

DECEMBER 2022 QUARTERLY ACTIVITIES REPORT

HIGHLIGHTS

Innamincka

- Yarrow 3 well was successfully fraced by Santos, after a delay due to inclement weather impacting site access
- Fracing implemented to improve gas flow and assess well as a future producer
- Post-frac flowback indicated a stable rate of approximately 5.0 MMscf/d at WHP of 790psi on 36/64" choke
- Memory Production Logging Tool (MPLT) was completed and confirmed relative contribution from the two zones (Tirrawarra sandstone and the Patchawarra formation)
- Forward plan post the analysis of pressure data to inform assessment of volumes is a development decision

Killanoola

- The Company continues to work towards finalisation of a sales and purchase agreement for Killanoola crude production
- Once finalised and governmental approvals are received it is intended to commence extended production testing at DW1
- Site works are currently being undertaken to prepare the DW1 well site for production activities
- Interpretation of the processed 3D seismic acquisition is well underway

Corporate

- The Company continues to actively pursue acquisition opportunities
 - The Company has cash reserves as at 31 December 2022 of \$4.17m
-

Red Sky Energy (ASX: ROG) (Red Sky or the Company) is pleased to provide its December 2022 Quarterly Activities Report.

During the quarter, activities continued to be focused on the Company's Innamincka Project (*Figure 1*), in particular, drilling operations at Yarrow 3 well. Red Sky holds 20% working interest in six PRLs (14, 17, 18, 180, 181, 182) at the Innamincka Dome in the Cooper Basin. Santos Limited (ASX:STO), the operator farmed in, holds the other 80%.

Yarrow 3 was an appraisal gas well targeting the Tirrawarra sandstone as the primary objective and the Patchawarra formation as the secondary objective. Tested at Yarrow 1, the Tirrawarra sandstone was shown to flow gas to surface. Preliminary wireline evaluation of the Tirrawarra Sandstone and Patchawarra Formation had been conducted and gas was encountered at both horizons.

Yarrow has 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 south east of Yarrow (Flax is a shut in oil field with associated gas that has not yet been produced). ([See ASX Release 6 May 2019](#))

Innamincka Dome Projects

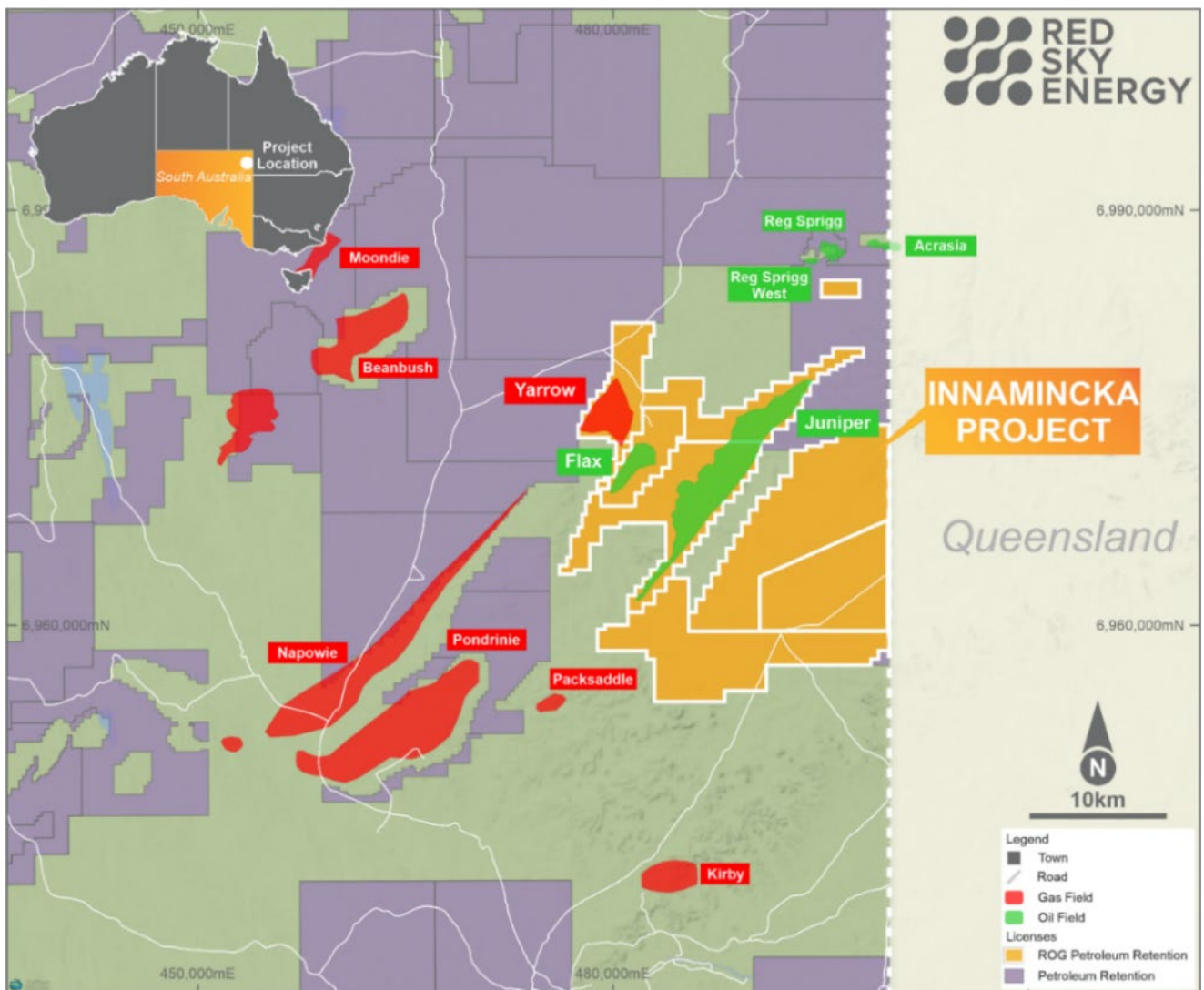


Figure 1: Innamincka Dome Projects location map

Post the completion of the drilling and receipt of results for the Yarrow 3 well at the Innamincka Dome licenses (Innamincka), Santos advised that drilling operations at Yarrow 3 well in PRL17 in the Cooper Basin were an operational success, with no incidents. ([ROG ASX Release 29 September 2022](#)) Preliminary wireline log evaluation indicated gas was encountered in the Tirrawarra sandstone and the Patchawarra formation.

Red Sky announced that Santos intended to expedite operations at Yarrow 3 and that the well was to undergo a two stage fracking operation, followed by a flowback. ([ROG ASX Release 20 October 2022](#)) Fracking aims to improve gas flow and assess the well as a future producer.

Operations to frac and flowback Yarrow 3 were scheduled to commence in late October but were delayed due to inclement weather impacting access. ([ROG ASX Release 28 October 2022](#)) Santos had informed Red Sky that fracking activity was postponed as a result of severe weather conditions hampering the ability to get rigs to the site.



Figure 2: Road to Innamincka Yarrow 3 Well 27 October 2022

Approximately three weeks later, Red Sky advised that the planned fracking had commenced ([ROG ASX Release 21 November 2022](#)). Fracking activities were executed as per plan and completed several days later ([ROG ASX Release 23 November 2022](#)). Post-frac flowback indicated a stable rate of approximately 5.0 MMscf/d at WHP of 790psi on 36/64" choke.

Santos further informed Red Sky that post-fracking, the forward plan included running a Memory Production Logging Tool (MPLT) to assess relative contribution from the two zones, followed by analysis of pressure data to better assess volumes. Red Sky advised that the MPLT had been completed in early December ([ROG ASX Release 8 December 2022](#)) and this confirmed the flow is in line with initial data from the fracc with 85% from the Patchawarra formation and 15% from the Tirrawarra sandstone.

Next steps

Santos has received approval for the construction of a pipeline to deliver the gas to market. A pipeline of approximately 18km would potentially be built to tie into the grid at Napowie to the south of the Yarrow gas field.

Post testing, on success, the next steps would be to construct a pipeline of approximately 18km to tie into the grid at Napowie to the south of the Yarrow gas field.

This in turn could be potentially followed by 3D seismic acquisition to determine where to site further development wells. In line with the original farm in terms, Red Sky would be free carried through this acquisition.

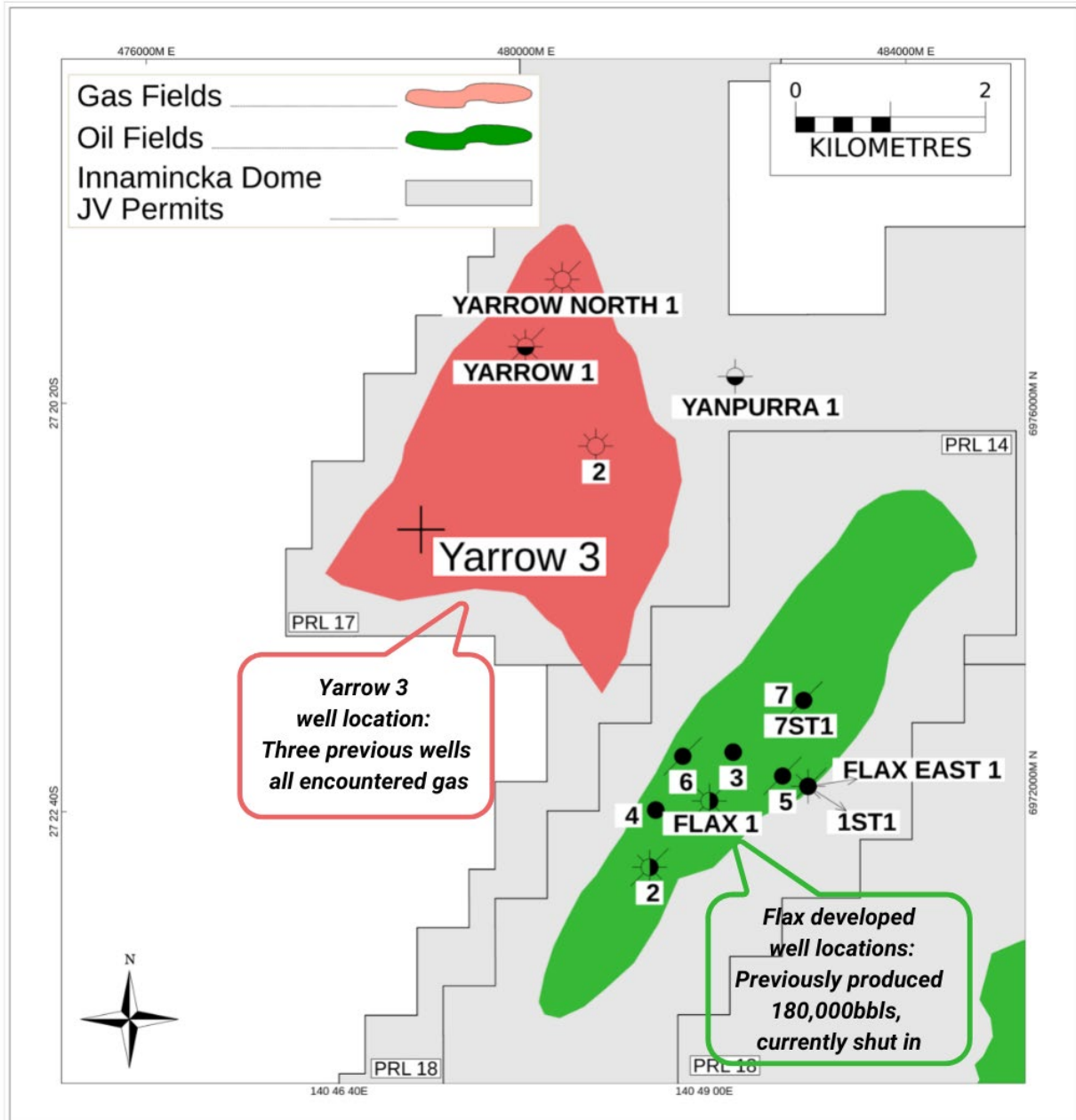


Figure 3: Yarrow and Flax Project Map

Killanoola Project

The Company is well advanced in the finalisation of a sales and purchase agreement for Killanoola crude. Once finalised and required governmental approvals are received, Red Sky will be in a position to commence production operations.

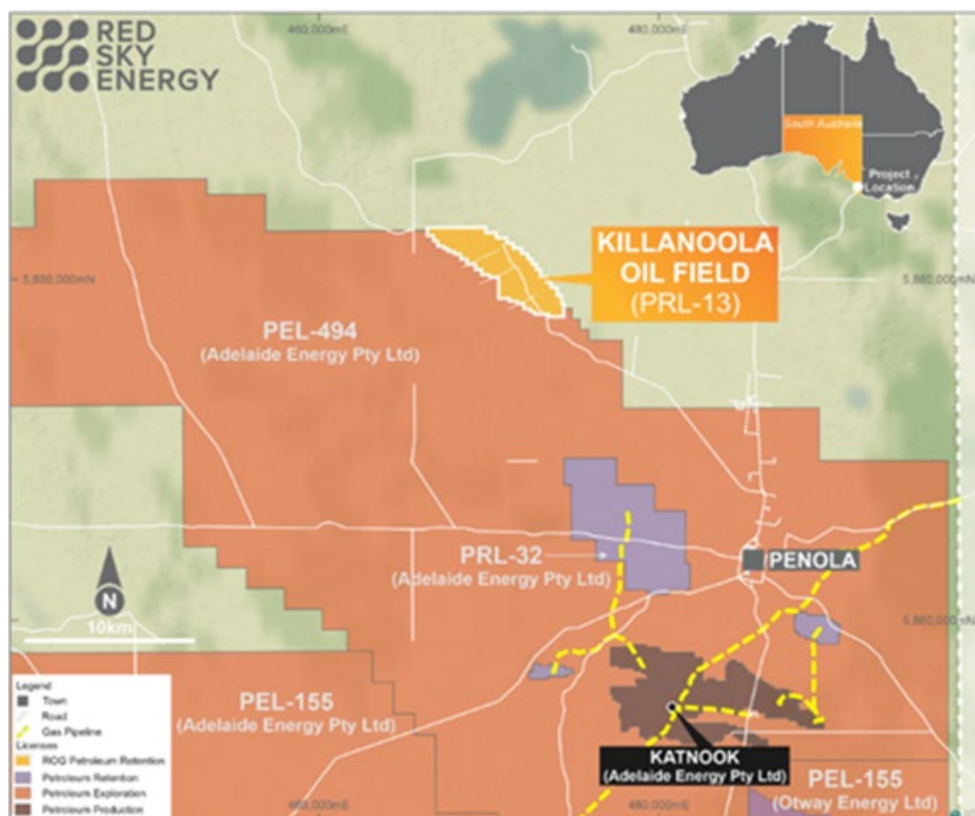


Figure 4: Killanoola Oil Field (PRL-13) location map
(Adelaide Energy Pty Ltd is a subsidiary of Beach Energy Ltd (ASX:BPT))

As previously reported, the Killanoola Project discovered potential PIIP has been revised upward from 7 mmbbls to 93 mmbbls Best Estimate, representing a 1228% increase. ([ASX Announcement 5 May 2022](#)) The report by Global Resources & Infrastructure Pty Ltd (**GRI**) provided an updated [Independent Competent Person's Report \(CPR\)](#) on the discovered potential Petroleum Initially In Place (**PIIP**) in the Killanoola Oil Project, PRL-13, Penola Trough, South Australia (the **Petroleum Asset**), held by Red Sky.

PRL-13 covers an area of 17.5 km² and is located near the Haselgrove and Jacaranda Ridge gas fields and approximately 25 km NW of the Katnook gas fields and processing facility. In 1998, the Killanoola oil field was discovered by the Killanoola-1 well at a depth of 850 metres. The side-track, Killanoola-1 DW-1, also encountered oil and is the well with the pump which was tested in December 2021. In 2011 Killanoola Southeast-1 was drilled and discovered oil.

In December 2021, a successful oil sampling operation was carried out at Killanoola-1 DW-1. The collected samples were sent to the Intertek laboratory for assay studies. Results indicated that the Killanoola crude is ideal for producing gasoil, which commands a premium price. The maximum pour point is 36 degrees Celsius, and the API density is 36.7.

This waxy crude requires heating up throughout the production process: flowlines, separator, storage tank and possibly trucking. Insulated ISO tanks have been purchased to hold and potentially deliver crude and further tanks are on order.

The Company is currently focused on planning DW-1 production from existing pay zones. Any new perforations or drilling operations require mobilising a rig. Topside equipment is also being purchased.



Figure 5: Killanoola site works, January 2023

Outlook

Innamincka Projects - The recent pressure data is being analysed and a development decision is pending. Further exploration and evaluation of other blocks are expected. The forward programme at Flax will be evaluated post a Yarrow development decision.

Killanoola Oil Projects - Red Sky is targeting up to 27.9 mmbbls oil recoverable. Production is expected to start in 1Q 2023. Killanoola can potentially become a material oil project for the Company's future cashflow.

In addition to its current projects, the Company continues to assess opportunities as part of its strategy of acquiring producing or near production assets.

Cash

The company has cash reserves as at 31 December 2022 of \$4.17m.

Related party disclosure

In line with its obligations under ASX Listing Rule 5.3.5, Red Sky Energy Limited notes that the only payments to related parties of the Company, as advised in the Appendix 5B for the period ended 31 December 2022, pertain to payments to directors for fees, salary and superannuation.

-ENDS-

Released with the authority of the board.

For further information on the Company and our projects, please visit:

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Forward Looking Statements

Various statements in this report constitute statements relating to intentions, future acts and events. Such statements are generally classified as forward-looking statements and involve unknown risks, expectations, uncertainties and other important factors that could cause those future acts, events and circumstances to differ from the way or manner in which they are expressly or impliedly portrayed herein.

Some of the more important of these risks, expectations and uncertainties are pricing and production levels from the properties in which the Company has interests and the extent of the recoverable reserves at those properties. In addition, the Company has a number of exploration permits. Exploration for oil and gas is expensive, speculative and subject to a wide range of risks. Individual investors should consider these matters in light of the personal circumstances (including financial and taxation affairs) and seek professional advice from their accountant, lawyer or other professional advisor as to the suitability for them of an investment in the Company.

Appendix 1

EXPLORATION PROJECTS

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.

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.

Notes

Methodology for Calculating discovered Petroleum Initially In Place

At its current stage of development, the Killanoola Oil project, in accordance with definitions established by the PRMS (2018), contains oil in the discovered Petroleum Initially In Place (PIIP) category. No greater levels of certainty have yet been established.

The discovered Petroleum Initially In Place is estimated deterministically by:

1. Extrapolating and analysing the estimated area and thickness of the structure. The boundaries to defining this volume are determined by the interpretation of the physical parameters of the top of the Sawpit Sandstone utilising seismic data,
2. Identifying the oil-water contact (OWC) identified in the wells drilled on the structure,
3. Estimating the net thickness of the oil column
4. Applying a porosity factor to obtain the potential total void space contained in that rock volume
5. Applying a generalised water saturation to the rock void volume.
6. The remaining porosity volume is then assumed to contain oil, which is then converted to barrels for ease of understanding.

Finally, to remain compliant with PRMS (2018) requirements and as a result of using the deterministic method, GRI used the Low/Best/High nomenclature to represent the discovered PIIP. These estimates were developed using various changes to the size of the structural compartments as interpreted.

Formula for Calculating PIIP

For undersaturated crude, the reservoir contains only connate water and oil with their respective solution gas contents. The initial or original oil in place can be estimated from the volumetric equation:

$$N=7,758Vb\phi\text{SoiBoi}=7,758Ah\phi1-\text{SwiBoi}$$

- The constant 7,758 is the number of barrels in each acre-ft,
- Vb is bulk volume in acre-ft,
- ϕ is the porosity (ϕVb is pore volume),
- Soi is the initial oil saturation,
- Boi is the initial oil formation volume factor in reservoir barrels per stock tank barrel,
- A is area in ft²,
- h is reservoir thickness in ft, and
- Swi is the initial water saturation.

In addition to the uncertainty in determining the initial water saturation, the primary difficulty encountered in using the volumetric equation is assigning the appropriate porosity-feet, particularly in thick reservoirs with numerous non-productive intervals. One method is to prepare contour maps of porosity-feet that are then used to obtain areal extent. Another method is to prepare isopach maps of thickness and porosity from which average values of each can be obtained. Since recovery of the initial oil can only occur from permeable zones, a permeability cut-off determined by ResEval was used to obtain the net reservoir thickness. Intervals with permeabilities lower than the cut-off value are assumed to be non-productive. The absolute value of the cut-off will depend on the average or maximum permeability and can depend on the relationship between permeability and water saturation. A correlation between porosity and permeability is often used to determine a porosity cut-off. In cases in which reservoir cores have been analysed, the net pay can be obtained directly from the permeability data. This was not the case at any of the Killanoola wells as no cores were cut. When only logs are available, permeability will not be known; therefore, a porosity cut-off is used to select net pay. These procedures can be acceptable when a definite relationship exists between porosity and permeability.

Appendix 5B

Mining exploration entity or oil and gas exploration entity quarterly cash flow report

Name of entity

RED SKY ENERGY LIMITED

ABN

99 099 116 275

Quarter ended ("current quarter")

31 DECEMBER 2022

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
1.	Cash flows from operating activities		
1.1	Receipts from customers		
1.2	Payments for		
	(a) exploration & evaluation – including assessing potential new projects	(50)	(243)
	(b) development		
	(c) production		
	(d) staff costs (not included above)	(74)	(378)
	(e) administration and corporate costs	(185)	(543)
1.3	Dividends received (see note 3)		
1.4	Interest received	23	32
1.5	Interest and other costs of finance paid		
1.6	Income taxes paid		
1.7	Government grants and tax incentives		
1.8	Other		
1.9	Net cash from / (used in) operating activities	(286)	(1,132)
2.	Cash flows from investing activities		
2.1	Payments to acquire or for:		
	(a) entities		
	(b) tenements		
	(c) property, plant and equipment		
	(d) exploration & evaluation	(287)	(1,696)

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
(e) investments		
(f) other – security bond		
2.2 Proceeds from the disposal of:		
(a) entities		
(b) tenements		
(c) property, plant and equipment		
(d) investments		
(e) other non-current assets		
2.3 Cash flows from loans to other entities		
2.4 Dividends received (see note 3)		
2.5 Other – bond refund		
2.6 Net cash from / (used in) investing activities	(287)	(1,696)

3. Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)		
3.2 Proceeds from issue of convertible debt securities		
3.3 Proceeds from exercise of options		
3.4 Transaction costs related to issues of equity securities or convertible debt securities		
3.5 Proceeds from borrowings		
3.6 Repayment of borrowings		
3.7 Transaction costs related to loans and borrowings		
3.8 Dividends paid		
3.9 Other (provide details if material)		
3.10 Net cash from / (used in) financing activities		

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	4,743	6,998
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(286)	(1,132)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(287)	(1,696)
4.4	Net cash from / (used in) financing activities (item 3.10 above)		
4.5	Effect of movement in exchange rates on cash held		
4.6	Cash and cash equivalents at end of period	4,170	4,170

5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1 Bank balances	662	234
5.2 Call deposits	3,508	4,509
5.3 Bank overdrafts		
5.4 Other		
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	4,170	4,743

6. Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1 Aggregate amount of payments to related parties and their associates included in item 1	85
6.2 Aggregate amount of payments to related parties and their associates included in item 2	20

Payments in 6.1 relate to Director salaries and company secretary consulting services.

Payments in 6.2 relate to a portion of the Managing Director salary.

Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i>		
<i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1 Loan facilities		
7.2 Credit standby arrangements		
7.3 Other (insurance funding)		
7.4 Total financing facilities		
7.5 Unused financing facilities available at quarter end		
7.6 Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well.		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(286)
8.2 (Payments for exploration & evaluation classified as investing activities) (item 2.1(d))	(287)
8.3 Total relevant outgoings (item 8.1 + item 8.2)	(573)
8.4 Cash and cash equivalents at quarter end (item 4.6)	4,170
8.5 Unused finance facilities available at quarter end (item 7.5)	-
8.6 Total available funding (item 8.4 + item 8.5)	4,170
8.7 Estimated quarters of funding available (item 8.6 divided by item 8.3)	7.28
<i>Note: if the entity has reported positive relevant outgoings (ie a net cash inflow) in item 8.3, answer item 8.7 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.7.</i>	
8.8 If item 8.7 is less than 2 quarters, please provide answers to the following questions:	
8.8.1 Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer: n/a	
8.8.2 Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
Answer: n/a	

8.8.3 Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?

Answer: n/a

Note: where item 8.7 is less than 2 quarters, all of questions 8.8.1, 8.8.2 and 8.8.3 above must be answered.

Compliance statement

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

Date:30 Jan 2023.....

Authorised by:The Board.....

(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [*name of board committee – eg Audit and Risk Committee*]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.