305,861
Non-current assets	1,000,205	1,002,418
Total assets	**1,153,755**	**1,308,279**
Liabilities		
Current liabilities	478,888	371,219
Non-current liabilities	55,000	55,000
Total liabilities	**533,888**	**426,219**
Net assets	**619,867**	**882,060**
Equity		
Issued share capital	38,302,284	37,495,890
Share based payments reserve	156,700	69,000
Accumulated losses	(37,839,117)	(36,682,830)
Total equity	**619,867**	**882,060**
Financial Performance		
Loss for the year	(1,156,287)	(1,111,902)
Other comprehensive income	-	-
Total comprehensive income	**(1,156,287)**	**(1,111,902)**

(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 2018

24. EVENTS SUBSEQUENT TO BALANCE DATE

On 8 March 2019 the Sale and Purchase Agreement (SPA) with Acer Energy Pty Ltd, a Beach subsidiary, to acquire that subsidiary's interests in the Innamincka Dome Project in the Cooper Basin, South Australia was amended. The principal term of which is that Beach will continue to provide financial security for the licences. Red Sky will provide an escrowed financial assurance of $800,000 and should Beach not be released from the financial security within six months then the licences will revert back to Beach and the escrowed funds are forfeit. From this amendment all conditions have been satisfied under the SPA once Ministerial consent has been granted.

The Company has entered into a loan agreement with Mr Andrew Knox, Managing Director, for the escrow amount ($800,000). This agreement is an unsecured loan, not repayable in circumstances where the demand for repayment would create an event of insolvency for the Company. The term is for up to 18 months at an interest rate of 10% per annum. The loan terms provide for the issue of 66,670,000 ordinary fully paid shares to Mr Knox, the issue of which is subject to shareholder approval. If that approval is not obtained, the Company will pay Mr Knox an establishment fee of $100,000. Otherwise, the loan contains terms which are typical for agreements of a similar nature.

On 20 March 2019 the Company placed 190 million fully paid ordinary shares (81,070,879 per LR7.1A and 108,929,121 per LR7.1) at an issue price of $0.0018 (0.18 cents) per share to raise $342,000 before associated costs.

On 21 March 2019 the Company received ministerial consent to transfer the Innamincka Dome licences to its wholly owned subsidiary Red Sky (NT) Pty Ltd. The South Australian Minister for Energy and Mining has approved the registration of the Sale and Purchase Agreement (SPA) with Acer Energy Pty Ltd, a Beach subsidiary, to acquire that subsidiary's interests in the Innamincka Dome Project in the Cooper Basin, South Australia. Consequently, the licences have been transferred to Red Sky (NT) Pty Ltd.

Only nominal consideration of $1 is payable for the assets acquired under the SPA. However the Company is responsible for discharging all obligations arising in respect of the assets purchased, including all liabilities relating to the decommissioning, abandonment, rehabilitation, remediation or restoration of those assets. The Directors have not yet completed a detailed estimate of these liabilities. As stated above, Beach will provide financial security for these obligations for a period of at least six months. Following this period, the South Australian government has advised a bond of $5 million is required to be in place with an amount of $1 million able to be delayed for six months.

No other matters or circumstances have arisen since 31 December 2018 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.

25. NEW ACCOUNTING STANDARDS FOR APPLICATION IN FUTURE PERIODS

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 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 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

DIRECTORS' DECLARATION

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 14 to 39, 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 group as at 31 December 2018 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.

Andrew Knox
Managing Director

Melbourne, Victoria
29 March 2019

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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 2018, 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 2018 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 $1,156,287 and had net cash outflows from operating activities of $801,090 during the year ended 31 December 2018 and as at that date, the Group had net current liabilities amounting to $325,127 (current liabilities exceeded total assets). As stated in Note 1(a) (v), these events or conditions, along with other matters as set forth in Note 1 (a) (v), 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.

<table>
<tr><th>Key Audit Matter</th><th>How our audit addressed this matter</th></tr>
<tr><td colspan="2">Carrying value of capitalised Exploration and evaluation assets
Refer to Note 13 in the financial statements</td></tr>
<tr><td>The Group has capitalised exploration expenditure with a carrying value of $1,047,833. We determined this to be a key audit matter because capitalised exploration expenditure represents 85% of the total assets and 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.</td><td>Our audit procedures in relation to the carrying value of exploration and evaluation assets included:
• Gaining an understanding of management's ongoing exploration plans and short-term budgeted expenditure;
• Discussing with the Exploration and Development Manager the status of work undertaken and planned, to resolve the issue of water getting into the gas pipe and retarding the flow of gas at the Gold Nugget site;
• Assessing and evaluating management's assessment that no indicators of impairment existed in relation to this asset;
• 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 capital in nature and in line with the Group's accounting policy; and
• Corroborating the accuracy of the translation of the asset from USD to AUD.</td></tr>
<tr><td colspan="2">Subsequent event - Innamincka Dome Project
Refer to Note 24 to the financial statements</td></tr>
<tr><td>During the year 2018, the Group entered into a conditional agreement to acquire Beach Energy Ltd's interests in the Innamincka Dome oil & gas project ("Innamincka Dome Project"). At the end of the financial year negotiations were ongoing, but ministerial consent to transfer the licences from Beach Energy Ltd was subsequently received on 21 March 2019. We determined this to be a key audit matter due to the significance of this subsequent event for the group and therefore the importance of the appropriateness and accuracy of the relevant disclosures reflected in the financial report.</td><td>Our audit procedures included:
• Reviewing the minutes of directors' meetings held during the year and after the date of the financial report and making appropriate inquiries about the status of the acquisition of the Innamincka Dome Project;
• Obtaining and reviewing all documentation related to the acquisition including the acquisition agreement;
• Reviewing Note 24 to the financial statements as well as other related information in the financial report, to corroborate the disclosures included are appropriate and accurately reflect the acquisition of this asset.</td></tr>
</table>

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 2018; 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.

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/auditors_responsibilities/ar2.pdf. 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 10 to 14 of the directors' report for the year ended 31 December 2018.

In our opinion, the Remuneration Report of Red Sky Energy Limited for the year ended 31 December 2018, 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, 29 March 2019

SHAREHOLDER INFORMATION

TWENTY LARGEST SHAREHOLDERS

SHAREHOLDERS (Fully Paid Ordinary) 22 March 2019	NUMBER OF SHARES	Percentage
MR SUFIAN AHMAD	32,400,000	3.20
MOWBRICK PTE LIMITED	31,753,121	3.13
MR MOBEEN IQBAL	29,902,777	2.95
MR BILL AHMAD	29,000,000	2.86
MOWBRICK PTE LIMITED	26,753,122	2.64
BARCLAY WELLS LTD	25,000,000	2.47
ALITIME NOMINEES PTY LTD	23,518,452	2.32
DEJUL TRADING PTY LTD	22,525,936	2.22
BODIE INVESTMENTS PTY LTD	21,111,111	2.08
MR NORMAN JOHN WATSON	21,111,111	2.08
MS PHAROTH SAN & MR KADEN SAN	20,000,000	1.97
MR RAYMOND JOHN COLLINS	19,444,444	1.92
REDCODE PTY LTD	18,000,000	1.78
AMBER PLUS PTY LTD	16,753,121	1.65
JOCAPH PTY LTD <JOCAPH SUPER FUND A/C>	16,753,121	1.65
CASHMERE DELL PTY LTD	15,090,088	1.49
MR DAVID CHARLES NEESHAM & MRS PAMELA CHRISTINE NEESHAM	14,027,778	1.38
AUKERA CAPITAL PTY LTD	13,888,889	1.37
MGL CORP PTY LTD	13,888,889	1.37
BAB SUPER FUND PTY LTD <BAB SUPER FUND A/C>	13,000,000	1.28
TOP 20 SHAREHOLDERS	**423,921,960**	**41.84**
TOTAL ISSUED SHARES	**1,013,208,794**	**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	649	328,844	0.03
1,001 - 5,000	717	1,873,119	0.18
5,001 – 10,000	234	1,842,468	0.18
10,001 – 100,000	436	14,641,175	1.45
100,001 and over	358	994,523,188	98.16
Totals	**2,394**	**1,013,208,794**	**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 22 March 2019.

2. Unquoted Securities

There are 280,809,480 unlisted Options present with an exercise price of $0.01 and an expiry date of 30 November 2019.

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

By Class	Holder of Options	Number of Options	Percentage
1 – 1,000	-	-	-
1,001 - 5,000	-	-	-
5,001 – 10,000	-	-	-
10,001 – 100,000	-	-	-
100,001 and over	34	280,809,480	100.00
Totals	**34**	**280,809,480**	**100 %**

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 2,394 holders of fully paid ordinary shares. The Company has no partly paid shares on issue.

4. Marketable parcel

There are 2,120 Shareholders with less than a marketable parcel as at 22 March 2019.

C. OTHER DETAILS

1. Company Secretaries

Mr Adrien Wing
Ms Pauline Moffatt

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:

Advanced Share Registry
110 Stirling Highway
Nedlands WA 6009

Telephone: + (61) 08 9389 8033
Facsimile: + (61) 08 9262 3723

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.