ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

ABN 94 099 116 275

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CORPORATE DIRECTORY

Non-Executive Chairman	Mr Robert Annells
Managing Director	Mr Andrew Knox
Non-Executive Director	Mr Adrien Wing
Company Secretaries	Mr Adrien Wing Ms Pauline Moffatt
Registered & Principal Office	Level 2, 480 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

MANAGING DIRECTOR'S LETTER

Dear Shareholders,

The previous year saw Red Sky deliver a resounding performance of cost control in what was an unprecedented period for the industry and the world at large as a result of the global pandemic.

The company proved its resilience and emerged at the beginning of 2021 with a new value accretive 100% acquisition in the Killanoola oil field in the Penola trough in south east South Australia. The general investment sentiment was much improved and the Company was able to capitalise on this with an equity raising to strengthen our balance sheet and enable Red Sky to move to monetise the asset.

Significant progress was made at Killanoola with petrophysical analysis identifying additional potential pay at both the DW1 and SE1 well sites. A slickline was run at SE1 and production test conducted at DW1, assays were taken and a 3D seismic acquisition over the entire license was run to assist in a full field development.

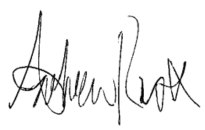
At our other licenses at Innamincka in the Cooper basin, South Australia, Santos the operator completed their analysis of the reprocessed 2D seismic and a drill target was identified on the Yarrow gas field. Planned drilling was hampered by inclement weather, however the well is now expected to commence drilling in June 2022.

While Red Sky continues to progress its monetisation strategy of our assets at both Killanoola and Innamincka, we are by no means wedded to just organic growth and we continue to explore other opportunities in line with our stated inorganic strategy of acquiring producing or near production assets. The global move to energy transition out of fossil fuels by the majors to meet their carbon reduction targets has created a plethora of opportunities for the Company.

The Company is well aware of the risks that climate change can bring however we are exploring our own transition strategies that can be achieved from our production. The Company is actively pursuing such opportunities that these structural changes have provided and we hope to be announcing a successful acquisition this year. The pursuit of both of these approaches we hope will enable the Company to achieve the economies of scale that allow Red Sky to have a more relevant position in the market.

On the Corporate page the Company has strengthened the Board during the year with the appointment of a new Chairman, Rob Annells, a veteran of the industry. Mr Annells brings a wealth of experience to the Company and shares the Company's ambitions.

In summation the year was challenging but successful on several fronts and has allowed the Company to be set to springboard in the current year into delivering value and generate sustainable returns to all our shareholders.



Andrew Knox
Managing Director

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 2021.

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 Robert Annells - Non-Executive Chairman (appointed 8 February 2021)
Mr Andrew Knox – Managing Director
Mr Adrien Wing – Non-Executive Director
Mr Clinton Carey – Non-Executive Director (resigned 16 April 2021)

Company Secretaries

Mr Adrien Wing
Ms Pauline Moffatt

Principal Activities

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

Operating Results

The net operating loss of the Group for the year ended 31 December 2021 after tax was $1,512,352 (31 December 2020: $1,779,122).

Review of Operations

HIGHLIGHTS

KILLANOOLA PRL13

- **South Australian (SA) Department of Energy and Mining (DEM) approval received to commence operations**
- **Five-year renewal granted by SA DEM**
- **Approval from landowners for Killanoola 3D seismic acquisition completed**
- **3D seismic acquisition works commenced**

KILLANOOLA DW-1

- **Rods confirmed to be free moving and fit for purpose**
- **Preliminary production testing completed after Activity Approval from SA DEM received**
    - **Linear Rod Pump functioning properly**
    - **Representative reservoir fluid samples collected for assay**
    - **Main objectives achieved and no incidents reported**
    - **Oil flowing**

KILLANOOLA SE-1

- **SA DEM approval received to commence slickline operations**
    - **Slickline operations were successful and showed well bore was clear**

INNAMINCKA DOME

- **Yarrow drilling delayed due to extreme wet weather in South Australia**

CORPORATE

- **Successful capital raising of $4.3m rights issue shortfall and placement (before costs).**
- **A further placement and SPP completed raising $5.1m via share placement and SPP (before costs).**
- **Funds will be applied to further expansion and development of the Killanoola Oil Project.**
- **A new Chairman, Mr Robert Annells, and Reservoir Engineer appointed**
- **Cash reserves as at 31 December 2021 of $6.998m**

Killanoola

The Company through its wholly owned subsidiary Red Sky (Killanoola) Pty Ltd, entered into a binding Sale and Purchase Agreement (**SPA**) with Beach Energy Ltd ("**Beach**", ASX: **BPT**) subsidiary to acquire that subsidiary's 100% interest in South Australian Petroleum Retention Licence 13 (PRL-13) which contains the Killanoola oilfield. PRL-13 covers an area of 17.5 sq km and is located in south eastern South Australia close to the Jacaranda Ridge and Haselgrove Gas Fields and Katnook Gas Processing Facility in the Penola Trough of the onshore Otway Basin.

The Killanoola oilfield was discovered by the Killanoola-1 well in 1998 at a depth of 850 metres. The oil is 34° API with a high viscosity. Previous flow tests of the well have recorded rates of up to 300 bopd.

A second well Killanoola Southeast 1 was drilled in 2011 within the PRL-13 area and also discovered oil. This well has not been tested.

Completion of the acquisition occurred in February 2021. Only nominal consideration of $1 was paid for the assets however Red Sky is responsible for discharging all obligations in respect of the assets purchased, including all liabilities relating to the decommissioning, abandonment, rehabilitation, remediation or restoration of the assets.

In late July, Red Sky received approval from the Government of South Australian (SA) Department for Energy and Mining (DEM) to commence operations at Killanoola PRL13 (ASX Announcement 29 July 2021).

In early August, the Company advised that it had initiated works onsite at Killanoola and that it had successfully completed testing of the rods at Killanoola (ASX Announcement 3 August 2021) (ASX Announcement 4 August 2021). The rods were checked to ensure they were free moving and declared fit for purpose.

In mid-September, the Company received approval from the Government of South Australian (SA) Department for Energy and Mining (DEM) to commence slickline operations at the Killanoola (ASX Announcement 13 September 2021).

This approval followed an announcement on 29 July 2021 of SA Government approval to commence operations across the Killanoola Project. With this additional Government approval, slickline work was started to ensure that the well was clear whereupon work can begin immediately on wireline perforation works.

On 20 September 2021, Red Sky announced that the slickline operations were completed and were successful at Killanoola. The slickline intervention showed that the well was clear and work could begin on wireline perforation works on the 16 metres of potential pay identified at SE-1. If successful, this would potentially increase production rates significantly.

In late December, the Company successfully completed a preliminary production test at Killanoola-1 DW-1 with no incidents. (ASX Announcement 22 December 2021) The test achieved the two main objectives:

- (1) Confirm that the Linear Rod Pump is functioning properly;
- (2) Collect surface samples of reservoir fluid for assay studies.

Prior to this, Red Sky was able to successfully flow oil to surface from the existing 5 metres of pay at DW1. (ASX Announcement 13 December 2021) There is a further circa 40 metres of potential pay to perforate in this well. The approval to commence a LRP Production Test at Killanoola-1 DW-1 was received from the Government of South Australian (SA Government) Department for Energy and Mining (DEM) in early December. (ASX Announcement 6 December 2021)

Activity Approval was received to commence testing of the existing 5 metres of pay at DW-1. Contracts for the testing were awarded, equipment was successfully mobilised to site and testing commenced as planned on 10 December 2021. On 13 December 2021 the test was successfully completed with no incidents. Equipment was demobilised from the site commencing 14 December 2021.

Production Test Results

After an initial clean up period, the well produced oil with no water at an average rate of 40 bopd. Surface fluid sampling was then carried out for future assay studies. An extended production test will take place once additional potential zones are perforated.

SE-1

The DEM requires production tubing be installed in the well at SE-1 before wireline perforation testing can commence to better facilitate production testing. This requires a rig to be brought in to run the production tubing. Red Sky, to minimise costs, does not intend to undertake the wireline perforation of the zones of interest until ready to do the same at DW-1.

PRL13 renewal

The DEM granted a third renewal of the license for a period of five years commencing 31 January 2022.

The renewal work programme requirements state that during the term of the licence the Company shall carry out or cause to be carried out the extended production testing of the Killanoola SE1 well.

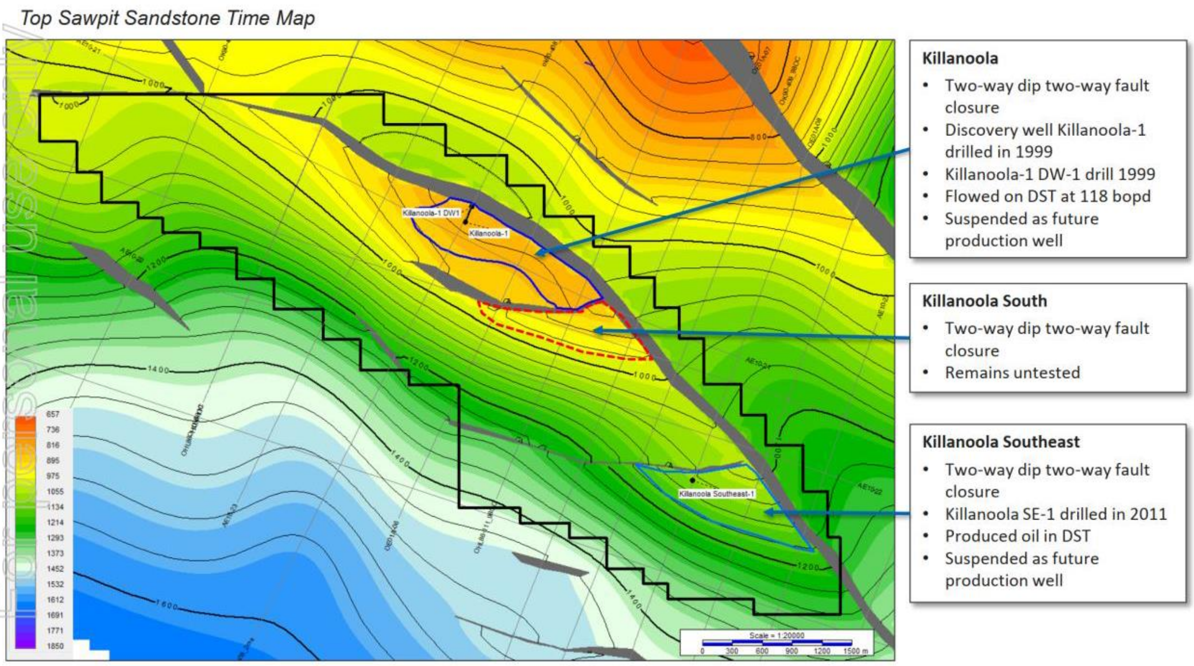


Figure 1: Killanoola Top Sawpit Sandstone Time Map

The acquisition of PRL-13 will afford Red Sky with a significant opportunity to leverage the recovery from the oil price downturn by quickly returning a quality shut-in asset to production, as well as delivering options to:

- seek to prove further reserves in the unexploited areas of the field; and
- develop reserves in the remaining highly prospective areas within the PRL.

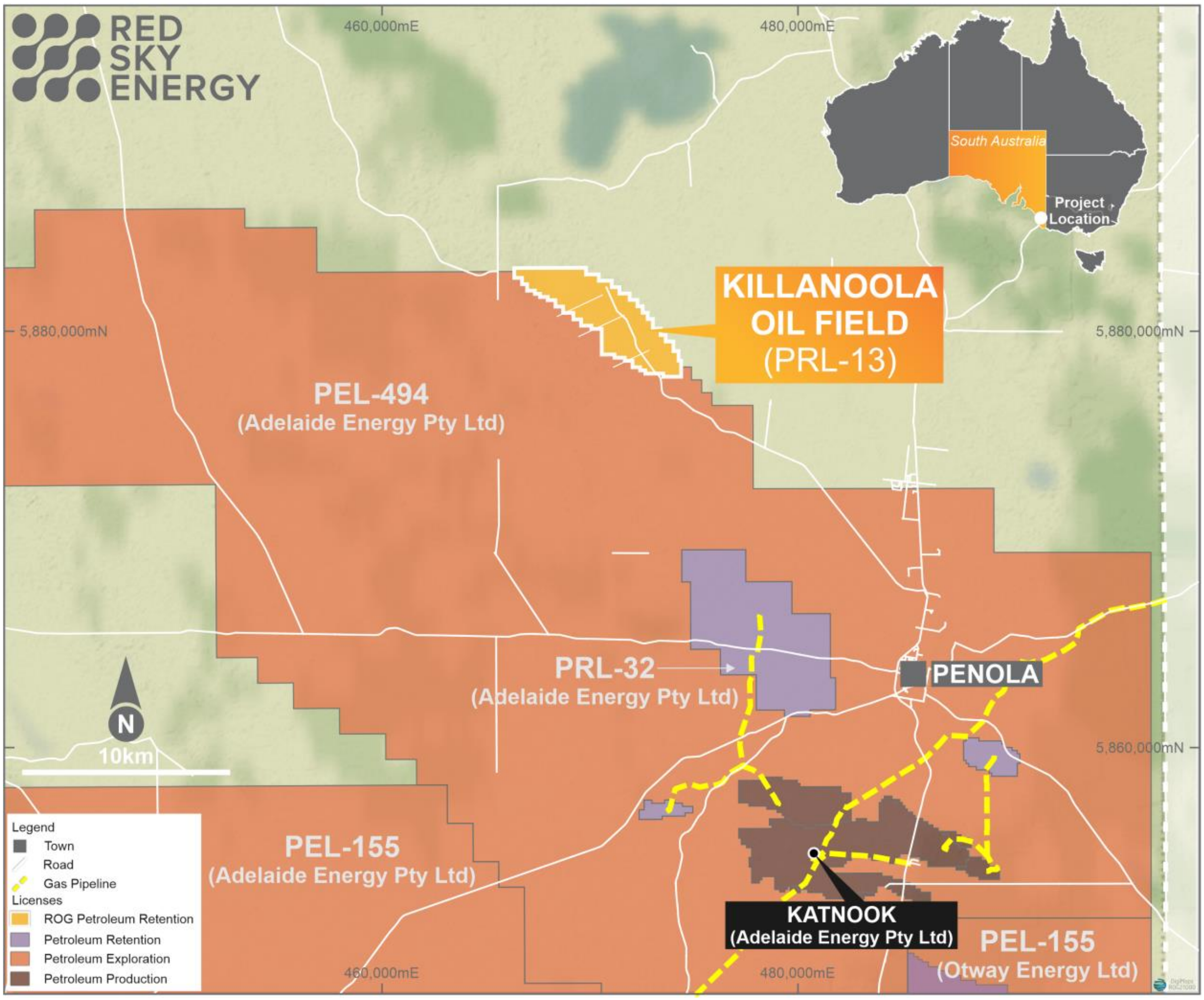


Figure 2: Killanoola Oil Field (PRL-13) location map
(Adelaide Energy Pty Ltd is a subsidiary of Beach Energy Ltd (ASX:BPT))

Innamincka Dome, Cooper Basin

Cooper Basin operator Santos Ltd (ASX:STO) provided a work program review in relation to Red Sky's onshore Cooper Basin retention licenses. These are PRL 14, 17, 18, 180, 181 and 182, collectively known as the Innamincka Dome Projects.

On 5 November 2021, the Company announced that Santos Limited (ASX:STO) had advised it expected to commence drilling the Yarrow well in the last week of December 2021. It was further announced that the Yarrow 3 Gas Well drilling was to start in the last week of 2021. (ASX Announcement 16 December 2021)

Santos updated and advised Red Sky that due to an extended work programme at the preceding well, the current forecast does not indicate the rig moving to Yarrow as originally scheduled. The rig was expected to be at the preceding well until the fourth week of January (the Company announced in mid-February that drilling had been delayed due to extreme wet weather in South Australia. ASX Announcement 14 February 2022).

Red Sky is free carried through the drilling of this well.

Yarrow has previously been estimated to have a 2C contingent resource of 18BCF. A further 20BCF 2C of associated gas is estimated at the Flax oil field 8km to the southeast of Yarrow.

A pipeline of approximately 20km would potentially be built to tie into the grid at Napowie to the south of the Yarrow gas field. The pipeline is expected to have a gross capacity of 20mmcfpd (4mmcfpd net to Red Sky).

Santos Farm Out Terms

Santos to earn an 80% interest and operatorship (ROG: 20%) in Red Sky's onshore Cooper Basin retention licences PRL 14, 17, 18, 180, 181 and 182, collectively known as the Innamincka Dome Projects. The terms provide for Santos to:

- Fund 100% of 50km^2 of 3D seismic over the existing Yarrow gas field in PRL 17, up to a maximum cost of A$1.0 million.
- Fund 100% of an appraisal well in the Yarrow gas field in PRL 17 up to a maximum gross cost of A$3.0 million.
- Fund 100% of a horizontal appraisal well in the Flax oil and gas field in PRL 14, up to a maximum gross cost of A$5 million.
- Subject to satisfactory appraisal outcomes, initially fund 100% of any approved development of the fields, with Santos to be repaid for Red Sky's share of such development expenditure out of Red Sky's share of production.

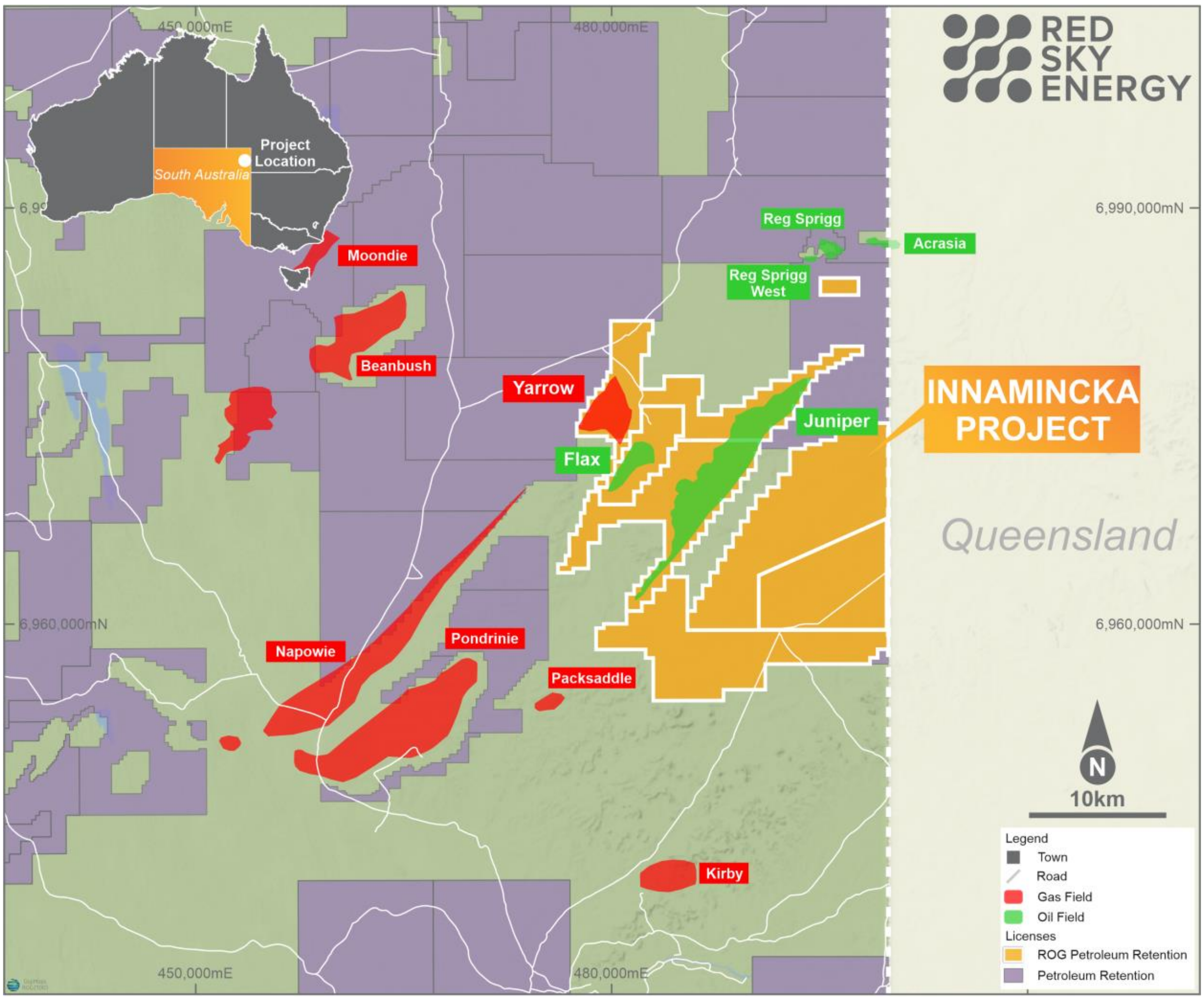


Figure 3: Innamincka Dome Projects location map

Corporate

On 29 January 2021, the Company issued 2,150,000,000 fully paid ordinary shares at a price of $0.002 each raising $4.3 million before costs of the placement.

On 13 August 2021, the Company completed a placement and issued 401,780,000 fully paid ordinary shares at a price of $0.008 per share raising $3.214 million before costs. A Share Purchase Plan at a price of $0.008 per share was offered to eligible shareholders resulting in 230,275,000 fully paid ordinary shares issued raising $1.842 million before costs. The Company completed a further placement and issued 8,750,000 fully paid ordinary shares at a price of $0.008 per share raising $70,000.

Funds raised under the Placement and SPP in combination will be applied to further development and fast tracking of the Killanoola Oil Project, including but not limited to further expanded seismic acquisition and additional drilling in the wider project area at Killanoola, as well as for assessing new opportunities working capital and to meeting the costs of the Placement and the SPP.

Board Changes

Mr Robert Annells was appointed non-executive Chairman of the Company on 8 February 2021.

COVID Update

Due to the current pandemic some staff are continuing to intermittently work remotely and preserve their ability to move when necessary.

Other

The Company continues to review further acquisition opportunities in Australia and overseas.

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 consolidated entity has interests and the extent of the recoverable reserves at those properties. In addition, the consolidated entity 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 their 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 16 of the financial report.

Events Subsequent to Balance Date

The impact of the Coronavirus (COVID-19) pandemic is ongoing following the end of 31 December 2021. It is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

No other matters or circumstances have arisen since 31 December 2021 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

Robert Annells – Non Executive Chairman

Mr Annells has over 30 years experience with public upstream oil and gas companies. He is a former member of the Australian Stock Exchange with over 40 years of experience in the Securities Industry, and is also a qualified accountant. His experience includes Managing Director of Securities firms Credit Lyonnais and subsequent directorship of Daiwa Securities Ltd. He was Chairman of Lakes Oil Ltd for in excess of 30 years, founding Director of Gippsland Offshore Petroleum and founding Chairman of Greenearth Energy Ltd.

Current Directorships:
Nil
Other Directorships within the last three years:
Nil

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 predominantly in oil and gas and has been a director of several public resource companies. Mr Knox was appointed Director on 6 July 2018.

Current Directorships:
Rimfire Pacific Mining NL (since 18 March 2020)
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:
New Age Exploration Limited (since 3 July 2020)
Mitre Mining Corporation Limited (since 21 May 2021)
Other Directorships within the last three years:
Mithril Resources Limited (from 15 May 2019 to 15 February 2021)
Jade Gas Holdings Limited (formerly High Grade Metals Limited) (from 8 October 2018 to 23 September 2021)

Clinton Carey – former 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 and resigned 16 April 2021.

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
Robert Annells	15	15
Clinton Carey	6	6
Adrien Wing	18	18
Andrew Knox	18	18

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	Performance Rights
Robert Annells	20,625,000	100,000,000
Andrew Knox	135,067,222	295,000,000
Adrien Wing	78,240,111	100,000,000
Total	**233,932,333**	**495,000,000**

Performance Rights and incentives granted to directors

During the 2019 financial year, 120,000,000 Performance Rights were issued to Mr Knox following shareholder approval on 15 May 2019 subject to the following vesting condition:

- The achievement of production (being production of a saleable quantity) at the Innamincka Dome Project.

There were also long term incentives to receive 30,000,000 Shares issued to Mr Knox in 3 tranches of 10,000,000 each 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 1 was achieved during the year.
- 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 2 was agreed to be cancelled during the year.
- 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. Tranche 3 was agreed to be cancelled during the year.

Performance Rights were issued to directors following shareholder approval and others on 10 June 2021 (Mr Andrew Knox 175,000,000, Mr Robert Annells 100,000,000 and Mr Adrien Wing 100,000,000). The Performance Rights issued were subject to the following vesting conditions:

- The Company achieving a market capitalisation of equal to or greater than $100 million for 5 consecutive trading days within 5 years; and
- The recipient remaining continuously employed or engaged up to the date of satisfaction of the market capitalisation vesting condition.

These Performance Rights are being expensed over the 5 year term up to the expiry date.

Shares under option

The following unlisted Options are present. Options have no voting rights.

Expiry Date	Exercise price (cents)	Number on issue at 15 March 2022
31/1/2023	0.5	40,000,000

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 Robert Annells – Non-Executive Chairman (appointed 8 February 2021)
- ➢ Director fees set at $48,000 per annum inclusive of superannuation.

Mr Andrew Knox – Managing Director
- ➢ Director salary set at $260,000 (increased from $156,000 on 29 April 2021) per annum plus superannuation.
- ➢ Long term incentives to receive 30,000,000 Shares were issued following shareholder approval on 10 September 2018. The 30,000,000 incentives issued in 3 tranches of 10,000,000 each 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 1 was achieved during the year.
  - 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 2 was agreed to be cancelled during the year.
  - 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. Tranche 3 was agreed to be cancelled during the year.
- ➢ 120,000,000 Performance Rights were issued following shareholder approval on 15 May 2019 subject to the following vesting condition:
  - The achievement of production (being production of a saleable quantity) at the Innamincka Dome Project.
- ➢ 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 Clinton Carey – former Non-Executive Director (resigned on 16 April 2021)
- ➢ Director fees were set at $36,000 per annum.

Mr Adrien Wing – Non-Executive Director and Company Secretary
- ➢ Director fees set at $36,000 per annum.
- ➢ The company has an agreement with Northern Star Nominees Pty Ltd (a related party of Mr Wing) for company secretarial services at a rate of $5,500 per month.

Mr Gordon Ramsay – former Non-Executive Chairman (resigned on 27 April 2020)
- ➢ Director fees were set at $48,000 per annum inclusive of superannuation.

Performance Rights were issued to directors following shareholder approval and others on 10 June 2021 (Mr Andrew Knox 175,000,000, Mr Robert Annells 100,000,000 and Mr Adrien Wing 100,000,000, Employees 50,000,000 and Consultants 50,000,000). The Performance Rights issued were subject to the following vesting conditions:
- The Company achieving a market capitalisation of equal to or greater than $100 million for 5 consecutive trading days within 5 years; and
- The recipient remaining continuously employed or engaged up to the date of satisfaction of the market capitalisation vesting condition.

These Performance Rights are being expensed over the 5 year term up to the expiry date.

C. Details of Remuneration

The key management personnel of Red Sky Energy Limited during the years ended 31 December 2021 and 2020 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.

For 2020 no portion of remuneration awarded was performance related.

Nature and amount of remuneration:

2021	Short-term employee benefits			Post - employment benefits	Equity Performance related		
	Director Fees/Salary $	Company secretarial, or consulting fees $	Annual Leave Accrual $	Superannuation $	Performance Rights $	Performance Based %	Total $
Directors							
R Annells (2)	39,186	-	-	3,814	72,910	62.9%	115,910
A Knox	223,014	-	34,285	25,238	127,592	31.1%	410,129
C Carey (1)	9,000	-	-	-	-	-	9,000
A Wing (3)	36,000	66,000	-	-	72,910	41.7%	174,910
TOTAL	**307,200**	**66,000**	**34,285**	**29,052**	**273,412**		**709,949**

2020	Short-term employee benefits			Post - employment benefits	Equity Performance related		
	Director Fees/Salary $	Company secretarial, or consulting fees $	Annual Leave Accrual $	Superannuation $	Performance Rights $	Performance Based %	Total $
Directors							
G Ramsay (4)	14,612	-	-	1,388	-	-	16,000
A Knox	156,000	-	13,090	14,820	-	-	183,910
C Carey	36,000	-	-	-	-	-	36,000
A Wing (3)	36,000	66,000	-	-	-	-	102,000
TOTAL	**242,612**	**66,000**	**13,090**	**16,208**	**-**		**337,910**

(1) C Carey resigned on 16 April 2021.
(2) R Annells was appointed on 8 February 2021.
(3) The fees for A Wing include $66,000 per annum for company secretarial services.
(4) G Ramsay resigned on 27 April 2020.

D. Key Management Personnel Equity Holdings

As at 31 December 2021, the interests of the Directors in shares, options and performance rights of the Company were:

Ordinary Shares

Holder	Balance at beginning of the year	Initial Interest	Achievement of Milestone	Net change other *	Final Interest	Balance at end of the year
Robert Annells	-	20,000,000	-	625,000	-	20,625,000
Andrew Knox	124,442,222	-	10,000,000	625,000	-	135,067,222
Adrien Wing	76,990,111	-	-	1,250,000	-	78,240,111
Clinton Carey	76,544,933	-	-	-	(76,544,933)	-

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

Performance Rights

Holder	Balance at beginning of the year	Granted as compensation	Rights exercised	Rights lapsed	Final Interest	Balance at end of the year
Robert Annells	-	100,000,000	-	-	-	100,000,000
Andrew Knox	120,000,000	175,000,000	-	-	-	295,000,000
Adrien Wing	-	100,000,000	-	-	-	100,000,000
Clinton Carey	-	-	-	-	-	-

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 20.

G. Additional information

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

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

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

END OF AUDITED REMUNERATION REPORT

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

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

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor. During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

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 2021. The written Auditor's Independence Declaration is attached at page 17 and forms part of this Director's Report.

RSM Australia Partners continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

Andrew Knox
Managing Director

24 March 2022

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 2021, 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 AUSTRALIA PARTNERS

R J MORILLO MALDONADO
Partner

Dated: 24 March 2022
Melbourne, Victoria

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Notes	Group 2021 $	Group 2020 $
Other income	5	28,415	97,961
Administration and travel expenses		(442,146)	(250,306)
Employee entitlements		(576,060)	(519,203)
Employee entitlements – share based payments		(309,868)	-
Legal fees		(43,928)	(26,018)
Corporate advisory and investor relations		(126,692)	-
Finance costs		(5,166)	(34,960)
Exploration costs expensed		(32,065)	-
Impairment of exploration and evaluation assets	13	-	(1,045,146)
Depreciation		(4,842)	(1,450)
Loss from continuing operations before income tax		**(1,512,352)**	**(1,779,122)**
Income tax benefit			-
Net loss for the year		**(1,512,352)**	**(1,779,122)**
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Foreign currency translation		-	(96,663)
Total comprehensive loss for the year, net of tax		**(1,512,352)**	**(1,875,785)**
Basic and diluted (loss) per share – overall (cents per share)	18	(0.03)	(0.10)

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 2021

		Group	
	Notes	2021 $	2020 $
Current Assets			
Cash and cash equivalents	8	6,997,688	786,926
Trade and other receivables	9	27,202	23,206
Prepayments		87,033	73,254
Total current assets		**7,111,923**	**883,386**
Non-Current Assets			
Plant and equipment	10	37,253	766
Other financial assets	12	822,350	22,350
Exploration and evaluation assets	13	755,718	2,223
Total Non-Current Assets		**1,615,321**	**25,339**
Total Assets		**8,727,244**	**908,725**
Current Liabilities			
Trade and other payables	14	193,602	534,394
Provisions – employee entitlements		94,017	38,449
Borrowings	15	-	341,204
Total Current Liabilities		**287,619**	**914,048**
Non-Current Liabilities			
Provisions - rehabilitation		275,000	-
Total Non-Current Liabilities		**275,000**	-
Total Liabilities		**562,619**	**914,048**
Net Assets (Deficiency)		**8,164,625**	**(5,323)**
Equity			
Issued share capital	16	50,328,088	41,091,810
Reserves	17	657,469	211,447
Accumulated losses		(42,820,932)	(41,308,580)
Total Equity (Deficiency)		**8,164,625**	**(5,323)**

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 2021

	Notes	Group 2021 $	Group 2020 $
Cash flows from operating activities			
Government COVID-19 stimulus		-	77,067
Government grants - other		23,000	-
Payments to suppliers and employees (inclusive of GST)		(1,486,626)	(451,459)
Interest and finance costs paid		(39,901)	(7,100)
Interest received		3,744	338
Net cash used in operating activities	19	**(1,499,783)**	**(381,154)**
Cash flows from investing activities			
Exploration and evaluation expenditure		(637,440)	(18,523)
Payments for plant and equipment		(41,328)	-
Contribution to Killanoola project rehabilitation obligations		275,000	-
Deposits refunded/(paid)		(800,000)	(313)
Net cash used in investing activities		**(1,203,768)**	**(18,836)**
Cash flows from financing activities			
Proceeds from issues of shares		9,676,438	1,171,478
Proceeds from issues of options		700	-
Capital raising costs		(421,621)	(8,500)
Repayment of borrowings		(341,204)	(214,391)
Proceeds from borrowings		-	119,000
Net cash flows provided by financing activities		**8,914,313**	**1,067,587**
Net increase in cash and cash equivalents		6,210,762	667,597
Cash and cash equivalents at the beginning of the financial year		786,926	119,329
Cash and cash equivalents at the end of the financial year	8	**6,997,688**	**786,926**

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 2021

Consolidated	2020			
	Issued Capital	Accumulated Losses	Reserves	Total (Deficiency)/Equity
Balance at beginning of year	39,967,552	(39,529,458)	264,258	702,352
Loss for the year	-	(1,779,122)	-	(1,779,122)
Other comprehensive loss for the year	-	-	(96,663)	(96,663)
Total comprehensive loss for the year	-	(1,779,122)	(96,663)	(1,875,785)
Transactions with equity holders in their capacity as equity holders				
Issues of share capital (net of costs)	1,124,258	-	-	1,124,258
Share based payments - Performance Rights	-	-	43,852	43,852
	1,124,258	-	43,852	1,168,110
Balance at the end of the year	**41,091,810**	**(41,308,580)**	**211,447**	**(5,323)**

Consolidated	2021			
	Issued Capital	Accumulated Losses	Reserves	Total Equity
Balance at beginning of year	41,091,810	(41,308,580)	211,447	(5,323)
Loss for the year	-	(1,512,352)	-	(1,512,352)
Other comprehensive loss for the year	-	-	-	-
Total comprehensive loss for the year	-	(1,512,352)	-	(1,512,352)
Transactions with equity holders in their capacity as equity holders				
Issues of share capital (net of costs)	9,199,278	-	-	9,199,278
Share based payments	37,000	-	446,022	483,022
	9,236,278	-	446,022	9,682,300
Balance at the end of the year	**50,328,088**	**(42,820,932)**	**657,469**	**8,164,625**

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 2021

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 consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

(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) Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

(iii) 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).

(iv) 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. As disclosed in the financial statements, the consolidated entity incurred a loss of $1,512,352 (2020: $1,779,122) and had net cash outflows from operating activities of $1,499,783 (2020: $381,154) for the year ended 31 December 2021. As at that date the consolidated entity had net current assets of $6,824,304 and net assets of $8,164,625.

The Directors believe that it is reasonably foreseeable that the consolidated entity will continue as a going concern and that it is appropriate to adopt the going concern basis in the preparation of the financial report on the basis that the entity has prepared a cash flow forecast for the next 12 months which allows for future expenditure to be paid from existing cash reserves.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

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 2021 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. Refer to Note 4 for details.

(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.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(e) Foreign currency translation

The financial statements are presented in Australian dollars, which is the Group's functional and presentation currency.

Foreign currency transactions
Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations
The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

(f) 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.

(g) 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.

(h) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(i) 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.

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) 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 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(o) 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.

(p) 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.

(q) 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 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(r) 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.

(s) 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.

(t) 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 2021

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	
	2021	**2020**
	$	**$**
Security deposits	822,350	22,350
Cash and cash equivalents (interest-bearing accounts)	6,997,688	786,926
Net exposure	**7,820,038**	**809,276**

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%	39,100	4,046
- 0.5%	(39,100)	(4,046)
Equity – higher / (lower)		
+ 0.5%	39,100	4,046
- 0.5%	(39,100)	(4,046)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

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 2021							
Non-interest bearing							
Trade and other payables	193,602	-	-	-	-	193,602	193,602
Interest bearing							
Borrowings	-	-	-	-	-	-	-
As at 31 December 2020							
Non-interest bearing							
Trade and other payables	534,394	-	-	-	-	534,394	534,394
Interest bearing							
Borrowings	295,440	22,882	22,882	-	-	341,204	341,204

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

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 operated predominately as an explorer with the view to identify attractive oil and gas deposits of sufficient scale to provide sustainable returns to shareholders.

The directors do not believe that there are any reportable segments that meet the requirements of Accounting Standard AASB 8 Segment Reporting, on the basis that the chief operating decision maker, being the Board of Directors, review geological results and other qualitative measures as a basis for decision making. Financial results are reviewed on a consolidated group basis.

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 and Australia during the year ended 31 December 2021.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

5. OTHER INCOME

	Group	
	2021 $	2020 $
Interest income	5,415	338
Government COVID-19 stimulus	-	97,623
Government grant	23,000	-
Total	**28,415**	**97,961**

6. EXPENSES

	Group	
Loss from continuing operations before income tax has been determined after including payroll related expenses as follows:	2021 $	2020 $
Directors and employee superannuation	51,848	27,608
Directors and employee leave entitlements	55,567	19,131

7. INCOME TAX

	Group	
	2021 $	2020 $
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	(1,512,352)	(1,779,122)
Income tax benefit calculated at 27.5% (2020: 27.5%)	(415,897)	(489,259)
Effect of expenses that are not deductible in determining taxable profit	104,942	12,059
Temporary differences and tax losses in the current year for which no deferred tax asset has been brought to account	310,955	477,200
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:	**8,121,983**	**8,035,160**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

8. CASH AND CASH EQUIVALENTS

	Group	
	2021 $	2020 $
Cash at bank	6,997,688	786,926

9. TRADE AND OTHER RECEIVABLES

	Group	
Current	2021 $	2020 $
Other Receivables	27,202	23,206

10. PLANT AND EQUIPMENT

	Group	
Non-Current	2021 $	2020 $
Plant and equipment	46,900	5,572
Less: Accumulated depreciation	(9,647)	(4,806)
	37,253	**766**
Reconciliations of movements:		
Opening Balance	766	2,216
Additions	41,328	-
Depreciation expense	(4,842)	(1,450)
Closing Balance	**37,253**	**766**

11. INVESTMENT IN CONTROLLED ENTITIES

		Ownership Interest	
	Country of Incorporation	2021 %	2020 %
Red Sky NT Pty Ltd	Australia	100	100
Red Sky Killanoola 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 2021

12. OTHER FINANCIAL ASSETS

	Group	
	2021 $	2020 $
Security deposits	822,350	22,350

13. EXPLORATION AND EVALUATION ASSETS

	Group	
	2021 $	2020 $
Opening balance	2,223	1,116,094
Additions	753,495	27,938
Foreign exchange movement	-	(96,663)
Impairment (i)	-	(1,045,146)
	755,718	**2,223**

(j) Due to results being below expectations, under the requirements of Accounting Standards an impairment expense of $1,045,146 was recorded on the Gold Nugget project located in the United States. The Directors still believe the project has future value and are continuing work to realise this potential.

14. TRADE AND OTHER PAYABLES

	Group	
	2021 $	2020 $
Trade creditors	135,263	357,535
Accrued expenses	58,339	176,859
	193,602	**534,394**

15. BORROWINGS

	Group	
	2021 $	2020 $
Director loans (refer Note 20)	-	284,000
Loan for insurance funding	-	57,204
	-	**341,204**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

16. ISSUED CAPITAL

(a) Share Capital

	Group	
	2021 **$**	**2020** **$**
5,302,227,197 fully paid ordinary shares (31 December 2020: 2,431,922,197)	50,328,088	41,091,810
Movements during the year:		
Beginning of year - 2,431,922,197 fully paid ordinary shares	41,091,810	39,967,552
Shares issued during the prior year	-	1,171,478
29.1.2021 – 2,150,000,000 shares issued @ $0.002	4,300,000	-
29.1.2021 – 19,500,000 shares issued @ $0.002 to satisfy broker fees	39,000	-
9.4.2021 – 30,000,000 shares issued upon exercise of Options at $0.005 each	150,000	-
14.5.2021 – 10,000,000 shares issued to A Knox upon achievement of performance rights	37,000	-
13.8.2021 – 401,780,000 shares issued @ $0.008	3,214,240	-
3.9.2021 – 239,025,000 shares issued @ $0.008	1,912,200	-
27.10.2021 – 20,000,000 shares issued upon exercise of Options at $0.005 each	100,000	-
Equity Raising Expenses	(516,162)	(47,220)
	50,328,088	**41,091,810**

(b) Options

The following table sets out the movements in Options during the year:

Expiry Date	Exercise price (cents)	Fair Value per Right (cents)	Fair Value Amount $	Recipients	Granted during year	Exercised during year	Number on issue at year end
31/1/2023	0.5	0.12	84,000 *	Lead Manager	70,000,000	(30,000,000)	40,000,000
31/1/2023	0.5	0.26	52,000 **	Consultant	20,000,000	(20,000,000)	-
Total			**136,000**		**90,000,000**	**(50,000,000)**	**40,000,000**

* The fair value of the Options granted is estimated 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%, risk free interest rate of 0.09% and a share price at the grant date of 0.3 cents.

** The fair value of the Options granted is based on the value of the consulting services provided.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

16. ISSUED CAPITAL (continued)

(c) Performance Rights

The following table sets out the movements in Performance Rights during the year:

Grant Date	Expiry Date	Fair Value per Right (cents)	Amount expensed during 2021 $	Recipients	Number on issue at beginning of the year	Granted during year	Number on issue at year end
2018	n/a			A Knox	120,000,000	-	120,000,000
10/6/2021	9/6/2026	0.70	346,322	Directors, Employees and Consultants	-	475,000,000	475,000,000
Total			**346,322**		**120,000,000**	**475,000,000**	**595,000,000**

The 120,000,000 Performance Rights issued to Mr Andrew Knox are subject to the following vesting condition:

- The achievement of production (being production of a saleable quantity) at the Innamincka Dome Project.

Performance Rights were issued to directors following shareholder approval and others on 10 June 2021 (Mr Andrew Knox 175,000,000, Mr Robert Annells 100,000,000 and Mr Adrien Wing 100,000,000, Employees 50,000,000 and Consultants 50,000,000). The Performance Rights issued were subject to the following vesting conditions:

- The Company achieving a market capitalisation of equal to or greater than $100 million for 5 consecutive trading days within 5 years; and
- The recipient remaining continuously employed or engaged up to the date of satisfaction of the market capitalisation vesting condition.

These Performance Rights are being expensed over the 5 year term up to the expiry date.

The fair value of the Performance Rights granted is estimated using a trinomial model taking into account the terms and conditions upon which the Performance Rights were granted. The model inputs used an expected volatility of 81%, and a share price at the grant date of 0.8 cents.

There are also long term incentives to receive 30,000,000 Shares issued during 2018 to Mr Andrew Knox in 3 tranches of 10,000,000 each 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 1 was achieved during the year.
- 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

17. RESERVES

	Group	
	2021	**2020**
	$	**$**
Share based payments reserve	652,722	206,700
Foreign currency translation reserve	4,747	4,747
	657,469	**211,447**
Opening balance	211,447	264,258
Movements during the year:		
Share based payments – performance rights issued	346,322	43,852
Share based payments – options issued	136,000	-
Performance rights achieved	(37,000)	-
Options issued	700	-
Foreign currency translation	-	(96,663)
	657,469	**211,447**

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.

18. LOSS PER SHARE

	Group	
	2021	**2020**
	$	**$**
Net loss	(1,512,352)	(1,779,122)
Calculation of basic and dilutive EPS – continued operations (cents)	(0.03)	(0.10)
Weighted average number of ordinary shares outstanding during the year used in calculation of basic and dilutive EPS	Number 4,700,704,334	Number 1,804,341,505

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

19. CASH FLOW INFORMATION

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

	GROUP	
	2021 $	2020 $
Loss after income tax	(1,512,352)	(1,779,122)
Non cash flows in loss:		
Share based payments	426,781	43,852
Depreciation	4,842	1,449
Impairment of explorations assets	-	1,045,146
Changes in assets and liabilities:		
(Decrease)/increase in trade creditors and accruals	(456,847)	305,550
Increase in provisions	55,568	19,131
(Increase)/decrease in trade and other receivables	(3,996)	(360)
(Increase)/decrease in prepayments	(13,779)	(16,800)
Cash flows used in operating activities	**(1,499,783)**	**(381,154)**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

20. RELATED PARTY TRANSACTIONS

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

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

(c) Key management personnel
Disclosures in relation to key management personnel are set out in Note 21 and the Remuneration Report in the Directors' Report.

(d) Transactions with related parties
Directors and officers, or their personally-related entities, did not provide any services other than as disclosed in the Remuneration Report.

(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 $nil (2020: $106,890) for outstanding consulting and director fees.
Mr Andrew Knox was owed $nil (2020: $85,410) for salary and superannuation.
Northern Star Nominees Pty Ltd (a related party of Mr Adrien Wing) was owed $nil (2020: $147,012) for outstanding director and company secretarial fees.

(f) Loans to/from related parties
Mr Andrew Knox provided an unsecured loan to the Company during the 2019 year. There was no repayment date on the loan. Interest was charged at 10% per annum. An amount of $275,000 (2020: $nil) was repaid during the year. The loan balance owing at 31 December 2021 was $nil (2020: $275,000) and interest owing of $nil (2020: $34,375).

Mr Andrew Knox and Mr Adrien Wing provided unsecured loans of $57,000 and $20,000 respectively to the Company during the 2020 year. There was no repayment date on the loans. Interest was charged at 10% per annum. These loans were repaid in full during 2020 apart from $9,000 and interest of $360 owing to Mr Knox repaid during 2021.

(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 2021

21. KEY MANAGEMENT PERSONNEL DISCLOSURES

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

	Group	
Key Management Personnel Compensation	**2021** **$**	**2020** **$**
Short-term employee benefits	407,485	321,702
Post employee benefits	29,052	16,208
Share-based payments	273,412	-
Total	**709,949**	**337,910**

22. REMUNERATION OF AUDITORS

	GROUP	
	2021 **$**	**2020** **$**
Amounts received or due and receivable by RSM Australia Partners for:		
Audit and audit review services	39,645	41,500

23. COMMITMENTS AND CONTINGENCIES

The consolidated entity has no commitments or contingencies.

24. EVENTS SUBSEQUENT TO BALANCE DATE

The impact of the Coronavirus (COVID-19) pandemic is ongoing following the end of 31 December 2021. It is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

No other matters or circumstances have arisen since 31 December 2021 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2021

25. PARENT ENTITY DISCLOSURES

(a) Summary financial information

	Parent	
	2021	**2020**
	$	**$**
Financial Position		
Assets		
Current assets	7,111,923	883,386
Non-current assets	1,615,321	25,339
Total assets	**8,727,244**	**908,725**
Liabilities		
Current liabilities	287,619	914,048
Non-current liabilities	275,000	-
Total liabilities	**562,619**	**914,048**
Net assets	**8,164,625**	**(5,323)**
Equity		
Issued share capital	50,328,088	41,091,810
Share based payments reserve	652,722	206,700
Accumulated losses	(42,816,185)	(41,303,833)
Total equity	**8,164,625**	**(5,323)**
Financial Performance		
Loss for the year	(1,512,352)	(1,796,120)
Other comprehensive income	-	-
Total comprehensive income	**(1,512,352)**	**(1,796,120)**

(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.

DIRECTORS' DECLARATION

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2021 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors:

Andrew Knox
Managing Director

Melbourne, Victoria
24 March 2022

RSM Australia Partners

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INDEPENDENT AUDITOR'S REPORT
To the Members of Red Sky Energy Limited

Opinion

We have audited the financial report of Red Sky Energy Limited ('the Company') and its subsidiaries (together 'the Group'), which comprises the consolidated statement of financial position as at 31 December 2021, 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 2021 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.

RSM

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.

Key Audit Matter	How our audit addressed this matter
Carrying value of capitalised exploration and evaluation assets Refer to Note 13 in the financial statements	
The Group had capitalised exploration expenditure with a carrying value of $755,718 at the end of the financial year. We have determined this to be a significant risk because of the significant management judgment involved in assessing the carrying value in accordance with *AASB 6 Exploration for and Evaluation of Mineral Resources*, including: • Assessing whether the capitalised exploration expenditure meets the criteria of being capitalised in accordance with AASB 6; and • Assessing any indicators of impairment are present, and if so, judgments applied to determine and quantify any impairment loss.	Our audit procedures in relation to the carrying value of Exploration and evaluation assets included: • reviewing management's policy and criteria of capitalisation of exploration expenditure and assessed whether it is in line with AASB 6; • Agreeing a sample of the additions to capitalised Exploration and evaluation asset during the year to supporting documentation, and ensuring that the amounts were capital in nature; • Reviewing management's assessment of impairment indicators and assessed reasonableness; and • Ensuring that the right to tenure of the areas of interest was current through confirmation with the relevant government departments.

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 2021; 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 13 to 17 of the directors' report for the year ended 31 December 2021.

In our opinion, the Remuneration Report of Red Sky Energy Limited for the year ended 31 December 2021, 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

R J MORILLO MALDONADO
Partner

Dated: 24 March 2022
Melbourne, Victoria

SHAREHOLDER INFORMATION

TWENTY LARGEST SHAREHOLDERS

SHAREHOLDERS (Fully Paid Ordinary) 15 March 2022	NUMBER OF SHARES	Percentage
ABACUS ENTERPRISES PTY LTD	135,067,222	2.55
MR CUNTONG CHENG	116,015,016	2.19
NESTOR FAMILY SUPERANNUATION PTY LTD	100,000,000	1.89
CITICORP NOMINEES PTY LTD	91,596,677	1.73
MR CRAIG GRAEME CHAPMAN	90,000,000	1.70
MR MAVRODIS NESTOR	80,000,000	1.51
SLADE TECHNOLOGIES PTY LTD	75,125,000	1.42
MR GEORGE SPIROS PAPACONSTANTINOS	72,295,500	1.36
NORTHERN STAR NOMINEES PTY LTD	66,646,111	1.26
MJG APEXN PTY LTD	62,073,638	1.17
MR GREGORY JAMES SERATO	55,000,000	1.04
P & J BUTTIGIEG NOMINEES PTY LTD	50,000,000	0.94
SUPERHERO NOMINEES PTY LTD	37,547,693	0.71
MR CRAIG GRAEME CHAPMAN + MRS JOANNE CHAPMAN	35,000,000	0.66
MR MICHAEL HOUGH	33,000,000	0.62
SCINTILLA STRATEGIC INVESTMENTS LIMITED	30,000,000	0.57
BIT NOMINEES PTY LTD	30,000,000	0.57
MR NOBUYUKI AOKI	28,680,000	0.54
BNP PARIBAS NOMINEES PTY LTD	26,727,485	0.50
MR WILLIAM ROBERT LODWICK	26,000,000	0.49
TOP 20 SHAREHOLDERS	**1,240,774,342**	**23.40**
TOTAL ISSUED SHARES	**5,302,227,197**	**100.00**

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	614	294,331	0.01
1,001 - 5,000	613	1,568,266	0.03
5,001 – 10,000	202	1,575,728	0.03
10,001 – 100,000	2,143	130,090,404	2.45
100,001 and over	3,805	5,168,698,468	97.48
Totals	**7,377**	**5,302,227,197**	**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.

2. Unquoted Securities

The following unlisted Options are present. Options have no voting rights.

Expiry Date	Exercise price (cents)	Number on issue at 15 March 2022
31/1/2023	0.5	40,000,000

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 7,377 holders of fully paid ordinary shares.

4. Marketable parcel

There were 3,077 Shareholders with less than a marketable parcel as at 15 March 2022.

C. EXPLORATION PROJECTS

1. Australian interests

Project		Interest owned %
Innamincka Dome, South Australia	PRL 14	100.00 *
Innamincka Dome, South Australia	PRL 17	100.00 *
Innamincka Dome, South Australia	PRL 18	100.00 *
Innamincka Dome, South Australia	PRL 180	100.00 *
Innamincka Dome, South Australia	PRL 181	100.00 *
Innamincka Dome, South Australia	PRL 182	100.00 *
Killanoola, South Australia	PRL 13	100.00

* Santos to earn an 80% interest and operatorship.

2. United States interests

Project		Interest owned %
Gold Nugget Gas Prospect (GN 1-23)	Fremont County, Wyoming	70.00 *

* 70% interest with an entitlement to 50% of profits from GN 1-23 until final payment of the further US$450,000 cash component of the purchase price. The vendors 30% retained interest will be transferred to Red Sky upon the remaining payment of US$450,000 to be satisfied from profits of the well.

D. 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 2, 480 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.