FINANCIAL REPORT

FOR THE YEAR ENDED [illegible] December [illegible]

Corporate Directory

Directors	Mr Bryan Quinn (Non Executive Director) Mr Guy T Le Page (Non Executive Director) Mr Robert Hyndes (Non Executive Director)
Company Secretary	Mr Andrew J Cooke Mr David Ballantyne
Registered Office	Suite [illegible] Ord Street West Perth WA [illegible]
Principal Place of Business	Suite [illegible] Ord Street West Perth WA [illegible]
Website	www.redskyenergy.com.au
Auditors	William Buck Level [illegible] [illegible] Goulburn Street SYDNEY NSW [illegible] Telephone [illegible] Fax [illegible]
Share Registry	Computershare Investor Services Level [illegible] Grenfell Street Adelaide SA [illegible] Telephone [illegible] [illegible] Fax [illegible]

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DIRECTORS' REPORT

Your Directors present their report together with the financial report for the financial year ended [illegible] December [illegible].

DIRECTORS

The names and positions of the Directors of the entity during or since the end of the financial year are:

Barry William Adams B Eng (Elec), Grad Dip Eng Maintenance Mgt, Stanford Executive Program
(Former Non Executive Chairman)

Barry has [illegible] years experience in the oil and gas industry in a variety of maintenance, operations, projects, supervisory and senior management roles around Australia and in the United Kingdom. After [illegible] years at Esso Australia he joined Woodside in [illegible], spending three years on secondment to Shell Exploration in the UK as Production Support Manager. He returned to Woodside in [illegible] as the Offshore Operations Manager for Woodside's North West Shelf Ventures (NWSV). In [illegible] he was appointed General Manager of the South Eastern Australia Business Unit based in Melbourne. Since [illegible] he has been an independent consultant. Barry is a member of the Institution of Engineers Australia, the Society of Petroleum Engineers, the Australian Institute of Company Directors. Mr Adams resigned on [illegible] February [illegible].

Bryan Quinn
Former Managing Director
Non Executive Director

Bryan was educated at Monash University, where he graduated BSc (Hons), majoring in Chemical Engineering. He has held senior executive positions in Esso Australia Ltd (now Exxon Mobil), Rio Tinto and Powercorp Australia Ltd, gaining extensive experience in the resources and energy sectors, managing large complex operational business units. Bryan has a track record of consistently delivering results which have met or exceeded expectations in roles which have encompassed domestic and international operations, working with diverse cultures in challenging environments. Bryan was appointed Managing Director on [illegible] August [illegible].

Mr Quinn resigned as a Managing Director on [illegible] February [illegible] and continues as a Non Executive Director.

Klaus Dieter Zahnd
Non Executive Chairman

Klaus has extensive international fund raising corporate finance general management and governance experience acquired working with large multi national conglomerates and in public and private resource based business environments He raised funds for mining and oil and gas exploration companies from Canadian and European private and public sources over the last eighteen years He served as Officer and Director of numerous public and private companies most recently as Chief Executive Officer of Western Warrior Resources Limited a Canadian mining exploration company listed on the Canadian TSX Venture Exchange Raised and educated in Switzerland Mr Zahnd served as honorary Consul of Switzerland between [illegible] and [illegible]

Mr Zahnd resigned on [illegible] May [illegible]

Kenneth Bradley B Geol
Non Executive Director

During his thirty five years of oil and gas experience in the Western Canadian Sedimentary Basin Ken has been associated with both private and public companies engaged in exploration and production in Western Canada Early in his career he worked in geological capacities with intermediate resource companies in Calgary Later he held senior executive positions with oil and gas companies such as Prism Petroleum Colony Energy and Trenton Energy In [illegible] Mr Bradley co founded Sky Hunter Technologies Inc He holds a Bachelor of Science degree in Math and Physics and a Bachelor of Science in Geology

Mr Bradley resigned on [illegible] February [illegible]

Keith Skipper B Sc Hons Geology Reading University U K M Sc Geology McMaster University Ontario Canada
Non Executive Director

Keith Skipper is a seasoned and successful global explorationist public company executive and corporate non executive director with over [illegible] years of diverse industry experiences who began his career with AMOCO Canada in Calgary Alberta Early in [illegible] Mr Skipper was appointed Exploration Manager for Bridge Oil Limited "Bridge" in Sydney Australia and involved in that company's growth during the [illegible]'s He returned to Calgary in [illegible] as the International Exploration Manager and subsequently General Manager Eastern Hemisphere for PanCanadian Petroleum Limited now part of EnCana Since [illegible] Mr Skipper's subsequent appointments have been Antrim Energy Inc latterly as Executive Vice President Principal and founder of KS Management Services Inc and PetroSedex Energy International Inc a non executive director of Hedong Energy Inc and a non executive director of Avery Resources Limited Now resident in Australia he has been recently an advisor to Molopo Australia Limited and is currently a non executive director of Rawson Resources Limited Samson Oil and Gas Limited and co founder and director of NorthStar Energy Limited

Mr Skipper is a member of the Australian Institute of Company Directors the American Association of Petroleum Geologists the Association of International Petroleum Negotiators the Ethics Practitioners' Association and of Canada and a member of the Petroleum Exploration Society of Australia He is also a registered Professional Geologist in Alberta

Mr Skipper resigned on February

Michael Arnett B Comm LLB
Non Executive Director

Michael is a consultant to and former Partner member of the Board of Directors and national head of the Natural Resources Business Unit of the law firm Deacons Mr Arnett was also one of the firm's two representatives on the International Management Board responsible for the management of Deacons' international operations which extend throughout Asia His practice is corporate and commercial in which resource industry work has been prominent for the last years Mr Arnett acts for a number of junior and major exploration and mining companies with operations in Australia Asia and Africa Michael is also a Director of a number of public and private companies including Archipelago Resources Plc Axiom Mining Limited Cloncurry Metals Limited and Queensland Energy Resources Ltd

Mr Arnett resigned on February

Guy T Le Page BA BSc BAppSc Hons MBA Grad Diploma Fin and Inv MAusIMM FFIN
Non Executive Director – Appointed February

Mr Le Page is currently a Director and Corporate Adviser of RM Corporate Finance specializing in resources He is actively involved in a range of corporate initiatives from mergers and acquisitions initial public offerings to valuations consulting and corporate advisory roles

Mr Le Page was Head of Research at Morgan Stockbroking Limited Perth prior to joining Tolhurst Noall as a Corporate Advisor in July of As head of Research Mr Le Page was responsible for the supervision of all Industrial and Resources research As a Resources Analyst Mr Le Page published detailed research on various mineral exploration and mining companies listed on the Australian Stock Exchange The majority of this research involved valuations of both exploration and production assets

Prior to entering the stockbroking industry he spent years as an exploration and mining geologist in Australia Canada and the United States His experience spans gold and base metal exploration and mining geology and he has acted as a consultant to private and public companies This professional experience included the production of both technical and valuation reports for resource companies

Robert Hyndes Bachelor of Commerce [illegible] Certificate in Corporate Finance
Non-Executive Director – Appointed [illegible] February [illegible]

Mr Hyndes has a corporate finance and management consulting background with experience in Australia, the United Kingdom and the United States. He has provided strategy and consulting services across a range of industries including technology, resources and professional services.

In [illegible] Robert joined London based private equity firm Lion Capital Advisors where he was responsible for sourcing, evaluating and recommending investments for the firm and also had responsibility for transaction structuring. Since [illegible] Robert has worked on a number of international engagements in Australia, the United States and Asia.

Andrew J Cooke LLB FAICS
Joint Company Secretary

Solicitor with [illegible] years experience in law, corporate finance and as a Company Secretary of listed resource companies. Responsible for corporate administration together with stock exchange and regulatory compliance.

David Ballantyne CA Appointed [illegible] February [illegible]
Joint Company Secretary

Mr Ballantyne is a Chartered Accountant who has a significant level of commercial experience in the exploration, mining, biotechnology and aquaculture industries. He has extensive experience in the areas of audit, corporate services, insolvency, corporate management and is a director and company secretary of small mineral exploration and production companies. Mr Ballantyne has completed listings on AIM and the ASX and is currently Company Secretary of Kilgore Oil and Gas Ltd, Advance Energy Ltd and Odin Energy Ltd.

DIRECTORS' MEETINGS

The following table sets out the number of Directors meetings (including meetings of committees of Directors) held during the financial year and the number of meetings attended by each Director (while they were a Director or committee member).

	Board of Directors Meetings Held Eligible to Attend	Attended	Audit Committee Meetings Held Eligible to Attend	Attended
Mr Bryan Quinn	[illegible]	[illegible]	[illegible]	[illegible]
Mr Klaus Zahnd (Resigned [illegible] May [illegible])	[illegible]	[illegible]	[illegible]	[illegible]
Mr Ken Bradley (Resigned [illegible] February [illegible])	[illegible]	[illegible]	[illegible]	[illegible]
Mr Barry Adams (Resigned [illegible] February [illegible])	[illegible]	[illegible]	[illegible]	[illegible]
Mr Keith Skipper (Resigned [illegible] February [illegible])	[illegible]	[illegible]	[illegible]	[illegible]
Mr Michael Arnett (Resigned [illegible] February [illegible])	[illegible]	[illegible]	[illegible]	[illegible]
Mr Guy Le Page (Appointed [illegible] February [illegible])	[illegible]	[illegible]	[illegible]	[illegible]
Mr Robert Hyndes (Appointed [illegible] February [illegible])	[illegible]	[illegible]	[illegible]	[illegible]

DIRECTORS' INTERESTS

As at the date of this report, the interests of the Directors and their associates in the issued shares and options of the entity were:

	ORDINARY SHARES		OPTIONS	
	Direct	Indirect	Direct	Indirect
Mr Bryan Quinn	[illegible]	Nil	[illegible] vest [illegible] @ [illegible]c Exp [illegible] [illegible] vest [illegible] @ [illegible]c Exp [illegible] [illegible] vest [illegible] @ [illegible]c Exp [illegible] [illegible] vest [illegible] @ [illegible]c Exp [illegible] [illegible] vest [illegible] @ [illegible]c Exp [illegible] [illegible] vest [illegible] @ [illegible]c Exp [illegible]	Nil
Mr Guy T Le Page	Nil	NIl	Nil	Nil
Mr Robert Hyndes	Nil	Nil	Nil	Nil

Full details of options issued are contained in Note [illegible].

PRINCIPAL ACITIVITES

The Principal activity of the entity during the financial year was exploration for economic deposits of oil and gas. There have been no significant changes in the nature of these activities during the financial year.

OPERATING RESULTS

The results of the operations of the entity during the financial year were as follows:

	[illegible]	[illegible]
	[illegible]	[illegible]
Loss after income tax	[illegible]	[illegible]

DIVIDENDS

No dividends have been paid or declared since the start of the financial year. The Directors do not recommend the payment of a dividend in respect of the year ended [illegible] December [illegible] Nil.

REVIEW OF OPERATIONS

During the year the company continued to progress development of exploration tenements to identify economic deposits of oil and gas. Summary of key operational and other activities in [illegible] include:

- Dr Peter Gunn completed his interpretation of all the available Gravity and Aeromagnetic data over the company's six Darling Basin permits including the new datasets recently released by the NSW Department of Primary Industries.
- On [illegible] May [illegible] the Exploration Titles Committee of the NSW Department of Primary Industries recommended that Petroleum Exploration Licences [illegible] and [illegible] in the Darling Basin be renewed for a further two years subject to a relinquishment of [illegible] of the original area.
- Scouting completed for a major [illegible] km [illegible]D seismic program over the company's six Darling Basin permits.
- The company did not complete the drilling required to earn an interest in PEL [illegible].
- Review of Environmental Factors Report submitted to NSW Department of Primary Industries for a major [illegible] km [illegible]D seismic program over the company's six Darling Basin permits.
- Darling Basin PEL [illegible] and PEL [illegible] were not renewed due to the need to conserve cash in the difficult economic environment.
- Darling Basin PEL [illegible] has been relinquished in February [illegible].

- On [illegible] November [illegible] the joint farm in agreement with Magellan Petroleum in PEL [illegible] in South Australia expired.
- On [illegible] December [illegible] the company entered into a Heads of Agreement with RM Corporate Finance Pty Ltd (RMCF) of Perth pursuant to which the latter will assist in the restructuring and recapitalisation of the company.

CHANGES IN THE STATE OF AFFAIRS

During the financial year

- The company entered into a Heads of Agreement with RMCF on [illegible] December [illegible] in relation to the raising of additional funds [illegible] via an underwritten equity raising with RMCF

- Pursuant to Heads of Agreement dated [illegible] December [illegible] between the company and RMCF and with the agreement of Messrs Quinn and Cooney certain retrenchment and other payments due to Directors and management would be settled via cash payments and the issue of shares as follows

Directors Management	Liability	Cash Payment	Issue of Shares
Bryan Quinn – Retrenchment payout	[illegible]	[illegible]	[illegible]
Bryan Quinn Accrued Annual Leave	[illegible]	[illegible]	[illegible]
Phillip Cooney – Retrenchment payout	[illegible]	[illegible]	[illegible]
Directors Fees	[illegible]	[illegible]	
TOTAL	[illegible]	[illegible]	[illegible]

  The shares were issued on [illegible] February [illegible]

- Pursuant to a Deed of Settlement dated [illegible] October [illegible] the loan payable to Sky Hunter Exploration Ltd would convert subject to shareholder approval to equity via the issue of [illegible] shares in the capital of the company The shares were issued on [illegible] February [illegible]

SUBSEQUENT EVENTS

- On [illegible] February [illegible] the shareholders of the company approved the transactions as disclosed in Changes in the State of Affairs

- The company entered into a farm in agreement with Great Artesian Oil and Gas Limited a subsidiary of Drillsearch Energy Ltd in May [illegible] to potentially participate in drilling of exploration wells in PEL [illegible] and PEL [illegible] Those opportunities did not occur and the farm in agreement expired

  However the parties entered into a new farm in agreement dated [illegible] February [illegible] in relation to the Planet Downs – [illegible] well The Planet Downs well was spudded on February [illegible]nd [illegible] and drilled to a depth of [illegible]m The well was subsequently plugged and abandoned on March [illegible]th [illegible] after encountering non commercial oil shows The drilling of this well consumed the [illegible] refer Note [illegible] on deposit with Great Artesian Oil and Gas

  The Company has received an initial accounting for the expenditure incurred on Planet Downs from Drillsearch Energy Ltd and is seeking further detail in regards to this expenditure It is also reviewing the commercial terms of the amended farm in agreement dated [illegible] February [illegible] and will consider its options after receiving the further expenditure details and after taking appropriate advice

- On [illegible] February [illegible] Messrs Adams Arnett Bradley and Skipper resigned as Directors and Messrs Le Page and Hyndes were appointed as Directors of the company

Other than the above there has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected or may significantly affect the operations of the entity the results of those operations or the state of affairs of the entity in future financial years

FUTURE DEVELOPMENTS

The new Directors appointed to the board of the company intend to continue to review existing operations of the company and where appropriate reduce operating and capital expenditure until financial markets stabilise or opportunities arise

ENVIRONMENTAL REGULATIONS

The entity’s activities in the mining industry are subject to regulations and approvals including mining heritage environmental regulation the implications of the High Court of Australia decision in what are generally know as the “Mabo” and “Wik” cases and any laws of the Commonwealth or of a State or Territory regarding native and mining titles Approvals although granted in most cases are discretionary The question of native title has yet to be determined in some parts of the entity’s interests and certain mining titles may be affected by native title

The entity has an environmental rehabilitation policy that is applied to each tenement upon grant The policy has been adhered to and no breaches have occurred during the period

SHARE OPTIONS

	[illegible]	[illegible]
Options on issue [illegible] January	[illegible]	[illegible]
Options issued	[illegible]	[illegible]
Options lapsed	[illegible]	[illegible]
Options on issue [illegible] December	[illegible]	[illegible]

From the commencement of the financial year to the date of this report there have been no shares issued by virtue of the exercise of options Further information is given in Note [illegible] to the financial statements

Option holders do not have any right by virtue of the option to participate in any share of the company or any related body corporate or in the interest of any other registered scheme

INDEMNIFICATION OF OFFICERS AND AUDITORS

(a) Indemnification

In accordance with the Constitution of Red Sky Energy Ltd each Director and officer is indemnified on a full indemnity basis and to the fully extent permitted by law against all losses, liabilities, costs, charges and expenses incurred by them as officers of Red Sky Energy Ltd or a related body corporate. The entity has not indemnified or agreed to indemnify any auditor of the entity against a liability incurred as auditor.

(b) Insurance Policies

Premiums have been paid in respect of Directors' and executive officers' liability and legal expenses insurance contracts for the year ended December.

REMUNERATION REPORT

The remuneration report is set out under the following main headings:

a) Principles used to determine the nature and amount of remuneration
b) Details of remuneration
c) Service agreements

a) Principles used to determine the nature and amount of remuneration

The company's policy for determining the nature and amount of emolument of board members and senior executives of the entity is as follows:

The objective of the company'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 with 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

Drawing on external comparisons for reference, the company has structured an executive remuneration framework that is market competitive and complimentary to the reward strategy of the organization.

Alignment to shareholders' interests:

- Focuses on growth in share price, and delivering growth opportunities as well as focusing the executive on key non financial drivers.

- Attracts and retains high caliber executives

Alignment to program participants' interest

- Reward capability and experience
- Reflects competitive reward for contribution to growth in shareholder wealth
- Provides a clear structure for earning rewards
- Provides recognition for contribution

The framework provides a mix of fixed pay and long term incentives. As executives gain seniority with the company, the balance of this mix shifts to a higher proportion of "at risk" rewards.

The overall level of executive reward take into account the performance of the entity over a number of years, with greater emphasis given to the current year. Reference is made to the entity's earnings and value in the current year compared to previous years to establish patterns and trends, which are then applied as on measure of executive performance. Due recognition is given to that measure in settling executive remuneration but, as the entity is involved in exploration and future production, relevant experience, industry standards and the annual exploration outcomes, rather than earnings, are given greatest weight in remuneration considerations.

Non Executive Directors

Fees and payments to non executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non Executive Directors' fees and payments are reviewed annually by the Board. The Board has also drawn on external source of information to ensure non executive Directors' fees and payments are appropriate and in line with the market.

Directors Fees

The Company's Constitution provides that the remuneration of Non Executive Directors will be not more than the aggregate fixed sum determined by a general meeting. The aggregate remuneration for Non Executive Directors is to be set at an amount not to exceed [illegible] per annum. Prior to [illegible] January [illegible] Directors were remunerated with Option grants as detailed above. From [illegible] January [illegible] the Board has adopted the ASX Best Practice Guidelines for Governance and non executive Directors remuneration will be by cash only with no further options being issued.

The remuneration of executive Directors will be fixed by the Directors and may be paid by way of fixed salary or consultancy fees.

b) Details of remuneration

Remuneration packages are set at levels that are intended to attract and retain executives capable of managing and enhancing the entity's operations. Remuneration of individual Non-executive Directors is determined by the Board and may be varied from time to time but always such that the aggregate is within the maximum amount approved by shareholders (set at [illegible]).

Executive Directors are entitled to [illegible] weeks long service leave after [illegible] years of service with the Company.

Details of the nature and amount of each element of the emoluments of each of the Directors of Red Sky Energy Ltd are set out below. The disclosure below takes into account the retrenchment and other payments due to the Directors and management as noted in the subsequent events note on page [illegible] inclusive of amounts paid during the year ended [illegible] December [illegible].

[illegible] DIRECTORS' EMOLUMENTS	Retrenchment Payments [illegible]	Director's Fees [illegible]	Consulting Fees [illegible]	Options [illegible]	Shares [illegible]	Total [illegible]
Mr Bryan Quinn	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mr Klaus Zahnd	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mr Barry Adams	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mr Ken Bradley	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mr Keith Skipper	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mr Michael Arnett	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

EXECUTIVE OFFICERS' EMOLUMENTS	Retrenchment Payments [illegible]	Salary [illegible]	Superannuation Contributions [illegible]	Options [illegible]	Shares [illegible]	Total [illegible]
Mr Philip Cooney	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible] DIRECTORS' EMOLUMENTS	Director's Fees [illegible]	Consulting Fees [illegible]	Options [illegible]	Total [illegible]
Mr Bryan Quinn	[illegible]	[illegible]	[illegible]	[illegible]
Mr Klaus Zahnd	[illegible]	[illegible]	[illegible]	[illegible]
Mr Daniel Horner	[illegible]	[illegible]	[illegible]	[illegible]
Mr Barry Adams	[illegible]	[illegible]	[illegible]	[illegible]
Mr Ken Bradley	[illegible]	[illegible]	[illegible]	[illegible]
Mr Keith Skipper	[illegible]	[illegible]	[illegible]	[illegible]
Mr Michael Arnett	[illegible]	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]	[illegible]

EXECUTIVE OFFICERS' EMOLUMENTS	Consulting Fees [illegible]	Superannuation Contributions [illegible]	Options [illegible]	Total [illegible]
Mr Philip Cooney	[illegible]	[illegible]	[illegible]	[illegible]

c[illegible] Service Agreements

Remuneration and other terms of employment for executive Directors are as follows[illegible]

Mr[illegible] Bryan Quinn entered into an Employment Agreement with the company dated [illegible] August [illegible] The terms and conditions of this agreement are consistent with employment agreements of senior executives and provides for an initial salary of [illegible] per annum[illegible] The employment agreement is capable of termination under certain circumstances by both parties and if so terminated Mr[illegible] Quinn is entitled to three months salary[illegible] Furthermore the agreement provides normal employee entitlements to annual leave[illegible] long service leave and sick leave[illegible]

In December [illegible] Mr Quinn agreed to a modification to the termination provisions in his Employment Agreement which provides for a compromise settlement if the company successfully proceeds with the proposed placement as contemplated in the Heads of Agreement with RM Corporate Finance[illegible]

Directors' Interests

The relevant interest of each Director [illegible]including their associates[illegible] in the share capital of the Company as [illegible] December [illegible] are set out in note [illegible] to the financial statements[illegible]

AUDITORS

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 entity are important.

Details of the amounts paid or payable to the auditor (William Buck) for audit and non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with the advice received from the audit committee is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001.

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 18.

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	2008 $	2007 $
Assurance Services		
Audit Services		
William Buck		
Audit of financial reports under the Corporations Act 2001	25,000	25,000
Review of the half year financial report	15,000	15,000
Other services	-	-
	40,000	**40,000**

Signed in accordance with a resolution of the Directors.

On behalf of the Directors

Bryan Quinn
Director
31 March 2009

William Buck
Business Advisors
Chartered Accountants

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001 TO THE DIRECTORS OF RED SKY ENERGY LIMITED

I declare that, to the best of my knowledge and belief, during the year ended 31 December 2008 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

ii. no contraventions of any applicable code of professional conduct in relation to the audit.

William Buck
Chartered Accountants

Neil Esho
Partner
Sydney, 31 March 2009

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INCOME STATEMENTS
FOR THE FINANCIAL YEAR ENDED [illegible] DECEMBER [illegible]

	Note	[illegible]	[illegible]
Revenue from ordinary activities	[illegible]	[illegible]	[illegible]
Administration expenses		[illegible]	[illegible]
Finance costs		[illegible]	[illegible]
Consultancy expenses		[illegible]	[illegible]
Corporate expenses		[illegible]	[illegible]
Employee benefits expense		[illegible]	[illegible]
Exploration and Evaluation Expenditure Written Off		[illegible]	[illegible]
Occupancy costs		[illegible]	[illegible]
Other expenses from ordinary activities		[illegible]	[illegible]
Loss from Ordinary Activities before Income Tax Expense	[illegible]	[illegible]	[illegible]
Income tax expense relating to ordinary activities	[illegible]	[illegible]	[illegible]
Net Loss	[illegible]	[illegible]	[illegible]
Basic and diluted loss per share (cents per share)	[illegible]	[illegible]	[illegible]

The Income Statement is to be read in conjunction with the notes to the financial statements.

BALANCE SHEET AS AT [illegible] DECEMBER [illegible]

	Note	[illegible]	[illegible]
CURRENT ASSETS			
Cash and cash equivalents	[illegible]	[illegible]	[illegible]
Receivables	[illegible]	[illegible]	[illegible]
Prepayments	[illegible]	[illegible]	[illegible]
TOTAL CURRENT ASSETS		[illegible]	[illegible]
NON CURRENT ASSETS			
Receivables	[illegible]	[illegible]	[illegible]
Exploration and evaluation expenditure	[illegible]	[illegible]	[illegible]
Plant and equipment	[illegible]	[illegible]	[illegible]
TOTAL NON CURRENT ASSETS		[illegible]	[illegible]
TOTAL ASSETS		[illegible]	[illegible]
CURRENT LIABILITIES			
Payables	[illegible]	[illegible]	[illegible]
TOTAL CURRENT LIABILITIES		[illegible]	[illegible]
TOTAL LIABILITIES		[illegible]	[illegible]
NET LIABILITIES		[illegible]	[illegible]
EQUITY			
Contributed equity	[illegible]	[illegible]	[illegible]
Reserves	[illegible]	[illegible]	[illegible]
Accumulated losses	[illegible]	[illegible]	[illegible]
TOTAL EQUITY		[illegible]	[illegible]

The Balance Sheet is to be read in conjunction with the notes to the financial statements.

STATEMENTS OF CHANGES IN EQUITY AS AT [illegible] DECEMBER [illegible]

	[illegible]	[illegible]
	[illegible]	[illegible]
Total equity at the beginning of the financial year	[illegible]	[illegible]
Net expenses / revenue recognised directly in equity	[illegible]	[illegible]
Loss for the year	[illegible]	[illegible]
Total recognised income and expense for the year	[illegible]	[illegible]
Issue of shares net of transaction costs	[illegible]	[illegible]
Total equity at the end of the financial year	[illegible]	[illegible]

The Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements.

CASH FLOW STATEMENT

FOR THE FINANCIAL YEAR ENDED [illegible] DECEMBER [illegible]

	Note	[illegible]	[illegible]
CASH FLOWS FROM OPERATING ACTIVITIES			
Payments to suppliers and employees		[illegible]	[illegible]
Exploration and evaluation expenditure		[illegible]	[illegible]
Interest received		[illegible]	[illegible]
Interest paid		[illegible]	[illegible]
Sundry receipts		[illegible]	[illegible]
Net cash used in operating activities	[illegible]	[illegible]	[illegible]
CASH FLOWS FROM INVESTING ACITIVIES			
Net cash used in investing activities		[illegible]	[illegible]
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from share issues		[illegible]	[illegible]
Repayment of borrowings		[illegible]	[illegible]
Equity raising expenses		[illegible]	[illegible]
Net cash provided by [illegible] used in [illegible] financing activities		[illegible]	[illegible]
NET INCREASE [illegible] DECREASE [illegible] IN CASH HELD		[illegible]	[illegible]
CASH AT THE BEGINNING OF THE FINANCIAL YEAR		[illegible]	[illegible]
CASH AT THE END OF THE FINANCIAL YEAR	[illegible]	[illegible]	[illegible]

The Cash Flow Statement is to be read in conjunction with the notes to the financial statements.

Notes to and Forming Part of the Accounts

[illegible] STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the Corporations Act [illegible].

The company is incorporated and domiciled in Australia. The financial report of the company for the year ended [illegible] December [illegible] comprises the company only and has not been consolidated with any other entity. The financial report is presented in Australian dollars.

The financial report was authorised for issue by the Directors on [illegible] March [illegible].

Statement of Compliance

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRSs). Compliance with AIRFSs ensures that the financial statements and notes comply with International Financial Reporting Standards (IFRSs).

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available for sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

Critical accounting estimates

The preparation of financial statement in conformity with AIRFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant.

Significant Accounting Policies

Accounting policies are selected and applied in a manner which ensures that the resultant financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions and other events is reported.

The entity has adopted relevant new and revised accounting standards and pronouncements with no material impact.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report.

b) Cash and Cash Equivalents

For the purpose of the cash flow statements, cash includes cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts.

Notes to and Forming Part of the Accounts (continued)

c) Issued Capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

d) Exploration and Evaluation Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward where there is current activity and rights of tenure, 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, in the year in which the decision to abandon the area is made.

When production commences, the accumulated cost of the relevant area of interest are amortised over the life of the area according to the rate of depletion of the economically recoverable reserves.

A regular review is undertaken of each area to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

e) Fair value Estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement 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 company for similar financial instruments.

f) Share based Payments

Share based benefits are provided at the discretion of the Directors.

The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black Scholes options pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

Notes to and Forming Part of the Accounts continued

The fair value of the options granted is adjusted to reflect market vesting conditions but excludes the impact of any non market vesting conditions for example profitability and sales growth targets Non market vesting conditions are included in assumptions about the number of options that are expected to become exercisable At each balance sheet date the entity revises its estimate of the number of options that are expected to become exercisable The employee benefit expense recognised each period takes into account the most recent estimate

Upon the exercise of options the balance of the share based payments reserve relating to those options is transferred to share capital and the proceeds received net of any directly attributable transaction costs are credited to share capital

g Trade and Other Receivables

Trade receivables are recognised initially at a fair value and subsequently measured at amortised cost less provision for doubtful debts as they are due for settlement

h Trade and Other Payables

These amounts represent liabilities for good and services provided to the company prior to the end of financial year which are unpaid The amounts are unsecured and are usually paid within days of recognition

i Goods and Services Tax

Revenues expenses and assets are recognised net of the amount of associated GST unless the GST incurred is not recoverable from the taxation authority In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense

Receivables and payables are stated inclusive of the amount of GST receivable or payable The net amount of GST recoverable from or payable to the taxation authority is included with other receivables or payables in the balance sheet

Cash flows are presented on a gross basis The GST components of cash flows arising from investing or financing activities which are recoverable from or payable to the taxation authority are presented as operating cash flow

j Impairment of Assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable An impairment loss is recognised for the amount by which the asset's carrying

Notes to and Forming Part of the Accounts (continued)

amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

k) Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

l) Interests in Joint Ventures

The entity's share of the assets, liabilities, revenue and expenses of joint venture operations are included in the appropriate items of the Income Statements and financial position. Details of the entity's interests in joint ventures are shown in Note [illegible].

Notes to and Forming Part of the Accounts (continued)

m) Loss per Share

Basic and diluted loss per share is determined by dividing the net loss after income tax attributable to members of the entity (excluding any costs of servicing equity other than ordinary shares) by the weighted number of ordinary shares outstanding during the financial year. No adjustment has been made to the basic loss per share for any options issued by the entity as outlined in Note [illegible] as they are not considered potential ordinary shares at reporting date and are not therefore dilutive.

n) Revenue Recognition

Interest Income
Interest income is recognised on a proportional basis taking into account the interest rates applicable to financial assets.

Other Income
Other income is recognised on receipt.

General
All revenue is stated net of goods and services tax (GST).

o) Financial Assets

The company's financial assets comprise receivables (Note [illegible]) and security deposits (Note [illegible]).

Financial assets are assigned to the different categories on initial recognition, depending on the characteristics of the instrument and its purpose. A financial instrument's category is relevant for the way it is measured and whether any resulting income and expenses is recognised in profit or loss or directly in equity.

An assessment of whether a financial asset is impaired is made at least at each reporting date.

All income and expense relating to financial assets are recognised in the income statement line items "finance costs" or "finance income", respectively.

Receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Subsequent to initial recognition these are measured at amortised cost using the effective interest rate method, less provision for impairment. However the company's financial assets are measured at cost as the effect of discounting is immaterial.

Notes to and Forming Part of the Accounts [illegible] continued

Significant receivables are considered for impairment on a case by case basis when they are past due at the balance sheet date or when objective evidence is received that a specific counterparty will default. At year end no evidence of impairment was identified.

Accounting Policies – Financial Liabilities

The company's financial liabilities include trade and other creditors and amounts payable to Sky Hunter Exploration Ltd (refer Note [illegible]). These financial liabilities are measured at cost.

Financial liabilities are recognised when the company becomes a party to the contractual agreements of the instrument. All interest related charges and, if applicable, changes in a financial liability's fair value that are reported in the profit or loss are included in the income statement line items "finance costs" (refer Note [illegible]) or "finance income" (refer Note [illegible]).

p [illegible] Going Concern

The financial report has been prepared on the basis of going concern which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The Directors believe this basis to be appropriate and the reasons for this judgement are as follows:

- The company expects to raise [illegible] of new capital subsequent to balance date via an underwritten agreement with RM Corporate Finance and is currently engaged in securing other sufficient funds to meet its tenement and other expenditure obligations within the next financial year and has contingency plans to reduce those obligations and will take action in a timely fashion if required to do so.

  The company is currently in the process of finalising a number of strategies that will facilitate it in meeting its future financial commitments. The strategies either finalised or being finalised include the following:

  - Relinquishing some currently held permits and extinguishing the commitments in order to focus on higher value permits.

  - Requesting an extension of time in which to meet its tenement exploration commitments from the relevant mines department.

  - Pursuant to Heads of Agreement dated [illegible] December [illegible] between the company and RM Corporate Finance, and with the agreement of Messrs Quinn and Cooney, certain retrenchment and other payments due to Directors and management would be settled via cash payments and the issue of shares as follows:

Notes to and Forming Part of the Accounts (continued)

Directors/Management	**Liability**	**Cash Payment (A)**	**Issue of Shares**
Bryan Quinn – Retrenchment payout	[illegible]	[illegible]	[illegible]
Bryan Quinn Accrued Annual Leave	[illegible]	[illegible]	[illegible]
Phillip Cooney – Retrenchment payout	[illegible]	[illegible]	[illegible]
Directors Fees	[illegible]	[illegible]	[illegible]
TOTAL	[illegible]	[illegible]	[illegible]

The shares were issued on [illegible] February [illegible].

- Pursuant to a Deed of Settlement dated [illegible] October [illegible], Sky Hunter Exploration Ltd has agreed to convert debts totalling C[illegible] or A[illegible] to [illegible] shares in the capital of the company. The shareholders of the company formally approved this transaction on [illegible] February [illegible]. The shares were issued on [illegible] February [illegible].

- The Directors have no reason to expect that normal credit and operating facilities will not continue to be provided by suppliers and the Company expects to be able to comply with these credit terms and meet its operational commitments.

- There are no contingent liabilities which are likely to have a material effect on the company's financial position.

- Furthermore, the new Directors appointed to the board of the company intend to continue to review existing operations of the company and where appropriate, reduce operating and capital expenditure until financial markets stabilise or opportunities arise.

The Directors are satisfied that adequate plans are in place and that the company will have sufficient cash for a minimum of [illegible] months from the date of signature of the financial report to the date of signature of the financial report for the year ending [illegible] December [illegible]. On the basis the financial report has been prepared on the going concern basis.

Should the company be unable to continue as a going concern it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements.

The financial statements do not include any adjustments relating the recoverability and classification of asset carrying amounts or the amount of liabilities that might result should the company be unable to continue as a going concern and meet its debts as and when they fall due.

Notes to and Forming Part of the Accounts Cont'd

[illegible] FINANCIAL RISK MANAGEMENT

The company's activities expose it to a variety of financial risks [illegible] market risk [illegible] including currency risk [illegible] interest rate risk and price risk [illegible] credit risk [illegible] liquidity risk and cash flow interest rate risk [illegible] The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the company [illegible]

a [illegible] Foreign Exchange Risk

Most of the company's transactions are carried out in Australian Dollars [illegible] The company is however exposed to movements in foreign currencies through its convertible loan with Sky Hunter Exploration Ltd in Canada which is denominated in Canadian dollars [illegible] Currency movements during the year resulted in an unrealised foreign currency loss of [illegible]

Subsequent to balance date [illegible] the shareholders approved the loan being extinguished via the issue of [illegible] fully paid ordinary shares [illegible] As at the date of this report however [illegible] the shares have not been issued [illegible]

b [illegible] Credit Risk

There is negligible credit risk on financial assets [illegible] excluding investments [illegible] of the entity since there is no exposure to individual customers or countries and the economic entity's exposure is limited to the amount of cash [illegible] short term deposits and receivables which have been recognised in the balance sheet [illegible]

c [illegible] Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities [illegible] The company is exposed to liquidity risk because its short term commitments exceed current cash balances and projected income [illegible] The company plans to manage this risk by implementing the strategies outlined in note [illegible] above [illegible]

d [illegible] Interest Rate Risk

The company earns interest income on its cash balances and is therefore exposed to movements in interest rates [illegible]

[illegible] CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

[illegible] REVENUE

	[illegible]	[illegible]
	[illegible]	[illegible]
Finance Income	[illegible]	[illegible]
Other Income	[illegible]	[illegible]
	[illegible]	[illegible]

[illegible] EXPENSES

The loss before income tax includes the following expenses:

Exchange Losses	[illegible]	[illegible]
Bad Debts	[illegible]	[illegible]
Finance Costs	[illegible]	[illegible]
Loss on Disposal of Plant [illegible] Equipment	[illegible]	[illegible]
Operating Lease Rental Expense	[illegible]	[illegible]
Write off of Exploration Expenditure	[illegible]	[illegible]
Share based payment	[illegible]	[illegible]
Depreciation	[illegible]	[illegible]

[illegible] INCOME TAX

		[illegible]	[illegible]
		[illegible]	[illegible]
a)	The prima facie income tax benefit on pre-tax accounting loss reconciles to the income tax expense benefit in the financial statements as follows:		
	Loss from ordinary activities	[illegible]	[illegible]
	Prima facie income tax benefit calculated at [illegible] of operating loss	[illegible]	[illegible]
	Permanent differences:		
	Non-allowable items	[illegible]	[illegible]
	Future income tax benefits not recognised	[illegible]	[illegible]
	Income tax benefit attributable to operating loss	[illegible]	[illegible]
b)	Franking account balance	[illegible]	[illegible]
c)	Future income tax benefit not recognised		
	The potential future income tax benefit calculated at [illegible] arising from tax losses and timing differences has not been recognised as an asset because the conditions set out in Note [illegible] have not been satisfied:	[illegible]	[illegible]

The taxation benefits of revenue tax losses and temporary differences not brought to account will only be obtained if:

a) The company derives further assessable income of nature and of an amount sufficient to enable the benefit from the deductions to be realised;
b) The company continues to comply with the conditions for deductibility imposed by the law; and
c) No changes in tax legislation adversely affect the company's ability in realising the benefit from the deductions.

[illegible] KEY MANAGEMENT PERSONNEL DISCLOSURES

a) Directors

The Directors of Red Sky Energy Ltd during the year were:

Mr Barry Adams	Non Executive Chairman (Resigned [illegible] February [illegible])
Mr Bryan Quinn	Non Executive Director (Resigned as Managing Director on [illegible] February [illegible])
Mr Klaus Zahnd	Non Executive Chairman (Resigned [illegible] May [illegible])
Mr Ken Bradley	Non Executive Director (Resigned [illegible] February [illegible])
Mr Keith Skipper	Non Executive Director (Resigned [illegible] February [illegible])
Mr Michael Arnett	Non Executive Director (Resigned [illegible] February [illegible])
Mr Guy Le Page	Non Executive Director (Appointed [illegible] February [illegible])
Mr Robert Hyndes	Non Executive Director (Appointed [illegible] February [illegible])

b) Other Key Management Personnel

Mr Philip Cooney	Exploration Manager
Mr Andrew Cooke	Company Secretary
Mr David Ballantyne	Company Secretary

c) Remuneration of Directors and Executives

The company has taken advantage of the relief provided by ASIC Class Order [illegible] and has transferred the detailed remuneration disclosures to the Directors' report. The relevant information can be found in section (b) of the remuneration report on pages [illegible] to [illegible].

d) Equity Instrument Disclosure Relating to Directors

Shares	**Number held [illegible] December [illegible]**	**Acquired during year**	**Sold during year**	**Issued on exercise of options**	**Number held [illegible] December [illegible]**
Mr Bryan Quinn	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mr Ken Bradley	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mr Barry Adams	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mr Keith Skipper	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mr Michael Arnett	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mr Guy Le Page	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mr Robert Hyndes	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Options	Number held [illegible] December [illegible]	Granted during year	Lapsed during year	Exercised during year	Number held [illegible] December [illegible]
Mr Bryan Quinn	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mr Ken Bradley	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mr Barry Adams	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mr Keith Skipper	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mr Michael Arnett	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mr Guy Le Page	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mr Robert Hyndes	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

e Transactions with associates of Directors

	[illegible]	[illegible]
Vencorp Capital Ltd		
The company paid fees to Vencorp Capital Ltd, an associated company of Mr K Zahnd, for administrative services provided by that company. The fees were determined on a commercial basis.	[illegible]	[illegible]
Sky Hunter Exploration Ltd geochemical surveys		
In the prior year, the company incurred fees payable to Sky Hunter Exploration Ltd, an associated company of Mr K Bradley, for geochemical surveys provided by that company. The fees were determined on a commercial basis.	[illegible]	[illegible]
Business Essence		
In the prior year, the company paid fees to Business Essence Pty Ltd, an associated company of Mr B Adams, for administrative services provided by that company. The fees were determined on a commercial basis. This agreement was terminated on appointment of a full time Managing Director on [illegible] August [illegible]. Mr Adams received no other compensation as a Director during that period. Since [illegible] August [illegible] Mr Adams has received remuneration in line with other non executive Directors.	[illegible]	[illegible]

[illegible] AUDITORS' REMUNERATION

Remuneration of the auditor of the entity for:		
Audit Services		
Audit of financial reports under the Corporations Act [illegible]	[illegible]	[illegible]
Review of the half year financial report	[illegible]	[illegible]
Other services	[illegible]	[illegible]
	[illegible]	[illegible]

[illegible] LOSS PER SHARE

	[illegible]	[illegible]
	[illegible]	[illegible]
Loss for the year	[illegible]	[illegible]
Basic and diluted loss per share (cents per share)	[illegible]	[illegible]
Weighted average number of ordinary shares outstanding during the year used in calculation of basic earnings/loss per share	[illegible]	[illegible]
The options outlined in Note [illegible] are not considered potential ordinary shares at reporting date and are not therefore dilutive.		

[illegible] CASH AND CASH EQUIVALENTS

Cash at bank and on hand	[illegible]	[illegible]

[illegible] RECEIVABLES

CURRENT RECEIVABLES

Interest receivable	[illegible]	[illegible]
Employee advances	[illegible]	[illegible]
Other Debtors	[illegible]	[illegible]
Rental bonds	[illegible]	[illegible]
GST receivables	[illegible]	[illegible]
	[illegible]	[illegible]

NON CURRENT RECEIVABLES

	[illegible]	[illegible]
	[illegible]	[illegible]
Tenement security deposits	[illegible]	[illegible]

The carrying value of current and non current receivables is considered a reasonable approximation of fair value.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable in the financial statements. The company does not hold any collateral as security over any receivable balance.

All of the company's receivables have been reviewed for indicators of impairment. No indicators of impairment were identified and accordingly no provisions for impairment have been accrued.

[illegible] PREPAYMENTS

CURRENT

	[illegible]	[illegible]
	[illegible]	[illegible]
Prepaid exploration expenditure	[illegible]	[illegible]

As detailed in Note [illegible] below, the Planet Downs well was spudded on February [illegible] and [illegible] and drilled to a depth of [illegible] m. The well was subsequently plugged and abandoned on March [illegible]th [illegible] after encountering non commercial oil shows. The drilling of this well consumed the [illegible] prepaid exploration expenditure on deposit with Great Artesian Oil and Gas.

[illegible] EXPLORATION AND EVALUATION EXPENDITURE

Costs carried forward in respect of areas of interest in exploration and evaluation phases		
Movement for Year		
Balance at beginning of year	[illegible]	[illegible]
Expenditure Capitalised during the year	[illegible]	[illegible]
Amounts written off	[illegible]	[illegible]
Balance at end of year	[illegible]	[illegible]

[illegible] PAYABLES

CURRENT PAYABLES

<u>Unsecured</u>	[illegible]	[illegible]
	[illegible]	[illegible]
Trade creditors	[illegible]	[illegible]
Other creditors	[illegible]	[illegible]
Convertible Notes – due to Sky Hunter Exploration Ltd	[illegible]	[illegible]
	[illegible]	[illegible]

Other creditors includes [illegible] in accrued redundancy payments to Bryan Quinn and Philip Cooney, which subsequent to year end, were paid via the issue of [illegible] fully paid ordinary shares.

Subsequent to balance date, the shareholders formally approved the conversion of the loan from Sky Hunter Exploration Ltd into equity via the issue of [illegible] fully paid ordinary shares. The shares were issued on [illegible] February [illegible].

The carrying values of trade and other creditors are considered a reasonable approximation of fair value at [illegible] December [illegible].

Foreign Currency Risk

The loan payable to Sky Hunter Exploration Ltd at balance date is denominated in Canadian dollars. The loan includes an unrealised foreign currency loss of [illegible].

[illegible] CONTRIBUTED EQUITY

	[illegible]	[illegible]
	[illegible]	[illegible]
Fully Paid Ordinary Shares	[illegible]	[illegible]

Full paid ordinary shares carry one vote per share and carry the right to dividends.

Movement in ordinary share capital	[illegible] **Shares**	[illegible] **Shares**	[illegible] [illegible]	[illegible] [illegible]
Balance at beginning year	[illegible]	[illegible]	[illegible]	[illegible]
Shares issued during year	[illegible]	[illegible]	[illegible]	[illegible]
Conversion of Convertible Notes	[illegible]	[illegible]	[illegible]	[illegible]
Pre IPO Seed Capital Raising	[illegible]	[illegible]	[illegible]	[illegible]
Option Exercised	[illegible]	[illegible]	[illegible]	[illegible]
Initial Public Offering May [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Capital raised from rights issue	[illegible]	[illegible]	[illegible]	[illegible]
Transaction cost relating share issues	[illegible]	[illegible]	[illegible]	[illegible]
Totals as at [illegible] December [illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible] OPTIONS

Date Granted	Expiry Date	Exercise Price (cents)	Number on issue [illegible] December [illegible]	Granted during year	Lapsed during year	Exercised during year	Number on issue [illegible] December [illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total Options on Issue			[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible] RESERVES

	[illegible]	[illegible]
	[illegible]	[illegible]
Share Based Payments Reserve		
Balance at beginning of year	[illegible]	[illegible]
Options issued or lapsed in the year (net of options reissued)	[illegible]	[illegible]
Balance at end of year	[illegible]	[illegible]

Nature and Purpose of Reserves

Share Based Payments Reserve

The share based payments reserve records the value of options issued which have been taken to expenses.

[illegible] ACCUMULATED LOSSES

Accumulated losses at beginning of financial year	[illegible]	[illegible]
Net loss for year	[illegible]	[illegible]
Accumulated losses at the end of financial year	[illegible]	[illegible]

[illegible] COMMITMENTS FOR EXPENDITURE

a) Capital Expenditure Commitments

There are no capital commitments at the end of the financial year.

b) Tenement Expenditure

	[illegible]	[illegible]
	[illegible]	[illegible]
Not later than one year	[illegible]	[illegible]

Note [illegible] Under the various license conditions, the company is required to explore PELs [illegible] [illegible] and [illegible] by [illegible] December [illegible] at a cost of [illegible]. The company has requested from the Department of Primary Industries of NSW a deferral of exploration under these permits. No response has been received to date.

Note [illegible] If the company is successful in arranging farmouts of PEL [illegible] and [illegible] the commitments are expected to reduce by up to [illegible].

Note [illegible] The company has prepaid exploration expenditure of [illegible] in relation to PEL [illegible] (refer note [illegible]) and this amount is therefore not included in the commitments above.

[illegible] INTEREST IN JOINT VENTURES

The company was engaged in the following exploration joint ventures during the year, whose principal activities are exploration for oil. During the year, the company has relinquished its interests in these joint ventures.

Tenement	Area of Interest	[illegible]	[illegible]
		[illegible]	[illegible]
PEL [illegible]	Cooper Basin (assumes farm out of [illegible] interest re costs of wells)	[illegible]	[illegible]
PEL [illegible]	Cooper Basin	[illegible]	[illegible] of any resulting PPL
PEL [illegible]	Cooper Basin	[illegible]	Up to [illegible] of any resulting PPL
PEL [illegible]	Cooper Basin	[illegible]	[illegible] of PEL
ATP [illegible] P	Cooper Basin	Right to earn Up to [illegible]	[illegible]

[illegible] CONTINGENT LIABILITIES

There are no contingent liabilities.

[illegible] SEGMENT INFORMATION

The economic entity operates in one segment only being mineral exploration and development in Australia.

[illegible] EVENTS SUBSEQUENT TO REPORTING DATE

- On [illegible] February [illegible] the shareholders of the company approved the following transactions:

  - Heads of Agreement between the company and RM Corporate Finance dated [illegible] December [illegible] in relation to the raising of additional funds [illegible] via an underwritten equity raising with RM Corporate Finance Pty Ltd.
  - Pursuant to the Heads of Agreement [illegible] December [illegible] between the company and RM Corporate Finance and with the agreement of Messrs Quinn and Cooney, certain retrenchment and other payments due to Directors and management would be settled via cash payments and the issue of shares as follows:

Directors/Management	Liability	Cash Payment	Issue of Shares
Bryan Quinn – Retrenchment payout	[illegible]	[illegible]	[illegible]
Bryan Quinn – Accrued Annual Leave	[illegible]	[illegible]	[illegible]
Phillip Cooney – Retrenchment payout	[illegible]	[illegible]	[illegible]
Directors Fees	[illegible]	[illegible]	[illegible]
TOTAL	[illegible]	[illegible]	[illegible]

  The shares were issued on [illegible] February [illegible].

  - Pursuant to a Deed of Settlement dated [illegible] October [illegible] the loan payable to Sky Hunter Exploration Ltd would convert (subject to shareholder approval) to equity via the issue of [illegible] shares in the capital of the company. The shares were issued on [illegible] February [illegible].

- On [illegible] February [illegible] Messrs Adams, Arnett, Bradley and Skipper resigned as Directors of the company and Messrs Le Page and Hyndes were appointed as Directors of the company.

- The company entered into a farm in agreement with Great Artesian Oil and Gas Limited (a subsidiary of Drillsearch Energy Ltd) in May [illegible] to potentially participate in drilling of exploration wells in PEL [illegible] and PEL [illegible]. Those opportunities did not occur and the farm in agreement expired. The parties entered into a new farm in agreement dated [illegible] February [illegible] in relation to the Planet Downs – [illegible] well. The Planet Downs well was spudded on February [illegible]nd [illegible] and drilled to a depth of [illegible]m. The well was subsequently plugged and abandoned on March [illegible]th [illegible] after encountering non commercial oil shows. The drilling of this well consumed the [illegible] (refer Note [illegible]) on deposit with Great Artesian Oil and Gas.

Other than the above, there has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the entity, the results of those operations or the state of affairs of the entity in future financial years.

[illegible] FINANCIAL INSTRUMENTS

a) Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note [illegible] to the financial statements.

b) Interest Rate Risk

The entity has not entered into interest rate hedging transactions. The entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below.

[illegible]

Financial Assets	Note	Weighed Average Interest Rages	Floating Interest Rates	Interest Maturing Year or Less	Non-Interest Bearing	Total
Cash	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Receivables	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Security Deposits	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total Assets			[illegible]	[illegible]	[illegible]	[illegible]
Financial Liabilities						
Payables	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Convertible notes	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total Liabilities			[illegible]	[illegible]	[illegible]	[illegible]
Net financial assets			[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

Financial Assets	Note	Weighed Average Interest Rages	Floating Interest Rates	Interest Maturing Year or Less	Non Interest Bearing	Total
Cash	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Security Deposits	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Receivables	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total Assets			[illegible]	[illegible]	[illegible]	[illegible]
Financial Liabilities						
Payables	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Convertible notes	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total Liabilities				[illegible]	[illegible]	[illegible]
Net financial assets			[illegible]	[illegible]	[illegible]	[illegible]

c) Foreign Exchange Risk

Most of the company's transactions are carried out in Australian Dollars. However, the company was exposed to movements in foreign currencies through its loan with Sky Hunter Exploration Ltd in Canada which is denominated in Canadian dollars.

d) Credit Risk

There is negligible credit risk on financial assets, excluding investments, of the entity since there is no exposure to individual customers or countries and the economic entity's exposure is limited to the amount of cash, short term deposits and receivables which have been recognised in the balance sheet.

e) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities. The company is exposed to liquidity risk because its short term commitments exceed current cash balances and projected income. The company plans to manage this risk by implementing the strategies outlined in note [illegible] above.

[illegible] NET FAIR VALUE OF FINANCIAL INSTRUMENTS

Monetary financial assets and financial liabilities not readily traded in an organised financial market are determined by valuing them at the present value of contractual future cash flows on amounts due from customers (reduced for expected credit losses) or due to suppliers. The carrying amounts of cash, accounts receivable, accounts payable approximate net fair value.

The carrying amounts and net fair value of financial assets and liabilities as at the reporting date are set out below:

	[illegible]		[illegible]	
	Carrying Amount	**Net Fair Value**	**Carrying Amount**	**Net Fair Value**
Financial Assets				
Cash	[illegible]	[illegible]	[illegible]	[illegible]
Receivables	[illegible]	[illegible]	[illegible]	[illegible]
Security Deposits	[illegible]	[illegible]	[illegible]	[illegible]
Financial Liabilities				
Payables	[illegible]	[illegible]	[illegible]	[illegible]
Convertible Notes	[illegible]	[illegible]	[illegible]	[illegible]

[illegible] NOTES TO STATEMENTS OF CASH FLOWS

Reconciliation of Cash

For the purpose of the statements of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the Balance Sheet as follows:

	[illegible] [illegible]	[illegible] [illegible]
Cash at bank	[illegible]	[illegible]

Reconciliation of Operating Profit After Income Tax to Net Cash Flows From Operating Activities

Operating loss after income tax	[illegible]	[illegible]
Non cash items included in profit and loss		
Exploration and evaluation expenditure written off	[illegible]	[illegible]
Share based payments expensed (recovered)	[illegible]	[illegible]
Other	[illegible]	[illegible]
	[illegible]	[illegible]
Changes in assets and liabilities		
Decrease (Increase) in receivables	[illegible]	[illegible]
Exploration and evaluation expenditure	[illegible]	[illegible]
Increase (decrease) in payables	[illegible]	[illegible]
Net cash used in operating activities	[illegible]	[illegible]

[illegible] SHARE BASED PAYMENTS

[illegible] options were granted for no consideration to Mr Bryan Quinn. The options granted in the year expire on [illegible] June [illegible] ([illegible] options) and on [illegible] December [illegible] ([illegible] options).

Options granted carry no dividend or voting rights. Each option entitles the holder to subscribe for and be allotted one ordinary fully paid share in the capital of the Company. The Exercise Price is determined by the Directors at the time of issuing options.

Details of movements in options granted are given in Note [illegible].

Fair Value of Options Granted

The assessed fair value at grant date of options granted during the year ended [illegible] December [illegible] was [illegible] cents per option in respect of the [illegible] options expiring on [illegible] June [illegible] and [illegible] in respect of the [illegible] options expiring on [illegible] December [illegible]. The fair value at grant date was independently determined taking into account the exercise price, the term of the option, the impact of dilution, the share price at granted and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the year ended [illegible] December [illegible] included:

	Tranche [illegible] options	**Tranche [illegible] – [illegible] options**
Consideration for Grant	NIL	NIL
Vesting	[illegible] December [illegible]	[illegible] June [illegible]
Exercise price	[illegible]	[illegible]
Grant date	[illegible] May [illegible]	[illegible] May [illegible]
Expiry date	[illegible] June [illegible]	[illegible] December [illegible]
Share price at grant date	[illegible]	[illegible]
Expected price volatility of the Companys Shares	[illegible]	[illegible]
Expected dividend yield	[illegible]	[illegible]
Risk – free interest rate	[illegible]	[illegible]
Probability rate	[illegible]	[illegible]

Based on the above, the value of the options issued are as follows:
Tranche [illegible] Options: [illegible]
Tranche [illegible] Options: [illegible]

Accordingly the total balance sheet impact attributable to the granting of these options is [illegible] over the term of the options.

DIRECTORS DECLARATION

The Directors declare that:

- The attached financial statements and notes thereto comply with Accounting Standards and the Corporations Regulations;
- The attached financial statements and notes thereto give a true and fair view of the financial position and performance of the entity.

In the Directors' opinion,

- The attached financial statement and note thereto are in accordance with the Corporations Act 2001; and
- There are reasonable grounds to believe that the entity will be able to pay its debts as and when they become due and payable.

The Directors have been given a declaration by the Managing Director and the Chief Executive Officer (who also carries out the function of Chief Financial Officer) pursuant to section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors.

On behalf of the Directors

Bryan Quinn
Director
31 March 2009
Melbourne

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RED SKY ENERGY LIMITED

Report on the Financial Report

We have audited the accompanying financial report of Red Sky Energy Limited (the company), which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the company.

As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of directors and executives (remuneration disclosures), required by Accounting Standard AASB 124: Related Party Disclosures, under the heading 'Remuneration Report' in pages 13 to 16 of the directors' report and not in the financial report.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

The directors also are responsible for preparation and presentation of the remuneration disclosures contained in the directors' report in accordance with the Corporations Regulations 2001.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and that the remuneration disclosures in the directors' report comply with Accounting Standard AASB 124.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures in the directors' report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's Opinion

In our opinion:

a. the financial report of Red Sky Energy Limited is in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of the company's financial position as at 31 December 2008 and of their performance for the year ended on that date; and

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

b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1; and

c. the remuneration disclosures that are contained in pages 13 to 16 of the directors' report comply with Accounting Standard AASB 124.

Material Uncertainty Regarding Continuation as a Going Concern

Without modification to the opinion expressed above, we draw attention to the matters described in Note 1 (p) of the financial report. The continuing viability of the company and its ability to continue as a going concern is dependent on the company being successful in accessing additional sources of capital and/or reducing its operating costs. In the absence of achieving these objectives, there exists material uncertainty that casts doubt as to whether Red Sky Energy Limited will be able to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

William Buck

Chartered Accountants

Neil Esho

Partner

Sydney, 31 March 2009