



ABN 94 099 116 275

P O Box 1779, West Perth WA 6872  
Suite 2, 16 Ord Street, West Perth, WA 6005  
www.redskyenergy.com.au

Telephone +61 8 9486 1122  
Facsimile +61 8 9486 1011

Date 30<sup>th</sup> October 2009

## **ASX Announcement**

### **Activities Report for the Quarter Ended 30 September 2009**

#### **Highlights**

- Red Sky Energy re-positioned itself to be a coal seam gas (CSG) exploration company.
- Cydonia Resources, which has right to earn 100% in two prospective permits in the Surat Basin in Queensland, was acquired.
- A capital raising of \$4m before costs was successfully completed.
- Shareholder approval of the acquisition and capital raising was secured on 11<sup>th</sup> September.
- The appointment of Rohan Gillespie as Managing Director was made.
- The farm-in to Central Petroleum's 29 permits to earn 10% interest was executed.
- Further acreage acquisition was consummated during this December quarter (Norwest Hydrocarbons and Surat Resources).

#### **Corporate**

##### **Acquisition of Cydonia Resources**

During the quarter the Company announced that had acquired Cydonia Resources Pty Limited (CRL) for shares and options.

CRL has the sole right to Farm In to the non-conventional rights of Authorities to Prospect ("ATP") 840 and 904. The permit areas cover an approximate area of 1700km<sup>2</sup>, are located close to existing and planned gas infrastructure and adjacent significant acreage positions held by the major CSG/LNG companies.

The consideration to acquire CRL is through the issue of 150 million fully paid Red Sky shares together with 150 million Red Sky unlisted options exercisable at A\$0.04 each within five years after the date of issue to the shareholders of CRL. CRL is now a wholly owned subsidiary of Red Sky. The shareholders of CRL will also be entitled to receive an additional 150 million fully paid Red Sky shares if a minimum 50% interest is earned in ATP 840 or 904 within a set period.

The CRL technical evaluation, based on the available public data and comparable net to gross coal thicknesses and gas contents within the Surat Basin indicates the two permits potential recoverable resource is 8 TCF\*. Furthermore, the permits could contain coals of potentially similar CSG potential to those that were recently sold by Pangaea Resources to Origin for \$660m.

### **Capital Raising**

During the quarter the Company raised \$4m from the issue of 200 million new fully paid Red Sky shares at \$0.02 per share. The Company received commitments from a number of brokers to complete the Placement. The lead manager for the Placement was Indian Ocean Capital.

### **New Managing Director**

As part of the acquisition of CRL, Rohan Gillespie accepted an invitation from the Board of Red Sky to assume the Managing Director role. Rohan and his team at CRL have industry leading expertise in CSG exploration and gas commercialisation. He led BHP Billiton's CSG business as Vice President and Chief Operating Officer. Subsequently he established Energy Infrastructure and Resources Limited (EIR) to undertake corporate advisory work and develop low emission energy businesses. EIR is a major shareholder in CRL and will manage the CRL work program under a services agreement.

### **Presentations**

During the quarter, Red Sky's Managing Director presented at two important forums; the 20:20 Investor Series in Sydney on 21<sup>st</sup> August, and the Good Oil Conference in Perth on 1st September.

### **Farm-in to Central Petroleum Permits**

During the quarter the Company announced Red Sky committed via farm-in to becoming a minimum 10% stakeholder in 29 of Central Petroleum's permits in central Australia.

This will require Red Sky to fund up to 20% of the first three conventional wells in each of the 29 permits, as well as 20% of the first A\$3 million of seismic costs incurred for each permit. Red Sky will also pay to Central Petroleum A\$5 million as a series of reserve premiums, for each increment of one trillion cubic feet of gas (TCFG) or oil equivalent (167 mmbob) that may be identified in proved, probable and possible reserves (3P) in each permit.

Central Petroleum's permits include significant conventional oil/gas as well as unconventional gas and coal seam gas potential. For coal seam gas alone, Central Petroleum's consultant has estimated a potential gas-in-place within the coals in the Pedirka Basin of between 34 to 70 trillion cubic feet of gas (TCFG) in Prospective Recoverable Resources. Red Sky's share upon earning its 10% interest would be 3.4 to 7 TCFG.

### **Projects**

#### **Surat Basin - Queensland**

##### ATP 840, 904

During the quarter Cydonia Resources was acquired which has a right to earn a 100% in two phases in each of ATP 840 and ATP 904. It is proposed to drill the first core hole in ATP 840 prior to March 2010, with the possibility of spudding this calendar year.

Initial work commenced on selection of suitable drill locations, landowner searches and drilling contract documentation.

### **Pedirka and Amadeus Basins – Northern Territory**

During the quarter the operator Central Petroleum developed plans for the next phase of work programs. A combination of 2D seismic and geochemical surveys, CSG core holes and conventional wells totalling approximately \$28m has been developed. It is expected the work program will be finalised during the December quarter and put to joint venture partners, including Red Sky and Petroleum Exploration Australia (wholly owned by QGC, a BG Group Business).

*\*The technical information contained herein is based on information compiled by Cydonia Resources Ltd technical advisor Scott Thomson, who has in excess of 30 years experience in coal and CSG exploration and production. Mr Thomson is a certified member of the Society of Petroleum Engineers, and the Geological Society of Australia, and is subject to the code of ethics of these bodies. Mr Thomson has prepared a number of reports and evaluations for a variety of Australian and North American companies over the past ten years. Mr Thomson is also a shareholder in Cydonia Resources Pty Ltd. The potential gas in place estimates are classified Undiscovered Petroleum Initially In Place (UPIIP) in accordance with SPE PRMS classification and additional work is required to report a contingent gas resource.*

# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001.

Name of entity

Red Sky Energy Limited

ABN

94 099 116 275

Quarter ended ("current quarter")

30 September 2009

### Consolidated statement of cash flows

|   |  | Current quarter<br>\$A'000 | Year to date<br>(9 months)<br>\$A'000 |
|---|--|----------------------------|---------------------------------------|
| <b>Cash flows related to operating activities</b> |  |                            |                                       |
| 1.1   | Receipts from product sales and related debtors  |                            |                                       |
| 1.2   | Payments for (a) exploration and evaluation<br>(b) development<br>(c) production<br>(d) administration | (32)<br><br><br>(112)      | (170)<br><br><br>(381)                |
| 1.3   | Dividends received   |                            |                                       |
| 1.4   | Interest and other items of a similar nature received  | 4                          | 5                                     |
| 1.5   | Interest and other costs of finance paid   |                            |                                       |
| 1.6   | Income taxes paid  |                            |                                       |
| 1.7   | Other (provide details if material)  | 13                         | (13)                                  |
|   | <b>Net Operating Cash Flows</b>  | <b>(127)</b>               | <b>(559)</b>                          |
| <b>Cash flows related to investing activities</b> |  |                            |                                       |
| 1.8   | Payment for purchases of: (a)prospects<br>(b)equity investments<br>(c)other fixed assets               | (200)                      | (200)                                 |
| 1.9   | Proceeds from sale of: (a)prospects<br>(b)equity investments<br>(c)other fixed assets                  |                            |                                       |
| 1.10  | Loans to other entities  |                            |                                       |
| 1.11  | Loans repaid by other entities   |                            |                                       |
| 1.12  | Other (provide details if material)  | 30                         | 30                                    |
|   | <b>Net investing cash flows</b>  | <b>(170)</b>               | <b>(170)</b>                          |
| 1.13  | Total operating and investing cash flows (carried forward)   | <b>(297)</b>               | <b>(729)</b>                          |

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

|      |  |              |              |
|------|--|--------------|--------------|
| 1.13 | Total operating and investing cash flows (brought forward) | (297)        | (729)        |
|      | <b>Cash flows related to financing activities</b>          |              |              |
| 1.14 | Proceeds from issues of shares, options, etc.              | 4,180        | 4,530        |
| 1.15 | Proceeds from sale of forfeited shares                     |              |              |
| 1.16 | Proceeds from borrowings                                   |              |              |
| 1.17 | Repayment of borrowings                                    |              |              |
| 1.18 | Dividends paid   |              |              |
| 1.19 | Other  | 38           | 11           |
|      | <b>Net financing cash flows</b>                            | 4,218        | 4,541        |
|      | <b>Net increase (decrease) in cash held</b>                | <b>3,921</b> | <b>3,812</b> |
| 1.20 | Cash at beginning of quarter/year to date                  | 87           | 197          |
| 1.21 | Exchange rate adjustments to item 1.20                     |              | (1)          |
| 1.22 | <b>Cash at end of quarter</b>                              | 4,008        | 4,008        |

**Payments to directors of the entity and associates of the directors**

**Payments to related entities of the entity and associates of the related entities**

|      |  | Current quarter<br>\$A'000                  |
|------|--|---|
| 1.23 | Aggregate amount of payments to the parties included in item 1.2 | Current Directors 29<br>Former Directors 15 |
| 1.24 | Aggregate amount of loans to the parties included in item 1.10   | -   |

1.25 Explanation necessary for an understanding of the transactions

|  |
|--|
| <p>Current Directors-fees and consulting services<br/> Former Directors-fees and termination of employment to 31 December 2008</p> |
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**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

|     |
|-----|
| N/A |
|-----|

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

|     |
|-----|
| N/A |
|-----|

+ See chapter 19 for defined terms.

**Financing facilities available**

*Add notes as necessary for an understanding of the position.*

|  | Amount available<br>\$A'000 | Amount used<br>\$A'000 |
|--|-----------------------------|------------------------|
| 3.1 Loan facilities                              | -                           | -                      |
| 3.2 Credit standby arrangements – line of credit | -                           | -                      |

**Estimated cash outflows for next quarter**

|                                | \$A'000    |
|--------------------------------|------------|
| 4.1 Exploration and evaluation | 300        |
| 4.2 Development-discretionary  | -          |
| <b>Total</b>                   | <b>300</b> |

**Reconciliation of cash**

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

|  | Current quarter<br>\$A'000 | Previous quarter<br>\$A'000 |
|--|----------------------------|-----------------------------|
| 5.1 Cash on hand and at bank                     | 4,008                      | 87                          |
| 5.2 Deposits at call                             | -                          | -                           |
| 5.3 Bank overdraft                               | -                          | -                           |
| 5.4 Other (provide details): Security deposit    | -                          | -                           |
| <b>Total: cash at end of quarter</b> (item 1.22) | 4,008                      | 87                          |

**Changes in interests in mining tenements**

|   | Tenement reference   | Nature of interest<br>(note (2)) | Interest at beginning of quarter | Interest at end of quarter |
|---|--|----------------------------------|----------------------------------|----------------------------|
| 6.1 Interests in mining tenements relinquished, reduced or lapsed | N/A  |                                  |                                  |                            |
| 6.2 Interests in mining tenements acquired or increased           | Surat (Qld) - ATP 840, 904   |                                  |                                  | Right to earn 100%         |
|   | Pedirka, Amadeus (NT)-PELA 77<br>EP 82, 93, 105, 106, 107, 115<br>EPA 92, 111, 112, 118, 120, 124, 125, 129, 131, 132, 133, 137, 147, 149, 152, 160<br>ATP 909, 911, 912<br>WA 16, 17, 18/08-9 |                                  |                                  | Right to earn 10%          |
|   |  |                                  |                                  |                            |

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

**Issued and quoted securities at end of current quarter**

*Description includes rate of interest and any redemption or conversion rights together with prices and dates.*

|  | Total number   | Number quoted | Issue price per security (see note 3) (cents)  | Amount paid up per security (see note 3) (cents)                                |
|--|--|---------------|--|---|
| 7.1 <b>Performance +securities</b><br><i>(description)</i>   | Nil  |               |  |   |
| 7.2 Changes during quarter<br>(a) Increases through issues<br>(b) Decreases through returns of capital, buy-backs, redemptions | Nil  |               |  |   |
| 7.3 <b>+Ordinary securities</b>  | 680,233,972  | 680,233,972   |  | Fully paid  |
| 7.4 Changes during quarter<br>(a) Increases through issues<br>(b) Decreases through returns of capital, buy-backs              | 354,175,000  | 354,175,000   |  | Fully paid  |
| 7.5 <b>+Convertible debt securities</b><br><i>(description)</i>  | Nil  |               |  |   |
| 7.6 Changes during quarter<br>(a) Increases through issues<br>(b) Decreases  | Nil  |               |  |   |
| 7.7 <b>Options</b><br><i>(description and conversion factor)</i>   | 6,219,941<br>4,374,944<br>2,000,000<br>250,000<br>200,000,000<br>300,000,000 |               | Exercise price<br>20 cents<br>20 cents<br>20 cents<br>20 cents<br>4 Cents<br>2 Cents | Expiry date<br>31/12/10<br>30/9/10<br>23/5/11<br>18/2/12<br>18/09/14<br>2/09/11 |
| 7.8 Issued during quarter  | 200,000,000<br>300,000,000   |               | 4 Cents<br>2 Cents   | 18/09/14<br>2/09/11   |
| 7.9 Exercised during quarter   | Nil  |               |  |   |
| 7.10 Expired during quarter  | Nil  |               |  |   |
| 7.11 <b>Debentures</b><br><i>(totals only)</i>   | Nil  |               |  |   |
| 7.12 <b>Unsecured notes</b> <i>(totals only)</i>   | Nil  |               |  |   |

+ See chapter 19 for defined terms.

## Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act **or other standards acceptable to ASX** (see note 5).
- 2 This statement does ~~/does not~~\* (*delete one*) give a true and fair view of the matters disclosed.



Sign here:

(~~Director~~/Company secretary)

Date: ...30 October 2009.....

Print name: David Ballantyne.....

## Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 The definitions in, and provisions of, *AASB 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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