



GALILEE
ENERGY LIMITED

Annual Report 2010

ACN 064 957 419

Annual Report – 30 June 2010

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The 2010 Annual General Meeting

Will be held at 3pm on Monday 22nd November at:-

Norton Rose Australia
Level 17
175 Eagle St
Brisbane



CHAIRMAN'S LETTER

Dear Shareholders

The past year was one of major change in the group structure and one which culminated in the Company recording a profit.

The Company's coal operations in New Zealand and in particular the successful sale of the Broughton coal tenement were the contributors to the pleasing profit result. As a consequence of the Broughton sale all of our coal focused activities are now located in the South Island of New Zealand. The two operating mines, Takitimu and Cascade, continue to show improved operating results; in particular Takitimu has performed above budget. Additional exploration and prospecting permits have been secured to provide opportunities to expand activities.

Our Queensland Coal Seam Gas (CSG) exploration and test activities have progressed albeit not as rapidly as hoped. Weather and equipment failure has hampered the progress of the all important Glenaras 5-spot pilot test to demonstrate gas production capability from the ATP 529P block, operated by AGL Energy Limited. At the time of writing the remediation efforts in respect of the equipment failures have been almost completed. It is anticipated the de-watering will recommence in earnest during the final quarter of this calendar year. In addition to the Glenaras pilot programme in ATP 529P, AGL have successfully completed a 540km seismic survey and six wells of a seven well core hole drilling programme, all of which are commitments for phase two of the farm-in work programme funded by AGL. As reported by the Operator results to date have been positive.

In the first quarter of this calendar year we completed the committed work programme in ATP 799P 100% owned and operated by Galilee Energy. The results from the seismic survey and the cored wells have been encouraging and we have subsequently entered the next four year term for evaluating this permit.

During the financial year the corporate structure of the group was simplified with the merger of the two operating entities and renaming of the listed entity as you currently know it - Galilee Energy Limited with the ASX code of GLL. This was followed by the announcement that we were reviewing the potential to float the New Zealand coal operation to separate the coal and CSG activities. The outcome of the review resulted in the announcement of a proposed IPO (Initial Public Offering) of the New Zealand coal activities as the Eastern Resources Group Limited to be listed on the ASX.

When GLL was formed the Board of this listed Company was established as indicated in this report. I look forward to working with these directors to increase the value of your company in the hydrocarbon energy sector. Two long serving directors of Eastern Corporation have resigned, Richard May and John McIntyre. I would like to thank them for their invaluable contribution to the progress of this Company.



Of particular note is the recent appointment of Glenn Haworth as the new CEO of the Company taking over from Campbell Smith, who will continue serving as a non-executive director and to manage GLL's interest in the Eastern Resources Group. I thank Campbell for his efforts to date and look forward to working with him as a non-executive director. At the same time I am keen to pursue new initiatives to grow the company under the executive leadership of Glenn.

I look forward to your continued support as our committed Board and management team maps out a positive future for the Company.

Yours sincerely,

A handwritten signature in black ink that reads "Steven J. Koroknay". The signature is written in a cursive style with a horizontal line underneath the name.

Steven J. Koroknay
Chairman



CEO's COMMENTS

I am pleased to be leading the management team focussed on developing Galilee Energy as a valuable hydrocarbon energy company in Australia.

The first step in achieving this is to devise a company strategy based on simple principles; firstly, to develop and deliver our initial coal seam gas reserve booking from the Galilee Basin; and secondly, to pursue new initiatives and expand the portfolio of assets beyond the Galilee Basin blocks to create a sustainable hydrocarbon business.

Coal Seam Gas (CSG)

Our major CSG project in Queensland's Galilee Basin is with our highly valued joint venture partner and Operator AGL Energy Limited (AGL) in ATP529P.

Part one of the farm-in agreement with AGL was the Glenaras 5-spot production pilot. The progress of this was delayed by adverse weather conditions and some failures identified with pumping equipment. Efforts to replace failed equipment and re-start the pilot are finally nearing completion. The objective of the pilot is to demonstrate gas production capability in order to secure our first 2P and 3P gas reserve bookings.

The extensive exploration programme, part two of the farm-in agreement, is also nearing completion, hampered by extraordinary wet weather in the region, with 540km of new 2D seismic acquired to identify critical underground structure and seven new core holes to further develop our extensive coal knowledge base.

CSG water management has become a major challenge. In an effort to proactively cooperate with the regulator and the local community, Galilee Energy has encouraged the establishment of the Galilee Basin Operators Forum, consisting of Galilee Basin CSG Operators, including Galilee Energy, AGL, Origin Energy, Blue Energy, Comet Ridge, Exoma and QER. The forum has commissioned the first phase of a groundwater study of the Galilee Basin with the objective of establishing a common groundwater model.

In September, AGL presented an encouraging paper "Exploration in the Galilee Basin" at the Queensland and NT PESA Annual Symposium 2010. We are now jointly developing a work programme for 2011 with the objective to identify and test future pilot locations in order to support the key long term value creation for your company.

Looking for new initiatives

With your support, I am keen to pursue new initiatives and grow Galilee Energy into a sustainable hydrocarbon company to balance the long term value creation potential of the Galilee Basin, with short to medium term value creation opportunities available beyond the Galilee Basin. A thorough screening process will be applied to rank opportunities and identify the most appropriate projects for Galilee Energy.



In summary, the past year's activities have created a simplified, high potential, well funded (through the sale of the Broughton Coal Mine and the proposed NZ IPO) small cap company with a major joint venture partner and Operator, AGL. This places Galilee Energy in a unique position and sets us apart from our peers. I am committed to raising your company's profile and aim to have real value recognised.

Yours sincerely,



Glenn Haworth
Chief Executive Officer



CORPORATE GOVERNANCE STATEMENT

The main corporate governance practices of the Company are set out below.

The primary role of the Board is to ensure the long-term health and prosperity of the Company, which it aims to accomplish by:

- Approving objectives, goals and strategic direction set by management with a view to maximising shareholder value;
- Adopting an annual budget and monitoring financial performance;
- Ensuring adequate internal controls exist and are appropriately monitored for compliance;
- Identifying and appropriately managing significant business risks;
- Having a Board that comprises Directors with an appropriate level of expertise, experience and skill, so as to ensure that commercial opportunities are taken advantage of and risks managed; and
- Setting the highest of business standards and codes of ethical behaviour.

(a) Board of Directors

(i) Responsibilities

The Board is responsible for the Company's corporate governance and approves the business strategy of the Company. It authorises all major transactions and reviews operational and financial performance. The Chief Executive Officer conducts the day-to-day affairs of the Company and is accountable to the Board.

(ii) Composition

The Board currently comprises four members, all being non-executive Directors (one of whom is the Chairman) and all but one are considered to be independent. Details of each Director's background appear in the Company's Annual Report.

(iii) Nomination and Election of Directors

The Board can at any time appoint any suitably qualified and experienced person to be a Director. That person holds office until the next Annual General Meeting and is then eligible for election at that meeting. One third of the non-executive Directors retire by rotation at each Annual General Meeting and are eligible for re-election.

(iv) Meetings

Board meetings are held at the Company's principal administrative office, usually on a monthly basis. The number of meetings and attendances by Directors during the financial year are detailed in the Directors' Report.

(v) Independent Advice

Directors have access to the advice of independent external experts at the expense of the Company, should they consider it necessary. Any advice that is obtained is also made available to the members of the Board.



(b) Directors' indemnity

Under the Company's Constitution and pursuant to respective Deeds of Indemnity, each Director of the Company (and its subsidiaries) is indemnified to the extent permitted by law against:

- Liability to third parties arising out of conduct undertaken in good faith in his capacity as a Director; and
- The costs and expenses of defending legal proceedings arising out of conduct undertaken in his capacity as a current or former Director, unless the defence is unsuccessful.

The Company also has in place a Directors and Officers Liability Insurance Policy, for which the Company pays the premium, insuring the Directors against certain liabilities they may incur in carrying out their duties and responsibilities for the Company.

(c) Contracts with Directors

The Company's Constitution provides that a Director may enter into an arrangement with the Company and Directors or their firms may act in a professional capacity for the Company. However, these arrangements are subject to the restrictions and disclosures in the *Corporations Act* applicable to public companies and common law Directors' duties.

During the course of last year, no Director has received or become entitled to receive a benefit because of a contract between the Company and the Director, or a firm of which the Director is a member, other than as disclosed in the Notes to the Financial Statements contained in the Annual Report.

(d) Ethical standards

The Company is committed to high ethical standards in its operations and in its dealings with shareholders. All Directors are required to adhere to a Corporate Ethics Policy and they are restricted from dealing in Company securities when they are in possession of price sensitive information and during specified periods before or after the release of half and full year results. This Policy is available on the Company's website.

(e) Shareholder communication

The Board ensures that shareholders are provided with adequate information regarding the performance of the Company and any price sensitive information in a timely manner. The Company's policy is to lodge with the ASX and place on its web-site market sensitive information, including annual and half yearly results announcements and any relevant analyst presentations, as soon as practicably possible. The Company's web-site www.galilee-energy.com.au contains recent announcements, shareholders' circulars and relevant financial data as well as the Company's Corporate Governance Statement and related documents.



(f) Directors' remuneration

Non-executive Directors are remunerated for the value of their work and commitment to the Company as it strives to maximise the worth of its assets. The current level of total annual remuneration payable to non-executive Directors of the Company and its subsidiaries (as approved by shareholders under the Company's Constitution) is \$600,000 and is allocated among the non-executive Directors as they decide.

Subject to shareholder approval, non-executive Directors may also be granted options over the Company's shares as a reward and incentive for services they provide to assist in furthering the Company's progress, future growth and success.

(g) Board committees

Only one committee is currently in place as the Board considers it unnecessary to have any others given there are only 4 Directors and the Company is relatively small.

The Audit Committee comprises three members – the independent non-executive Directors Rino Camarri (chairman) and Cam Rathie, and Miss Sam Aarons, Business Development & Corporate Relations Manager. The CEO (Glenn Haworth) is invited to attend meetings should he have questions or wish to acquire information. Audit matters are considered at meetings of the Committee. In addition to statutory reporting issues, the Audit Committee also considers business risks, the adequacy of the Company's control procedures, as well as monitoring compliance with corporate governance matters. The Company's external auditors attend relevant meetings as does the Chief Financial Officer.

The Audit Committee is established under a Charter which governs its operations and is available on the Company's website.

(h) ASX Corporate Governance Guidelines

The Company is committed to complying, to the fullest extent reasonably possible, with the ASX Corporate Governance Council's Principles and Recommendations ("the ASX Guidelines"). Before referring to the specific principles set out in the ASX Guidelines and the extent to which the Company complies with the recommendations, the following observations are made:

- The Company has a relatively small market capitalisation and (as a resource extraction and exploration entity) limited sources of ongoing income. As a consequence, the available cash reserves of the Company (and its controlled entities) are intended to be applied so as to maximise shareholder value.
- Again, because of limited available financial resources, the Company (apart from its Directors and Company Secretary) has relatively few executives. Rather than the task of rigorously adhering to the ASX Guidelines (which are still acknowledged as being important), the principal focus of the Company is to maximise the technical skill and expertise of its Directors and employees, so as to enhance the value of the Company's assets.



- The non-executive Directors dedicate reasonable time and effort to the affairs of the Company. They do so within busy schedules for other work and business commitments and, as a consequence, the principal focus of their endeavours (while operating within a sound base for corporate governance) must necessarily be promotion of the Company's activities and improving shareholder value.

It is within the above context that the Directors believe they have established the most appropriate processes to ensure compliance wherever reasonably possible with the ASX Guidelines, as outlined below. These processes have been in place throughout the reporting period.

Principle One – Lay solid foundations for management and oversight

Functions reserved to the Board and Directors' responsibilities are set out in this Statement rather than a separate board charter. Directors are provided with a letter on appointment which details the terms and conditions of their appointment, provides clear guidance on what input is required by them, and includes materials to assist with induction into the Company.

The Company has a CEO, Glenn Haworth, as well as a small group of experienced senior management personnel. Each of these persons has entered into arrangements with the Company (and/or its controlled entities) making provision for the conduct of the individual's responsibilities in respect of the day-to-day activities of the Company. The authorities granted to senior executives are delegated by the Board. The Board meets at regular intervals, or as necessary, and executive management personnel communicate with Board members between Board meetings both to inform them and/or seek their counsel as appropriate.

Performance evaluation of executives is conducted by the Board in consultation with the CEO and has taken place during the last financial year in accordance with the processes described in the Remuneration Report section of the Directors' Report.

Principle Two – Structure the Board to Add Value

The Board is comprised of 4 non-executive Directors of which the Chairman, Steven Koroknay and 2 others, Rino Camarri and Cam Rathie, are considered to be independent. The Board's view is that an independent director is a non-executive Director who does not have a relationship affecting independence on the basis set out in the ASX Guidelines and meets materiality thresholds agreed by the Board as equating to payments to them or related parties of 5% of the Company's annual revenue or representing 20% of the individual's business revenue.

The only non-executive Director considered to be not independent is Campbell Smith who was, until recently, the Managing Director and who also has substantial shareholding interests in the Company.

The Board is currently structured in such a way that all of the Board members have had many years of experience in the energy industry in varying roles, details of which are shown in the Company's Annual Report. Accordingly, the blend of experience and skills assembled at the Board is considered appropriate for a company at this stage of its commercial existence.



The Board has not formed a separate nomination committee, which it finds unnecessary at this stage of the Company's evolution, favouring a 'whole-of-board' approach to the selection of replacement or additional Directors.

The Board operates an on-going self-assessment and evaluation process which includes from time-to-time the assessment of Director competencies and suitability to the Company as it evolves over time. The Board's principal benchmarks are the Company's operational and financial performance compared to similar organisations.

Similar evaluation of committee composition and member performance is conducted from time-to-time.

The Company Secretary, Bill Lyne, plays an integral role in monitoring the conduct of activities of the Board and any committees, as well as the despatch of material to Board members; he is responsible for overseeing adherence to Board policies and procedures and is accountable on governance matters.

Principle Three – Promote Ethical and Responsible Decision-Making

The Company has a formal Corporate Ethics Policy, to which each Director is a party and signatory. Specific features of the Policy include:

- Restrictions on Directors' dealings with Company shares;
- Requirements in terms of disclosure of information to the ASX and the Company's continuous disclosure obligations generally;
- Notification of Directors' shareholding and contractual interests;
- Restrictions in the Company's ability to provide financial benefits to Directors and other related entities;
- Responsibilities in respect of the Company's accounts and other financial statements; and
- The process of identifying and evaluating risks, and monitoring financial and business control procedures.

The Company has not yet established any formal code of conduct for the observance by Directors and employees of legal and other compliance obligations that relate to the Company's activities, other than what is specified in individual employment agreements. Nonetheless, the Company's executive team continues to work hard to establish and maintain good relationships with key stakeholders involved with the projects in which the Company has an interest. As a producer/potential producer of coal and gas, the Board recognises a strong need to maintain good relations with government departments, local authorities, landowners, indigenous peoples, potential joint venture partners and the like.



Principle Four – Safeguard Integrity in Financial Reporting

The Chief Financial Officer oversees the Company's financial resources, records and reporting.

The Board requires the persons performing the roles of Chief Executive Officer and Chief Financial Officer to declare in writing to the Board at the time of approving and signing the annual and half-yearly accounts that, in their opinion, the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards, as required by Section 295A of the *Corporations Act*. Both these officers also report to the Board at its regular meetings.

Additionally, (as identified above) an Audit Committee has been established that works in conjunction with the Company's external auditors to ensure the presented accounts are in accordance with accounting principles. The composition of the Audit Committee represents a blend of non-executive Directors and senior management personnel. As per the ASX Guidelines the Committee's chairman, Rino Camarri, is an independent non-executive Director who has a strong commercial finance and accounting background which makes him an appropriate person for this role.

Principle Five – Make Timely and Balanced Disclosure

The Company's Corporate Ethics Policy (as referred to above) includes a contractual obligation on the part of each Director to disclose information in his possession and, in particular, his dealings in relation to shares in the Company to enable the Company, in turn, to meet its ASX reporting obligations. In addition, there is an internal protocol that has been established involving the CEO (Glenn Haworth), Business Development & Corporate Relations Manager (Miss Sam Aarons) and the Company Secretary (Bill Lyne) to arrange for the timely preparation and release of all announcements to the ASX.

Given the relatively small size of the Company's senior executive team the Board has decided that, for the time being, it is not necessary to put in place any further formal policies to assist in compliance with ASX disclosure requirements.

Principle Six – Respect the Rights of Shareholders

The Company has not yet established a formal communications policy. Rather, it does have a reasonably informative web-site as the basis for maintaining close contact with shareholders and it is regularly updating the site, in recognition that these days the Company's web-site is one of the main avenues for keeping shareholders and market participants aware of the Company's activities.

In addition, the Company has implemented other strategies so as to provide shareholders with an opportunity to access reports and other releases by way of email, subject to the *Privacy Act* requirements. The Company's Corporate & Investor Relations Manager is a full-time employee with the principal responsibility for shareholder liaison.



Shareholders are also encouraged to participate in Annual (and other) General Meetings to ensure a high level of accountability and identification with the Company's strategies and goals.

A copy of the AGM Notice is sent to the Company's external auditor as required by law. As also required by law, the auditor's representative attends the AGM and is available to answer questions from shareholders about the conduct of the audit and the preparation and content of the auditor's report.

Principle Seven – Recognise and Manage Risk

Given the Company's involvement in exploration for hydrocarbons and the mining and exploration for coal, the Board is cognisant of the risks that can potentially impact on its people and its business operations and the need for active risk management and mitigation. To this end, the Audit Committee has (as part of its Charter) overall responsibility for ensuring that necessary controls are in place to manage risk, although the Company has not yet developed a concise risk management policy.

The Company's executive team has operational responsibility for the implementation of risk management and has put in place appropriate policies, including workplace health, safety and the environment (HS&E), specifically covering the group's coal mining operations and exploration in New Zealand and its exploration activities in the Galilee basin.

Whilst HS&E/risk management is a standing Board agenda item, and relevant matters are discussed regularly by the Board, no formal report as to the effectiveness of the management of the Company's material business risks has yet been developed for the Board. However, the Audit Committee is considering a review and update of the Company's risk management systems, procedures, adherence and effectiveness, including formal reporting to the Board.

Also, the Board does require the persons performing the roles of Chief Executive Officer and Chief Financial Officer to state in writing to the Board that the declarations provided in accordance with Section 295A of the *Corporations Act* at the time of approving and signing off the annual financial statements are, in their opinion, founded on sound systems of risk management and internal compliance and control and such systems are operating efficiently and effectively in all material respects in relation to financial reporting risks.

Principle Eight – Remunerate Fairly and Responsibly

No separate remuneration committee has been formed as the Directors consider it appropriate, given the relatively small size of the Company, for such matters to be determined at Board level.

The Board considers that the Directors are sufficiently qualified to consider and decide on matters covering recruitment and remuneration of senior executives, superannuation arrangements, Directors' remuneration and retirement benefits. However, external professional advice may be sought from experienced consultants where appropriate to assist in the Board's deliberations.



The Board maintains a view that a remuneration policy exists which provides the requisite degree of incentive so as to not only attract but to maintain suitably qualified personnel. In addition, the Company has a shareholder approved Employee Share Option Plan in place to allow options to be issued to deserving staff as a reward for performance, however no such options have been granted to date. Also, the Board's policies prohibit transactions by executives which might limit the economic risk of participating in unvested entitlements under any equity-based remuneration scheme.

The Board takes the view that the Company's future success lies in the quality of its team. As a result, a highly-competent and experienced management team has been assembled, but in order to keep that team together adequate financial rewards must be provided.

Full details of the remuneration of Directors and executives is contained in the Remuneration Report section of the Directors' Report.

There is no retirement benefit scheme for any Directors, including non-executive Directors, other than the payment of statutory superannuation.



Galilee Energy Limited
(formerly Eastern Corporation Limited)

Directors' report

Your directors present their report on the consolidated entity consisting of Galilee Energy Limited ("Galilee Energy" or "the Company") and the entities it controlled at the end of, or during, the year ended 30 June 2010.

Information on Directors

The following persons were directors of Galilee Energy Limited during the period commencing 1 July 2009 and ending on the date of this report (unless otherwise noted).

Steven J Koroknay - *Non-Executive Director.*

Appointed to the Board 19 December 2008
Appointed Chairman 21 June 2010

Mr Koroknay has more than 30 years experience in the international oil and gas industry, initially with Esso Australia, where he became Technical Manager of their upstream activities in Australia, and later with Bridge Oil Limited where he rose to Executive Director - Resources. Mr Koroknay founded Anzon Energy and Anzon Australia, companies engaged in oil and gas development and production. Mr Koroknay was a non-executive director and chairman of CIM Resources, a coal mining company in the Gloucester Basin, New South Wales. He also consulted to Transfield in respect of their coal seam gas assets in Queensland.

Mr Koroknay is Non-Executive Chairman of Galilee Resources Limited
Other listed company directorships: Non executive director Innamincka Petroleum Limited, Cue Energy Limited and Metgasco Limited.
Share Interests in Galilee Energy: 125,000
2,000,000 Options expiring 4 December 2012

Campbell G Smith - *Non-Executive Director*

Appointed Executive Director 10 April 2007
Appointed Managing Director 23 July 2007
Resigned Managing Director 1 September 2010

Mr Smith has over 15 years involvement in mining operations. As Operations Manager for Brookfield Equipment Company, he was involved in a number of major mining operations such as the Ivanhoe Copper Company's mine in Myanmar as well as the Ernest Henry mine in Queensland. He previously held the position of General Manager of Eastern Resources Group Limited (formerly Eastern Coal Holdings (NZ) Limited), overseeing the group's coal operations and exploration activities in New Zealand.

Mr Smith is a Director of Galilee Resources Ltd, Becamal Pty Ltd and Corostar Pty Ltd.
Share interests in Galilee Energy: 30,357,120

L Cam Rathie, AM *Non-Executive Director*

Appointed 21 June 2010

Mr Rathie has been a non-executive director of Galilee Resources Limited since January 2009. He has extensive experience in operational aspects of oil, gas and coal seam gas. He was previously in management roles with BHP Petroleum following a career in geological and well services. He was Managing Director of Upstream Petroleum and CEO of AGR Asia Pacific. Mr Rathie acted as Operations Manager for Sunshine Gas in its initial conventional gas and CSG exploration in the Surat and Bowen basins, providing the engineering and field teams for these projects. Mr Rathie was awarded the Order of Australia Medal in the Queen's Birthday Honours List 2010 for services to the oil and gas industry.

Mr Rathie is also a Director of Galilee Resources Limited
Share interests in Galilee Energy: 100,000
2,000,000 Options expiring 4 December 2012



Galilee Energy Limited
(formerly Eastern Corporation Limited)

Directors' report**Rino Camarri** *Non-Executive Director*

Appointed 21 June 2010

Mr Camarri was previously non-executive Chairman of Galilee Resources Limited. Mr Camarri has extensive experience in banking, funds management and general finance, with specialised banking experience concentrated on commercial business and property portfolio management. Mr Camarri is currently Financial Controller of Ekco Investments Pty Ltd.

Mr Camarri is also a Director of Galilee Resources Limited
Share interests in Galilee Energy: 235,536

Richard J May FCA *Non-Executive Chairman*

Appointed Non-Executive Director 22 August 2006.
Appointed Non-Executive Chairman 7 October 2008
Resigned from the Board 10 June 2010

Mr May had 27 years experience as a partner with KPMG until his retirement on 30 June 2006. He has held senior positions within KPMG including a period as National Chairman of the Middle Market Advisory practice and was Partner in Charge of the Brisbane Middle Market Advisory practice for a period of 20 years. Mr May has extensive experience in accounting, taxation, auditing and business advisory matters having provided services to a diverse client base including medium sized and international corporations. He is a Chairman of the Brisbane Lions Foundation and a Director of The Queensland Club Foundation.

Member and Chairman of the Audit Committee from August 2006 until his resignation from the Board.
Share interests in Galilee Energy: 301,408
2,000,000 Options expiring 4 December 2011

John S McIntyre BEng. *Non-Executive Director*

Appointed 7 July 2004
Resigned 21 June 2010

Mr McIntyre is a professional mining engineer, with more than 35 years of operating, management and advisory experience in both open pit and underground management, operation, feasibility evaluation and development of mining projects. Since 1994, he has been the Managing Director of Behre Dolbear Australia, the Australian subsidiary of US mineral industry consultant, Behre Dolbear & Co Inc.. Mr McIntyre has previously held senior positions at the Goonyella mine and was General Manager of the Curragh mine in Queensland's Bowen Basin.

Member of the Audit Committee from August 2007 until his resignation from the Board.
Other listed company directorships: Takoradi Limited (Director since 1993).
Share interests in Galilee Energy: 1,100,541 shares
2,000,000 Options expiring 4 December 2011,

Company Secretary**Bill Lyne**

Appointed 12 February 2003

Mr Lyne is the principal of Australian Company Secretary Service, providing company secretarial, compliance and governance services to companies. He is secretary of a number of other public companies in Australia and overseas, including some involved in mining exploration and production. Mr Lyne holds a Bachelor of Commerce (Economics) degree, is a Chartered Accountant, a Fellow of the Chartered Secretaries Australia and a presenter at CSA courses in company secretarial practice.



Galilee Energy Limited
(formerly Eastern Corporation Limited)

Principal activities

During the year the principal continuing activities of the consolidated entity consisted of production of coal in New Zealand and exploration and development of coal seam methane in the Galilee Basin near Longreach in Queensland.

Review of Operations

Coal Seam Gas - Australia

Galilee holds two highly prospective coal seam gas and hydrocarbon tenements in the Galilee Basin in central Queensland through subsidiary, Galilee Resources Limited.

ATP 529P is held in a 50/50 joint venture with AGL Energy Limited (AGL) under which AGL is the operator. ATP 799P is wholly owned and operated by Galilee.

During the year, significant progress was made in the exploration and evaluation of the two tenements.

ATP 529P

AGL (Operator):	50%
Galilee:	50%

ATP 529P (75 blocks) is located approximately 80km north west of the Barcardine gas fired power station which is linked by a gas pipeline to Moomba and to the Brisbane grid.

In July 2007 Galilee successfully completed a drilling and testing programme at Rodney Creek 8. A 24 metre aggregate coal seam was intercepted at 907 metres. The coal seams were gassy, low in ash and well cleated with permeabilities ranging from 10 to 150 millidarcies. Gas content levels of up to 7.7m³/tonne (DAF) with an average of 4.4m³/tonne (DAF) were identified with gas quality of 98% pure methane. Subsequent to this, in July 2008, the company signed a farm-in agreement with AGL under which AGL would acquire 50% of the tenement for an expenditure of \$37 million to fund an exploration and development programme over a two year period.

The first stage of the AGL programme in ATP 529P was the Glenaras 5 spot production pilot. The wells were drilled in 2008. In 2009 a permit was obtained for the construction of a water management facility. The 12 hectare fully lined dam was completed to EPA specifications and appropriate leak detection systems installed. At the same time the Glenaras pilot wells were completed using both under reaming and fracture stimulation techniques. Progressive cavity pumps were installed and early stages of dewatering commenced. Unfavourable weather conditions over the December/January period impeded the ability of workover rigs to access the site for maintenance. When conditions improved to the extent that maintenance could be undertaken some equipment failures were identified and a decision was made to suspend the programme pending the replacement of the pumping equipment. This is now underway and dewatering is set to recommence. The delay has resulted in the target for reserve certification to be pushed out to the first half of 2011.

The second phase of AGL's evaluation programme comprised seven core holes and 540 kilometres of 2D seismic acquisition. The first two of the core holes, Muttaborra-1 and Vera Park-1, were drilled in November 2009. Crossmore South-1 spudded in December 2009. Operations were then suspended for the Christmas break and were further affected by weather so drilling did not recommence until March 2010.

Laugharne Creek-1, Mt Myth-1 and Acacia-1 were spudded during June and July. Cores were obtained from the first six holes and despatched for analysis. The wells were then plugged and abandoned as planned. The final well, Stockholm-1, was spudded in August 2010 and coring commenced in September.

The 540 kilometres of seismic acquisition was completed in November 2009. Reprocessing of over 2000km of historical 2D seismic, obtained mainly between 1981 and 1985, is also included in the programme.

ATP 799P

Galilee 100%

In March 2006 Galilee was formally granted ATP 799P. The tenement is immediately adjacent to ATP 529P, to the north.



Galilee Energy Limited
(formerly Eastern Corporation Limited)

ATP 799P (continued)

During the period, Galilee focussed on an exploration programme within the tenement to gain a more thorough understanding of the permit's CSG prospectivity. This exploration was also designed to assist in determining initial prospects to support the commencement of a gas reserve certification and to identify suitable blocks for relinquishment to comply with the terms of the permit holding. The programme was funded by way of a non-renounceable rights issue to Galilee shareholders which was completed in July 2009, raising \$5.48 million.

The exploration programme consisted of the drilling of two core holes, Dunrossie-1 and Dotswood-1, and the acquisition of 143km of 2D seismic. The seismic acquisition was completed in October, ahead of schedule and under budget.

Dunrossie-1 was drilled and cored in November 2009. Dotswood-1 was spudded in December 2009 then cored in early 2010. Both wells were plugged, capped and abandoned as planned after drill stems tests and extensive logging.

Preliminary results from the programme have confirmed that the Permian coals present in the Rodney Creek region extend across the exploration area in ATP 799P. Analysis of data from the two core holes drilled has confirmed high methane gas composition and gas content levels up to 4.26m³/tonne (DAF) with an average of 2.6m³/tonne (DAF) for Dunrossie-1, and up to 6.8m³/tonne (DAF) with an average of 2.5m³/tonne for Dotswood-1. These results are consistent with gas contents levels previously reported across the basin.

In February an application was made to relinquish 33% of the tenement to comply with tenure requirements and a \$6 million four year Later Work Programme was submitted.

Coal Operations – New Zealand

Galilee operates successful coal operations in New Zealand through subsidiary, Eastern Resources Group Limited (formerly Eastern Coal Holdings (NZ) Limited).

Cascade Coal Limited - MP 41455 (Cascade)

The Cascade coal mine is an open cut coal mine located in the historic Buller coalfields region near Westport on the west coast of New Zealand's South Island. Cascade produces a commercially attractive coal, low in ash and sulphur with a high calorific value. Coal from this mine is in high demand for the domestic industrial markets in New Zealand.

Local cement plant, Holcim, is the mine's largest customer, taking approximately 40,000 tonnes per annum secured under a take or pay agreement. The remaining coal (approximately 5,000 tonnes per annum) is sold locally or transported to industrial users in the Canterbury and Otago regions with some tonnage blended with coal from the Company's Takitimu mine in Southland and distributed through Eastern Coal Supplies at Timaru.

The mine plan for Cascade covers five main areas. The Mill Creek block was the first to be mined and has now been terraced and hydroseeded as part of the rehabilitation process. The Fire Pit block has also been mined out and the void is now being backfilled prior to shaping and hydroseeding. Current operations are concentrated in the Gravel Pit block. Stripping in this area is now complete and coal winning is continuing. Overburden removal has commenced in the Durkins block. This will be completed in a series of five push back stages. Coal recovery will commence in this area once the Gravel Pit area has been exhausted, leaving the Adams block the final target for recovery of coal. Consideration may also be given to accessing final coal by way of underground mining. An integral part of the mining operation has been the staged realignment of the main access road to enable entry to the various blocks in line with the mine planning.

Cascade runs as an owner/operator mine although recently outside contractors have been engaged to assist with the additional site works in relation to the road realignment.

Production is targeted to 40,000 – 45,000 tonnes per annum for the next three years, however, work is continuing to maximise coal recovery with the intent of extending the life of mine. The proposed development of the nearby Whareatea West permit area is currently intended to be timed to coincide with the end of mine life at Cascade to enable mining operations in the area to continue.



Galilee Energy Limited
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Takitimu Coal Limited - ML 37079 (Takitimu)

The Takitimu coal mine is located in the Ohai/Nightcaps area in the far south of the South Island of New Zealand. It is an open cut mine which produces sub-bituminous coal for sale into industrial applications in the Southland and Otago regions. Production has increased from 1,000 tonnes per annum at the time of acquisition in 2006 to approximately 160,000 tonnes for the 2009/2010 financial year and is expected to continue to increase in the current year.

The mine's major contract is the supply of up to 170,000 tonnes per annum to dairy processor, Fonterra, for its Clandeboye plant. This contract commenced in September 2008 and a variation to provide Fonterra with an option to extend supply under the contract up until 30 August 2020 was signed in February 2010. Other large customers for coal produced from the Takitimu mine include dairy and food processing plants operated by the Talley's group.

Major infrastructure upgrades have been undertaken on site in line with the increase in the mine's production. In March, a single rolls primary crusher was installed to complement the capabilities of the new processing plant which was installed in 2008. New dust suppression systems were also installed to ensure continued compliance with resource consents.

Overburden and coal winning have continued to meet targets and no lost time injuries or environmental incidents have been recorded since the Company took ownership of the mine. Drilling to confirm the resource and extend the mine life at both Takitimu and surrounding areas continues as required.

Currently the focus is on stripping overburden prior to coal winning in an area outside the existing mine licence, which is part of the Company's Ohai permit. Whilst further coal exists in the main Takitimu permit area, the more efficient mine plan is for an initial push into this area of private coal located outside the tenement boundary, immediately to the north.

In December 2009, rehabilitation of the adjacent Mossbank permit was completed and the tenement relinquished. This obligation was part of the terms of purchase of the Takitimu mine.

Year to Date Production (12 months to 30 June 2010) - Cascade & Takitimu Mines

<u>Coal Extracted</u> (tonnes)	<u>Overburden</u> (BCMs)	<u>Coal Sales</u> (tonnes)	<u>Value of sales</u> (NZ\$)
221,082	2,012,797	238,544	18,333,576

Ohai - EP 51260

In April, the Company, through its wholly-owned subsidiary, Rochfort Coal Limited, was granted the Ohai Exploration Permit (EP 51260), an area of 7,118 hectares surrounding the existing Takitimu mine. The coal seams identified at the Takitimu operations extend into the area covered by EP 51260. Activity in this permit to date has identified further resources of sub-bituminous coal.

A 20 hole drilling programme was completed at Ohai during the year with a view to extending the existing resource at Takitimu beyond the current licence boundary. An agreement was reached with the adjoining landowner to obtain access to an area of private coal immediately adjoining the Takitimu mine, known as Area 1, and the necessary resource consents for mining development in this area have been obtained. Stripping of overburden is now underway and work has commenced on obtaining the appropriate consents for mining in an area further north of the current activities.

Whareatea West - EP 40591

Rochfort Coal Limited also holds the Whareatea West Exploration Permit (EP 40591). The permit covers an area of 816.2 hectares situated on the Denniston Plateau on the West coast of New Zealand's South Island, approximately five kilometres north-west of the Cascade mining operation.

Further core drilling and quality testing is required to properly define the prospects of this permit however activity to date suggests it is prospective for high quality coking coal and industrial grade thermal coal.

The Company's exploration in the Whareatea West permit area has already identified a sizeable coal resource of approximately 26 million tonnes, verified in a report by Rokmode Pty Ltd prepared in accordance with the JORC code*.



Galilee Energy Limited
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Whareatea West - EP 40591 (continued)

To date, only approximately 40% of the permit has been explored by the Company. Preliminary coal quality testing has been undertaken which indicates a coking coal fraction of 9+++ swell however further analyses, including washabilities, are required to fully understand the resource potential. Further exploration to determine coal qualities for particular markets and to delineate the full extent of the resource is now planned. A two year forward work programme has been submitted to the Department of Crown Minerals comprising 11 core holes. A separate application for drilling approval has also been submitted to the Department of Conservation. It is planned that a 5 hole programme will be undertaken prior to December 2010, with a further 6 holes to be drilled during 2011. At the same time, a mining scoping study will be completed.

In parallel with these submissions, initial approaches are being made to the appropriate statutory bodies, freight providers and other relevant stakeholders to assess the potential for the development of the Whareatea West permit as an export coking coal mine with a secondary thermal product. It is envisaged that the mine may be able to be brought into production at the time that the nearby Cascade mine nears its end date.

Albury - PP 52484

The Company has applied for a Prospecting Permit (PP 52484) for tenements located in Albury, north-west of Timaru near the east coast of the South Island. This application is currently being considered by Crown Minerals and covers an 836 square kilometre area within the north-south trending Cannington basin. The area is prospective for sub-bituminous coal based on existing historical data and is located near major customers for thermal coal.

Orepuki – PP 39319

The Orepuki Prospecting Permit was relinquished in December 2009 following a review of historical data which concluded that expenditure on the further development of this permit was not warranted.

Eastern Coal Supplies

Eastern Coal Supplies is a coal handling and distribution centre strategically located mid way between the Cascade and Takitimu mines at Timaru on the east coast of the South Island. Its principal activity is to provide blended and non-blended coal to customers in the region. This facility is the location for the requisite contingency stockpile under the terms of the Fonterra coal supply agreement and also provides delivery support for the supply to the nearby Clandeboye plant.

The Company's sales, accounting administration functions are also located at this site.

Review of New Zealand Coal Assets

In June, Galilee announced it was undertaking a strategic review of its New Zealand coal operations with a view to a potential Initial Public Offering of these assets into a separate ASX listed entity. Should this proceed, it is intended that Galilee would retain a cornerstone shareholding in the new entity. This would provide an appropriate means of financing the next stage of exploration and development of the New Zealand coal permits whilst Galilee would receive an injection of funds from the repayment of intercompany loans, enabling the Company to fully focus on developing as a hydrocarbon energy company in Australia with particular emphasis on coal seam gas.

Coal - Australia

Broughton Coal Joint Venture

The Broughton coal project (EPC 818) was a joint venture with Mitsui Coal Holdings. In May, Galilee completed the sale of its 90% interest in the tenement to Resource Portfolio Partners Pty Ltd for a consideration of \$8.5 million.

**The information in this report that relates to Mineral Resources for EP 40-591 Whareatea West is based on information compiled by Mr Ian Poppitt who is a Member of the Australian Institute of Mining and Metallurgy. Mr Poppitt is a Consultant Geologist working for Rokmode Pty Ltd.*

Mr Poppitt has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Poppitt has consented in writing to the inclusion in this report of the matters based on the information in the form and context in which it appears.



Galilee Energy Limited
(formerly Eastern Corporation Limited)

Remuneration Report (audited)

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
- D Share-based compensation

A Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms 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.

In consultation with external remuneration consultants when required, the Board determines the remuneration policies of the company, reviews the remuneration of senior management and determines the remuneration of executive directors. Non-executive director remuneration is considered by the Board within the overall limits approved by shareholders.

Alignment to shareholders' interests:

- has economic profit as a core component of plan design
- focuses on sustaining medium to long term growth in shareholder wealth and delivering a return on assets, as well as focusing the executive on key non-financial drivers of value
- designed to attract and retain high calibre executives.

Alignment to program participants' interests:

- rewards 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 and variable pay, and long-term incentives.

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 to ensure fees are appropriate and in line with the market. At the company's Annual General Meeting on 25th November 2008 it was resolved that qualifying non-executive directors be granted directors' share options as part of their remuneration package. Further options were approved for non-executive directors at the AGM of 27th November 2009. Details of the options are disclosed later in this report.

Directors' fees

The current base remuneration was last reviewed on 17th May 2010 with effect from 1 July 2010. The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to the determination of his own remuneration.

Executive pay

The executive pay and reward framework has two components:

- base pay, and
- superannuation and other non-monetary benefits.

The combination of these comprises the executive's total remuneration. The Group intends to revisit its long-term equity-linked performance incentives specifically for executives during the year ending 30 June 2011.



Galilee Energy Limited
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A Principles used to determine the nature and amount of remuneration (continued))

Base pay

Structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pay for senior executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

There are no guaranteed base pay increases included in any senior executives' contracts.

Superannuation and other non-monetary benefits

Included in the employment package for key management personnel is the statutory obligation for superannuation as required by the *Superannuation Guarantee Charge Act 1992*.

Relationship between remuneration and company performance

Other than as described in D below (options) there is no direct link between the remuneration of the key management personnel and company performance. The Group is still in exploration mode in Australia and its operations in New Zealand have only recently reached commercially sustainable status so opportunities for broad performance based incentives have been limited to date.

Given that the remuneration must be commercially reasonable to attract the right calibre of directors and executives, there can be no direct link between remuneration, company performance and shareholder wealth at the company's current stage of development. The company issues options to provide an incentive for directors and key management personnel to align their interests with the medium to long term interests of shareholders.

The table below sets out summary information about the group's revenues, earnings, and movements in shareholders' wealth for the five years to 30 June 2010:

Item	Unit	2010	2009	2008	2007	2006
Revenue	\$'000s	28,399	20,570	6,157	4,223	8,706
Net profit/(loss) before tax	\$'000s	2,240	(1,909)	(5,421)	(3,476)	2,219
Net profit/(loss) after tax	\$'000s	1,598	(2,447)	(4,313)	(2,952)	1,797
Basic earnings/(loss) per share	cents	1.5	(3.3)	(5.0)	(4.1)	0.3
Last traded share price	\$	\$0.175	\$0.295	\$0.266	\$0.260	\$0.520

There were no dividends paid or returns of capital by the group in the five years.

B Details of remuneration

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 Related Party Disclosures) of Galilee Energy Limited and the Galilee Energy Group are set out in the following tables.

The key management personnel of Galilee Energy Limited and of the Galilee Energy Group includes the directors as per page 4 above and the following executives who reported directly to the Chief Executive Officer. These executive officers are also the highest paid executives of the entity:

- B Lyne – *Company Secretary*
- S Aarons – *Business Development and Corporate Relations Manager*
- G Haworth – *General Manager - Galilee Resources Limited*
- W A Parker – *Chief Financial Officer*
- C Pilcher - *Managing Director New Zealand*
- J Mamane - *Director and Mines Manager New Zealand*

On 20th August 2010 Mr G Haworth was appointed CEO of Galilee Energy Limited. Previously Mr Haworth was General Manager of Galilee Resources Limited.

On 10th June Mr Richard May resigned as Chairman and Mr Steven Koroknay was subsequently appointed Chairman.



Galilee Energy Limited
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B Details of remuneration (continued)

Name	Short-term benefits		Termination payments	Post-employment		Share-based Payments equity settled Options	Total	% paid as options
	Salary and fees	Non-cash benefits		Super-annuation	Retirement benefits			
	\$	\$	\$	\$	\$	\$	\$	%
2010								
Non-executive directors								
<i>Parent company</i>								
S J Koroknay	41,284	-	-	3,716	-	99,166	144,166	68.8%
R J May (resigned 10 June 2010)	32,700	-	-	-	-	75,500	108,200	69.8%
J S McIntyre (resigned 21 June 2010)	27,523	-	-	2,477	-	75,500	105,500	71.6%
L C Rathie (appointed 21 June 2010)	-	-	-	-	-	-	-	-
R Camarri (appointed 21 June 2010)	-	-	-	-	-	-	-	-
<i>Galilee Resources Limited</i>								
R Camarri	30,000	-	-	-	-	-	30,000	-
K H McMahon (resigned 31 Oct 2009)	10,000	-	-	-	-	-	10,000	-
S J Koroknay	50,043	-	-	4,127	-	-	54,170	-
Sub-totals	191,550	-	-	10,320	-	250,166	452,036	
Executive directors								
<i>Parent company</i>								
C G Smith - <i>Managing Director</i>	201,843	-	-	18,166	-	-	220,009	-
<i>Galilee Resources Ltd</i>								
L C Rathie	187,875	-	-	-	-	99,167	287,042	34.5%
<i>Eastern Resources Group Ltd</i> *								
C J Pilcher	182,131	-	-	-	-	-	182,131	-
J Marnane (appointed 8 Dec 09)	151,894	-	-	-	-	-	151,894	-
Company Secretary								
B Lyne	92,589	-	-	-	-	-	92,589	-
Other key management personnel								
S Aarons	150,154	10,783	-	13,516	-	-	174,453	-
G Haworth	345,725	-	-	-	-	-	345,725	-
W A Parker	78,450	-	-	-	-	-	78,450	-
Totals	1,582,211	10,783	-	42,002	-	349,333	1,984,329	
2009								
Non-executive directors								
<i>Parent company</i>								
R J May (resigned 10 June 2010)	30,000	-	-	-	-	72,625	102,625	70.8%
J S McIntyre (resigned 21 June 2010)	27,522	-	-	2,478	-	72,625	102,625	70.8%
S J Koroknay (appointed 19 Dec 2008)	23,289	-	-	1,086	-	-	24,375	-
<i>Galilee Resources Ltd</i>								
R Camarri	30,000	-	-	-	-	-	30,000	-
K H McMahon	30,000	-	-	-	-	-	30,000	-
S J Koroknay (appointed 20 Jan 2009)	30,595	-	-	1,628	-	-	32,223	-
Sub-totals	171,406	-	-	5,192	-	145,250	321,848	
Executive directors								
<i>Parent Company</i>								
C G Smith - <i>Managing Director</i>	201,843	-	-	18,166	-	-	220,009	-
<i>Galilee Resources Ltd</i>								
L C Rathie (appointed 20 Jan 2009)	84,458	-	-	-	-	-	84,458	-
<i>Eastern Resources Group Ltd</i> *								
C J Pilcher (appointed 22 Oct 2008)	146,319	-	-	-	-	-	146,319	-
Company Secretary								
B Lyne	60,584	-	-	-	-	-	60,584	-
Other key management personnel								
S Aarons	135,456	11,911	-	12,191	-	-	159,558	-
G Haworth	50,200	-	-	-	-	-	50,200	-
W A Parker	104,485	-	-	-	-	-	104,485	-
Totals	954,751	11,911	-	35,549	-	145,250	1,147,461	

* Eastern Resources Group Ltd was formerly EasternCoal Holdings (NZ) Pty Ltd.



Galilee Energy Limited
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B Details of remuneration (continued)

Options issued to Directors as part of remuneration:

Grant Date	Grant number	Exercise Price	Expiry date	Vesting date	Number vested at 30 Jun 10	Value per option at grant date	Value expensed during the year	% paid as options
		\$					\$	%
Director								
2010								
S J Koroknay								
27 Nov 09	1,000,000	\$0.80	3 Dec 12	3 Dec 10	-	\$0.1126	65,683	33.1%
27 Nov 09	1,000,000	\$0.87	3 Dec 12	3 Dec 11	-	\$0.1148	33,483	16.9%
L C Rathie								
27 Nov 09	1,000,000	\$0.80	3 Dec 12	3 Dec 10	-	\$0.1126	65,684	22.9%
27 Nov 09	1,000,000	\$0.87	3 Dec 12	3 Dec 11	-	\$0.1148	33,483	11.7%
R J May								
25 Nov 08	1,000,000	\$0.30	4 Dec 11	4 Dec 09	1,000,000	\$0.084	35,000	32.3%
25 Nov 08	1,000,000	\$0.35	4 Dec 11	4 Dec 10	-	\$0.081	40,500	37.4%
J S McIntyre								
25 Nov 08	1,000,000	\$0.30	4 Dec 11	4 Dec 09	1,000,000	\$0.084	35,000	33.2%
25 Nov 08	1,000,000	\$0.35	4 Dec 11	4 Dec 10	-	\$0.081	40,500	38.4%
2009								
R J May								
25 Nov 08	1,000,000	\$0.30	4 Dec 11	4 Dec 09	-	\$0.084	49,000	47.7%
25 Nov 08	1,000,000	\$0.35	4 Dec 11	4 Dec 10	-	\$0.081	23,625	23.0%
J S McIntyre								
25 Nov 08	1,000,000	\$0.30	4 Dec 11	4 Dec 09	-	\$0.084	49,000	47.7%
25 Nov 08	1,000,000	\$0.35	4 Dec 11	4 Dec 10	-	\$0.081	23,625	23.0%

There are no specific performance conditions to be met for the granting of options.
Number of options vested during the year: 2,000,000 (2009: Nil).
No options were exercisable at 30 June 2010.

C Service agreements

Remuneration and other terms of employment for the key management personnel are set out below.

S J Koroknay, Chairman Galilee Energy Limited and Director Galilee Resources Limited

Galilee Energy Limited

- Term of agreement – open ended agreement commencing 19 December 2008
- Base salary of \$45,000 including superannuation for the year ended 30 June 2010, reviewed annually by the board. Mr Koroknay's base salary was revised to \$75,000 from 1st July 2010 following his appointment as Chairman of the board.
- Share options granted by the company at its Annual General Meeting of 27th November 2009 (refer below and to Notes 6 and 30 to the Financial Statements)
- Is entitled to invoice the company for consultancy work outside the scope of director's duties
- The required notice period on termination is one month by either party
- The agreement does not provide for termination benefits

Galilee Resources Limited

- Term of agreement – open ended agreement commencing 20 January 2009
- Base salary of \$50,000 including superannuation for the year ended 30 June 2010, reviewed annually by the board. Following the acquisition of 100% of Galilee Resources Ltd by Galilee Energy Limited, and his appointment as Chairman of Galilee Energy Limited, Mr Koroknay will receive no salary from Galilee Resources Limited after 30 June 2010.
- Is entitled to invoice the company for consultancy work outside the scope of director's duties
- The required notice period on termination is one month by either party
- The agreement does not provide for termination benefits

C G Smith, *Managing Director (Appointed 23 July 2007)*

- Term of agreement – open ended agreement commencing 23 July 2007
- Base salary of \$220,000 including superannuation for the year ended 30 June 2010, reviewed annually by the board
- The required notice period on termination is one month by either party
- The agreement does not provide for termination benefits



Galilee Energy Limited
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C Service agreements (continued)

L C Rathie, Director, Galilee Energy Limited

- Term of agreement – open ended agreement commencing 20 January 2009
- Base salary of \$30,000 including superannuation from Galilee Resources Limited for the year ended 30 June 2010. Base salary was increased to \$50,000 from 1st July 2010, to be paid by Galilee Energy Limited, following his appointment to the Board of Galilee Energy Limited, to be reviewed annually by the board.
- Share options granted by the company at its Annual General Meeting of 27th November 2009 (refer below and to Notes 6 and 30 to the Financial Statements)
- Is entitled to invoice the company for consultancy work outside the scope of director's duties
- The required notice period on termination is one month by either party
- The agreement does not provide for termination benefits

R Camarri, Director, Galilee Resources Limited

- Term of agreement – open ended agreement
- Base salary of \$30,000 including superannuation from Galilee Resources Limited for the year ended 30 June 2010. Base salary was increased to \$50,000 from 1st July 2010, to be paid by Galilee Energy Limited, following his appointment to the Board of Galilee Energy Limited, to be reviewed annually by the board.
- The required notice period on termination is one month by either party
- The agreement does not provide for termination benefits

RJ May, former Chairman of Directors, resigned 10 June 2010

- Term of agreement – open ended agreement commencing 23 August 2006
- Base salary of \$30,000 including superannuation for the year ended 30 June 2010.
- Share options granted by the company at its Annual General Meeting of 25th November 2008 (refer below and to Notes 6 and 30 to the Financial Statements)
- The required notice period on termination is one month by either party
- The agreement does not provide for termination benefits

J S McIntyre, former Director, resigned 21 June 2010

- Term of agreement – open ended agreement commencing 7 July 2004
- Base salary of \$30,000 including superannuation for the year ended 30 June 2010.
- Share options granted by the company at its Annual General Meeting of 25th November 2008 (refer below and to Notes 6 and 30 to the Financial Statements)
- The required notice period on termination is one month by either party
- The agreement does not provide for termination benefits

K H McMahon, Director, Galilee Resources Limited, resigned 31 October 2009

- Term of agreement – open ended agreement
- Base salary of \$10,000 (pro-rata based on \$30,000pa) including superannuation for the year ended 30 June 2010.
- The required notice period on termination is one month by either party
- The agreement does not provide for termination benefits

CJ Pilcher, Managing Director, NZ

- Term of Agreement – open ended agreement commencing 14 August 2007
- Base salary of NZD222,500 including Directors' fees for the year ended 30 June 2010 does not include superannuation
- The required notice period on termination is one month by either party
- The agreement does not provide for termination benefits

J Marnane, Director, NZ

- Term of Agreement – open ended agreement commencing 8 December 2009
- Base salary of NZD184,440 including Directors' fees for the year ended 30 June 2010 does not include superannuation
- The required notice period on termination is one month by either party
- The agreement does not provide for termination benefits

S Aarons, Business Development and Corporate Relations Manager

- Term of agreement – open ended agreement commencing 1 October 2007
- At 30 June 2010, base salary was at the rate of \$166,185 p.a. including superannuation. Salary rate is reviewed annually by the Managing Director.
- The required notice period on termination is one month by either party
- The agreement provides for termination benefits in the event of change of control



Galilee Energy Limited
(formerly Eastern Corporation Limited)

C Service agreements (continued)

G Haworth, *General Manager, Galilee Resources Limited*

- Term of agreement - employed on a consultancy basis as agreed by the board
- Remuneration is on submission of invoice
- The required notice period on termination is one month by either party
- The agreement does not provide for termination benefits

W A Parker, *Chief Financial Officer*

- Term of agreement - employed on a consultancy basis as agreed by the board
- Remuneration is on submission of invoice
- The required notice period on termination is one month by either party
- The agreement does not provide for termination benefits

D Share based compensation

Directors share options

Details of options granted as remuneration during the year are shown in the table above.

There was no consideration payable by the recipients of the options.

The options granted in the period ended 30 June 2009 remained outstanding as at 30 June 2010.

There were no options exercised, forfeited or lapsed during the year that were granted as remuneration in prior periods.

End of Remuneration Report



Galilee Energy Limited
(formerly Eastern Corporation Limited)

Dividends

No dividends were paid to members during the financial year. Since the end of the financial year the directors have not recommended the payment of any ordinary dividend.

Options

As at the date of this report, Galilee Energy Ltd had the following options outstanding:

2,000,000 options granted on 25 November 2008 with an exercise price of \$0.30 that vest on 4 December 2009 and expire on 4 December 2011;
2,000,000 options granted on 25 November 2008 with an exercise price of \$0.35 that vest on 4 December 2010 and expire on 4 December 2011;
1,000,000 options granted on 27 November 2009 with an exercise price of \$0.24 that vest on 4 December 2009 and expire on 4 December 2012;
2,000,000 options granted on 27 November 2009 with an exercise price of \$0.80 that vest on 4 December 2010 and expire on 4 December 2012;
2,000,000 options granted on 27 November 2009 with an exercise price of \$0.87 that vest on 4 December 2011 and expire on 4 December 2012;

Non-renounceable Rights Issue

In July 2009, the Company raised approximately \$5 million from retail investors through a non-renounceable rights issue at \$0.24 per share. The rights issue was lead managed and fully underwritten by Paterson Securities Limited, with Becamal Pty Ltd (an entity associated with then Managing Director, Campbell Smith) participating as sub-underwriter. Funds raised from this issue have been directed to exploration and development of the Company's coal seam gas assets in the Galilee Basin.

Significant changes in the state of affairs

In May 2010 the Company successfully concluded the buyout of the 32% shares in Galilee Energy Limited not already held. The transaction was on the basis of one Eastern Corporation Limited share for every 7 Galilee shares held.

In June 2010 Eastern Corporation Limited (ASX: ECU) officially commenced trading as Galilee Energy Limited (ASX: GLL). The subsidiary previously known as Galilee Energy Limited has now rebadged as Galilee Resources Pty Ltd.

The acquisition of the minority shares in Galilee Resources Limited, and the sale of the Broughton coal asset in May 2010, will see the Group in Australia fully focused on the exploration and development of its coal seam gas assets in the Galilee Basin.

Matters subsequent to the end of the financial year

The company's Board reported to the ASX on 29th June that it is conducting a strategic review of its New Zealand business coal assets. The Board's report advised the ASX that the company is considering a potential IPO of those assets into a separate ASX-listed entity in order to finance the next stage of exploration and development of those assets. The Board noted in its report that there is no guarantee the spin-off of a majority stake would proceed in any form and it is dependent on a number of factors, including market conditions, regulatory requirements and investor appetite. The strategic review is continuing.

Board/Management

Following the merger with Galilee Energy Limited and subsequent change of name for Company, a new Board of Directors was appointed. Steve Koroknay was appointed non-executive Chairman and Cam Rathie and Rino Camarri were appointed non-executive directors. Campbell Smith remained on the Board as Managing Director. All were previously on the board of Galilee Resources Pty Ltd. Non-executive Chairman, Richard May and non-executive director, John McIntyre, both resigned.

In September 2009, John Marnane, previously Takitimu Mine Manager, was appointed Operations Manager, New Zealand.

In August, subsequent to period end, Glenn Haworth was appointed Chief Executive Officer for Galilee. Following this appointment, Campbell Smith stepped down as Managing Director. He remains on the Board as non-executive Director.



Galilee Energy Limited
(formerly Eastern Corporation Limited)

Meetings of Directors

The numbers of meetings of the company's board of directors and of the Audit Committee during the year ended 30 June 2010, and the numbers of meetings attended by each Director were :

Director	Full meetings of directors		Audit committee meetings	
	Number of meetings eligible to attend	Number of meetings attended	Number of meetings eligible to attend	Number of meetings attended
SJ Koroknay	14	13		
CG Smith	14	13		
RJ May	13	13	2	2
J S McIntyre	14	13	2	1
LC Rathie	1	1		
R Camarri	1	1		

Non-executive Directors' Options

At the Company's AGM in November 2009 shareholders approved the issue of 4,000,000 million options to non-executive directors Steven Koroknay and Cam Rathie. The options, to subscribe for ordinary shares, were issued on 3rd December 2009 on the following terms: 2,000,000 vesting after 12 months with an exercise price of \$0.80 each and 2,000,000 vesting after 24 months, exercisable at \$0.87 each. Both tranches have an expiry date of 3 years from the date of issue.

Patersons Securities Limited Options

Also at the Company's AGM in November 2009 shareholders approved the issue of 1,000,000 million options to Paterson's Securities Limited as part of the fee payable to patersons under their corporate advisory mandate. The exercise reflects the Company's share price at the time these arrangements were first put in place. The options, to subscribe for ordinary shares, were issued on 3rd December 2009, vesting immediately, with an exercise price of \$0.24 each and an expiry date of 3 years from the date of issue.

Management

In September 2009, Mr John Marnane, previously Mine Manager for the Takitimu Mine, was appointed Operations Manager, New Zealand. In December 2009 Mr Marnane was appointed a Director of Eastern Resources Group Limited (formerly Eastern Coal Holdings (NZ) Limited) and each of its subsidiary companies.

Likely developments

Except for the matter referred to above under "Matters subsequent to the end of the financial year", information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental Regulation

The Company's operations are regulated by environmental regulations under the laws of the Commonwealth of Australia and of the State of Queensland. Operations are conducted in compliance with the Queensland Petroleum Act and the Mineral Resources Act. Environmental considerations are reviewed with and approved by the Queensland Department of Natural Resources and Mines and Environmental Protection Authority. The Company has not breached any of its environmental licence conditions nor has it been notified of any environmental breaches by any Government agency during the year.

The Australian-based coal and coal seam methane activities are at an exploration stage, so the environmental requirements are established under the terms of the granted exploration tenures held by the consolidated entity. The company's New Zealand based activities are governed by environmental requirements of the Department of Conservation and local and regional authorities. All the company activities in Rochfort, Cascade and Takitimu are fully compliant with all relevant regulations.

Directors and Officers insurance

The Company has agreed to indemnify the Directors and secretaries of Galilee Energy group and its subsidiaries against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Director or officer of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

During the financial year, the Company paid premiums for Directors' and Officers' liability insurance. Details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and Officers' liability insurance contracts are not disclosed as such disclosure is prohibited under the terms of the contract.



Galilee Energy Limited
(formerly Eastern Corporation Limited)

Proceedings on behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purposes of taking responsibility of behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

Non audit services

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

Details of the amounts paid or payable to the auditor (BDO Audit (Qld) Pty Ltd) 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* for the following reasons:

- all non audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

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

Assurance services

Consolidated	
2009	2008
\$	\$

Audit services

Audit and review of financial reports and other audit work under the *Corporations Act 2001*
BDO Audit (Qld) Pty Ltd

	122,099	130,000
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Other assurance services

Taxation and advisory services
BDO (Qld) Pty Ltd

	18,160	8,250
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Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 17.

Auditor

BDO Audit (Qld) Pty Ltd continues in office in accordance with section 327 of the *Corporations Act 2001*.

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


C.G. Smith
Director

Brisbane

15

September 2010



DECLARATION OF INDEPENDENCE BY CRAIG JENKINS TO THE DIRECTORS OF GALILEE ENERGY LIMITED

As lead auditor of Galilee Energy Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Galilee Energy Limited and the entities it controlled during the period.



Craig Jenkins

Director

BDO Audit (QLD) Pty Ltd

Brisbane, 14 September 2010

Financial Report

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GALILEE ENERGY LIMITED

(Formerly Eastern Corporation Limited)

Consolidated Statement of Comprehensive Income
for the year ended 30 June 2010

	Note	2010 \$	2009 \$
Revenue from continuing operations	2		
Sales of coal from mining operation		14,621,345	12,828,704
Sales of services including coal freight		8,084,610	7,602,286
Other revenue		346,193	139,296
		23,052,148	20,570,286
Mining operation expenses			
Changes in inventories of finished goods and work in progress		130,356	397,752
Raw materials and consumables used		(1,669,849)	(1,506,126)
Coal freight costs		(6,937,294)	(6,954,230)
Mining contractors		(4,430,094)	(4,328,628)
Employee benefits expense		(1,423,479)	(1,311,402)
Depreciation and amortisation	3	(1,527,514)	(1,293,114)
Repairs, maintenance and restoration		(957,713)	(721,152)
Equipment hire		(341,285)	(310,252)
Consulting fees		(219,820)	(316,352)
Levies and licences		(452,473)	(428,012)
Other mining expenses		(214,173)	(42,556)
		(18,043,338)	(16,814,072)
Exploration and evaluation expenses			
Consulting fees		(1,404,306)	(1,411,123)
Contractors		(4,188,223)	(115,333)
Testing and analysis		(907)	(43,844)
Depreciation and amortisation	3	(43,914)	(233,336)
Other		(352,417)	(66,669)
		(5,989,767)	(1,870,305)
Administration expenses			
Employee benefits expense		(1,053,806)	(850,670)
Directors' remuneration		(756,973)	(406,306)
Consulting fees		(716,150)	(476,510)
Audit fees		(122,099)	(169,718)
Accounting fees		(95,181)	(133,754)
Depreciation	3	(48,966)	(45,529)
Telecommunications and IT		(93,383)	(82,175)
Other administration expenses		(860,143)	(695,157)
Finance costs	3	(671,435)	(934,815)
		(4,418,136)	(3,794,634)
Profit/(loss) before income tax		(5,399,093)	(1,908,725)
Income tax benefit/(expense)	5	1,649,992	(538,598)
Profit/(loss) from continuing operations		(3,749,101)	(2,447,323)
Other income from discontinued operations			
Net gain on disposal of asset held for sale	2	5,347,159	-
Profit/(loss) for the year		1,598,058	(2,447,323)
Other comprehensive income, net of tax			
Currency translation differences		69,542	61,306
Total comprehensive income for the year		1,667,600	(2,386,017)

The accompanying notes form part of these financial statements.



GALILEE ENERGY LIMITED

(Formerly Eastern Corporation Limited)

Consolidated Statement of Comprehensive Income
for the year ended 30 June 2010

	Note	2010 \$	2009 \$
Total comprehensive income for the year attributable to owners of Galilee Energy Limited		1,667,600	(2,386,017)
		Cents	Cents
Earnings/(loss) per share for profit/(loss) from continuing operations			
Basic earnings per share	8	(3.5)	(3.3)
Diluted earnings per share	8	(3.5)	(3.3)
Earnings per share for profit from discontinued operations			
Basic earnings per share	8	5.0	-
Diluted earnings per share	8	5.0	-
Earnings/(loss) per share for profit/(loss) for the year			
Basic earnings per share	8	1.5	(3.3)
Diluted earnings per share	8	1.5	(3.3)

The accompanying notes form part of these financial statements.



GALILEE ENERGY LIMITED

(Formerly Eastern Corporation Limited)

Consolidated Statement of Financial Position

As at 30 June 2010

	Note	2010 \$	2009 \$
ASSETS			
Current assets			
Cash and cash equivalents	9	11,435,340	4,355,943
Trade and other receivables	10	2,048,633	1,303,435
Inventories	11	1,210,946	1,053,856
Other assets	12	913,591	1,280,772
		<hr/>	<hr/>
Assets classified as held for sale	13	-	7,994,006 722,576
		<hr/>	<hr/>
Total current assets		15,608,510	8,716,582
Non-current assets			
Trade and other receivables	10	839,751	213,503
Property, plant and equipment	16	6,921,901	7,570,525
Intangible assets	17	2,660,637	3,291,150
Deferred tax assets	18	-	624,680
		<hr/>	<hr/>
Total non-current assets		10,422,289	11,699,858
		<hr/>	<hr/>
Total assets		26,030,799	20,416,440
LIABILITIES			
Current liabilities			
Trade and other payables	19	2,137,783	2,477,188
Financial liabilities	20	1,121,518	5,822,419
		<hr/>	<hr/>
Total current liabilities		3,259,301	8,299,607
Non-current liabilities			
Financial liabilities	20	2,659,926	2,494,759
Provisions	22	668,007	563,720
Deferred tax liabilities	21	402,060	250,986
		<hr/>	<hr/>
Total non-current liabilities		3,729,993	3,309,465
		<hr/>	<hr/>
Total liabilities		6,989,294	11,609,072
		<hr/>	<hr/>
Net assets		19,041,505	8,807,368
EQUITY			
Issued capital	23	60,349,304	42,611,658
Reserves	34	(7,497,457)	3,719,716
Retained profits/(Accumulated losses)	34	(33,810,342)	(36,012,141)
		<hr/>	<hr/>
Parent company interest		19,041,505	10,319,233
Non-controlling interest		-	(1,511,865)
		<hr/>	<hr/>
Total equity		19,041,505	8,807,368
		<hr/>	<hr/>

The accompanying notes form part of these financial statements.



GALILEE ENERGY LIMITED

(Formerly Eastern Corporation Limited)

Consolidated Statement of Changes in Equity
for the year ended 30 June 2010

	Issued Capital	Accumulated Losses	Foreign currency translation reserve	Gain on change in proportionate interest	Non-controlling interest elimination reserve	Share-based payments reserve	Non-controlling interests	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Balance at 1 July 2009	42,611,658	(36,012,141)	(529,517)	4,051,348	-	197,885	(1,511,865)	8,807,368
Profit/(loss) from continuing operations for year		1,598,058						1,598,058
Other comprehensive income, net of tax			69,542					69,542
Total comprehensive income	-	1,598,058	69,542	-	-	-	-	1,667,600
Shares issued during the year	7,332,124							7,332,124
Transaction costs (net of tax)	(626,612)							(626,612)
Share-based payments expense for the year						421,033		421,033
Gain on change in proportionate interest		603,741		1,440,029			(603,778)	1,439,992
Extinguish non-controlling interest	11,032,134			(5,491,377)	(7,656,400)		2,115,643	-
Balance at 30 June 2010	60,349,304	(33,810,342)	(459,975)	-	(7,656,400)	618,918	-	19,041,505
Balance at 1 July 2008	40,200,853	(33,564,818)	(590,823)	2,283,663	-	52,635	(1,576,951)	6,804,559
Profit/(loss) from continuing operations for year		(2,447,323)						(2,447,323)
Other comprehensive income, net of tax			61,306					61,306
Total comprehensive income	-	(2,447,323)	61,306	-	-	-	-	(2,386,017)
Shares issued during the year	2,500,000							2,500,000
Transaction costs (net of tax)	(89,195)							(89,195)
Share-based payments expense for the year						145,250		145,250
Gain on capital issued by subsidiary				1,767,685			65,086	1,832,771
Balance at 30 June 2009	42,611,658	(36,012,141)	(529,517)	4,051,348	-	197,885	(1,511,865)	8,807,368

The accompanying notes form part of these financial statements.



GALILEE ENERGY LIMITED

(Formerly Eastern Corporation Limited)

Consolidated Statement of Cash Flows

for the year ended 30 June 2010

	Note	2010 \$	2009 \$
Cash flows from operating activities			
Receipts from customers (including GST)		25,159,507	22,932,612
Payments to suppliers and employees (including GST)		(22,589,452)	(20,713,654)
Payments for exploration and evaluation		(6,098,796)	(1,645,632)
Other revenue		46,955	10,173
Interest received		231,988	129,123
Interest paid		(382,317)	(934,815)
Net cash outflow from operating activities	28	(3,632,115)	(222,193)
Cash flows from investing activities			
Payments for property, plant and equipment		(533,719)	(3,114,979)
Payments for intangibles		(71,331)	-
Proceeds from disposal of property, plant and equipment		154,136	318,621
Refunds of/(Payments for) bonds and deposits		(626,248)	74,109
Proceeds from disposal of asset classified as held for sale		8,361,378	-
Net cash (outflow) inflow from investing activities		7,284,216	(2,722,249)
Cash flows from financing activities			
Proceeds from issue of shares by parent company		4,541,396	2,434,914
Proceeds from non-controlling interests on issue of shares		1,439,989	1,832,771
Proceeds from applications for shares		-	390,731
Share issue expenses		(554,912)	(137,500)
Repayments of borrowings		(2,248,696)	(758,934)
Proceeds from borrowings		112,664	5,070,905
Net cash (outflow) inflow from financing activities		3,290,441	8,832,887
Net increase (decrease) in cash and cash equivalents		6,942,542	5,888,445
Cash and cash equivalents at the beginning of the financial year		4,355,943	(1,268,782)
Effects of exchange rate changes on cash and cash equivalents		136,855	(263,720)
Cash and cash equivalents at the end of the financial year	9	11,435,340	4,355,943
Non-cash investing and financing activities	29		

The accompanying notes form part of these financial statements.



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GALILEE ENERGY LIMITED

(Formerly Eastern Corporation Limited)

Notes to the Consolidated Financial Statements

30 June 2010

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report comprises the consolidated financial statements for Galilee Energy Limited and its subsidiaries. The financial report is presented in Australian dollars.

Galilee Energy Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Galilee Energy Limited
ABN 11 064 957 419
Level 2, 895 Ann St
Fortitude Valley QLD 4006.

Galilee Energy Limited changed its name from Eastern Corporation Limited on 4th June 2010.

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report on pages 4 - 6, which is not part of this financial report.

The financial report was authorised for issue by the directors on September 2010. The Company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the company. All press releases, financial reports and other information are available on our website: www.easterncorp.com.au.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) of the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*.

(i) Compliance with IFRS

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial report of Galilee Energy Limited complies with International Financial Reporting Standards ("IFRS").

(ii) Historical cost convention

These financial statements have been prepared on an accruals basis and have been based on historical cost, modified where applicable by the revaluation of available-for-sale financial assets, financial assets (including derivative instruments) at fair value through profit or loss, and certain classes of property, plant and equipment.

(iii) Critical accounting estimates

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 1(y).

(b) Principles of consolidation*(i) Subsidiaries*

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. A list of controlled entities is contained in Note 15 to the Financial Statements.

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Galilee Energy Limited ("company" or "parent company") as at 30 June 2010 and the results of all subsidiaries for the year then ended. Galilee Energy Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.



GALILEE ENERGY LIMITED

(Formerly Eastern Corporation Limited)

Notes to the Consolidated Financial Statements

30 June 2010

(b) Principles of consolidation (continued)*(i) Subsidiaries (continued)*

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are shown separately within the Equity section of the consolidated Statement of Financial Position and Statement of Comprehensive Income. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Galilee Energy Limited.

(ii) Joint ventures – Jointly controlled assets

The proportionate interests in the assets, liabilities and expenses of a joint venture activity have been incorporated in the financial statements under the appropriate headings. Details of the joint venture are set out in note 14.

(c) Foreign currency translation*(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Unless otherwise stated, the consolidated financial statements are presented in Australian dollars, which is Galilee Energy Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for the statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for the statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

(d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. Revenue is recognised for the major business activities as follows:

(i) Sale of goods

A sale is recorded when goods have been delivered to the customer, the customer has accepted the goods and collectibility of the related receivables is probable.



GALILEE ENERGY LIMITED

(Formerly Eastern Corporation Limited)

Notes to the Consolidated Financial Statements

30 June 2010

(d) Revenue recognition*(ii) Interest income*

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

(iii) Dividends

Dividends are recognised as revenue when the right to receive payment is established.

(e) 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, 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 subsidiaries where the parent company 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

Tax consolidation legislation

Galilee Energy Limited and its wholly owned Australian resident entities have implemented the tax consolidation legislation.

The head entity, Galilee Energy Limited, and the subsidiaries in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Galilee Energy Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from subsidiaries in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group. Details about the tax funding agreement are disclosed in note 5(e).

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

The New Zealand subsidiaries have also elected to be treated as a consolidated group for New Zealand income tax purposes and adopt the same accounting methods as the Australian tax consolidated group.



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(f) Leases

Leases of property, plant and equipment where the Group as lessee has substantially all the risks and rewards of ownership are classified as finance leases (note 20). Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 25). Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

(g) Business combinations

The purchase method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity for business combinations prior to 1 July 2009. For business combinations after 1 July 2009 transaction costs are expensed in the statement of comprehensive income.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Business Combinations under Common Control have been excluded from the scope of AASB 3 Business Combinations. When accounting for business combinations under common control the group has elected to apply the scope exclusion in AASB 3. Common control transactions are accounted for in the consolidated accounts prospectively from the date of obtaining the ownership interest. Assets and liabilities are recognised on consolidation at their carrying amounts in the financial statements of the ultimate parent entity, measured in accordance with Australian Accounting Standards. Any difference between the cost of acquisition (fair value of consideration paid), and the amounts at which the assets and liabilities are recorded has been recognised directly in equity as part of a Business Combinations under Common Control Reserve.

(h) Impairment of assets

Goodwill and 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 financial 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 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.

(i) Cash and cash equivalents

For Statement of Cash Flows presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within financial liabilities in current liabilities on the statement of financial position.



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(j) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less impairment. Trade receivables are normally due for settlement no more than 30 days from the date of recognition.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the statement of comprehensive income.

(k) Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity.

Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(l) Other current assets

Costs incurred in the removal of overburden in advance of coal recovery are deferred and recorded as work in progress, then amortised on a unit of production basis as the underlying coal is recovered. Any balance is subject to impairment testing in accordance with the group's policy per note 1(h).

(m) Financial Instruments*Initial recognition and measurement*

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified 'at fair value through profit or loss', in which case transaction costs are expensed to profit or loss immediately.

Classification and subsequent measurement

Finance instruments are subsequently measured at either of fair value, amortised cost using the effective interest rate method, or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as: (a) the amount at which the financial asset or financial liability is measured at initial recognition; (b) less principal repayments; (c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and (d) less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

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

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a Group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.



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(m) Financial Instruments (continued)*(ii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

(v) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Derivative instruments

The Group designates certain derivatives as either:

- (a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- (b) hedges of highly probable forecast transactions (cash flow hedges).

At the inception of the transaction the relationship between hedging instruments and hedged items, as well as the Group's risk management objective and strategy for undertaking various hedge transactions is documented.

Assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items, are also documented.

The group has an interest rate derivative that does not qualify for hedge accounting and is accounted for in accordance with note 1(m)(v)(a). The group has no other derivatives as at 30 June 2010.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of comprehensive income, together with any changes in the fair value of hedged assets or liabilities that are attributable to the hedged risk.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is deferred to a hedge reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of comprehensive income.

Amounts accumulated in the hedge reserve in equity are transferred to the statement of comprehensive income in the periods when the hedged item will affect profit or loss.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At each reporting date, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

Financial guarantees

Where material, financial guarantees issued, which require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due, are recognised as a financial liability at fair value on initial recognition.



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(m) Financial Instruments (continued)*Financial guarantees (continued)*

The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

The fair value of financial guarantee contracts has been assessed using a probability weighted discounted cash flow approach. The probability has been based on:

- the likelihood of the guaranteed party defaulting in a year period;
- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- the maximum loss exposed if the guaranteed party were to default.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

(n) Property, plant and equipment

Land is stated at cost and is not subject to depreciation. All other property, plant and equipment is stated at historical cost less depreciation and impairment losses if applicable. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

The carrying amounts of items of property, plant and equipment are reviewed annually by directors to ensure they are not in excess of their recoverable amounts. Recoverable amounts are assessed on the basis of the expected net cash flows that will be recovered from the assets' employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Mine development expenditure is carried forward in the statement of financial position at cost less accumulated amortisation. It relates to construction within the mine site of roads, railheads, and other developments which will be used in the mining operation in future financial years. Mine development costs are amortised over the estimated useful life of the asset, which in some cases is equivalent to the estimated economic life of the mine. Other mine development expenditure is expensed when incurred.

With the exception of certain equipment which is depreciated on a units of use basis, depreciation is calculated on a declining basis to allocate the cost of each asset, net of its residual values, over its estimated useful life. The following rates of depreciation are used:

Buildings and leasehold improvements	2.5% - 18%
Motor vehicles	15% - 26%
Mining infrastructure	Units of use
Plant and equipment	5% - 48%
Leased plant and equipment	Units of use

Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(h)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. Gains and losses are included in the statement of comprehensive income.



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(o) Intangible assets*Mining licences*

Mining licences have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using a units of use basis to allocate the cost of licences over the recoverable reserves to which they relate. Any balance is subject to impairment testing in accordance with the Group's policy per Note 1(h).

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of the acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each country of operation by each operating segment (note 27).

Any balance is subject to impairment testing in accordance with the Group's policy per Note 1(h).

(p) Exploration and evaluation expenditure

With the exception of one item which was classified as "Held for Sale" (note 13) exploration and evaluation expenditure is charged against the statement of comprehensive income in the accounting period in which it is incurred.

(q) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(r) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until the assets are substantially ready for their intended use or sale.

All other borrowing costs are expensed as incurred.

(s) Provisions

A provision is recognised when the Group has a present legal or constructive obligation as a result of past events for which it is probable that an outflow of economic benefits will result and the amount of the outflow can be reliably estimated. Provisions are not recognised for future operating losses.

A provision for rehabilitation is recognised when there is a present obligation to rehabilitate an area disturbed, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. An asset is created as part of the current and non-current development assets, to the extent that the development relates to future production activities, which is offset by a current and non-current provision for rehabilitation.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the statement of financial position date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.



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(t) Employee benefits**(i) Employee benefits**

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

(ii) Retirement benefit obligations

Contributions to defined contribution superannuation plans are expensed when incurred.

(iii) Share-based equity settled benefits

The Group provides benefits to employees of the economic entity in the form of share-based payment transactions, whereby employees render services in exchange for shares or options over shares ("equity-settled transactions").

The fair value of options granted to employees and consultants are recognised as an employee benefit expense with a corresponding increase in equity (share option reserve). The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options. Fair value is determined by an independent valuer using a Black-Scholes option pricing model. In determining fair value, no account is taken of any performance conditions other than those related to the share price of Galilee Energy Ltd ("market conditions"). The cumulative expense recognised between grant date and vesting date is adjusted to reflect the directors' best estimate of the number of options that will ultimately vest because of internal conditions of the options, such as the employees having to remain with the company until vesting date, or such that employees are required to meet internal sales targets.

No expense is recognised for options that do not ultimately vest because internal conditions were not met. An expense is still recognised for options that do not ultimately vest because a market condition was not met.

Where the terms of options are modified, the expense continues to be recognised from grant date to vesting date as if the terms had never been changed. In addition, at the date of the modification, a further expense is recognised for any increase in fair value of the transaction as a result of the change.

Where options are cancelled, they are treated as if vesting occurred on cancellation and any unrecognised expenses are taken immediately to the statement of comprehensive income. However, if new options are substituted for the cancelled options and designated as a replacement on grant date, the combined impact of the cancellation and replacement options are treated as if they were a modification.

(iv) Profit sharing and bonus plans

Equity-based compensation benefits are provided to employees via the employee and consultants share incentive scheme. The scheme is administered by way of a separate trust whereby shares in the Company are awarded to employees and consultants by the trust from time to time. As a controlled entity the trust is included in the consolidated financial statements as set out in note 1(b). The fair value cost to the Company of issuing these shares to the employee is expensed when awarded. The change in fair value of shares between the date of purchase and the date issued to employees and consultants is reflected in the share based payments reserve. Since the end of the financial year the Directors have decided that the share incentive is no longer required, that shares held by it should be sold, and that the scheme be wound up.

The Group recognises a liability and an expense for bonuses based on a formula that takes into consideration sales volumes. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(u) 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. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the entity reacquires its own equity instruments, e.g. as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.



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(v) Earnings per share*(i) Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(w) Goods and Services Tax (GST)

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 statement of financial position.

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.

(x) Critical accounting estimates and judgements

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

(i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1(h). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 17 for details of these assumptions and the potential impact of changes to the assumptions.

(ii) Amortisation of mining licences

The group amortises the cost of mining licences over the estimated life of the recoverable reserves to which they relate (refer note 17). The estimated life of the recoverable reserves may fluctuate over time and as they are mined.

(iii) Rehabilitation Provision

Estimates are made for rehabilitation based on the level of disturbance known at each balance date. These estimates are then costed at future rates and discounted back to present value. The level of rehabilitation depends on the requirements of the mining licence for each area of interest.

(iv) Income tax

The Group has recognised deferred tax assets relating to carried forward tax losses to the extent that there are sufficient deferred tax liabilities relating to the same taxation authority and the same tax group against which the unused tax losses can be utilised. However, utilisation of the tax losses also depends on the ability of the tax group to satisfy certain tests at the time the losses are recouped. If the tax group fails to satisfy the tests, carried forward tax losses of \$47,383 (2009: \$765,364) would have to be written off to income tax expense.



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(y) Adoption of New and Revised Accounting Standards

The Group has adopted the following new and revised Australian Accounting Standards issued by the AASB which are mandatory for the current period. Disclosures required by these standards that are deemed material have been included in this financial report on the basis that they represent a significant change in information from that previously made available.

(i) Presentation of financial statements

AASB 101 prescribes the content and structure of the financial statements. Changes reflected in this financial report include:

- the replacement of Income Statement with Statement of Comprehensive Income. Items of income and expense not recognised in profit and loss are now disclosed as components of "other comprehensive income". In this regard, such changes are no longer reflected in equity movements in the Statement of Changes in Equity.
- the adoption of the single income statement approach to the presentation of the Statement of Comprehensive Income; and
- other financial statements are renamed in accordance with the Standard.

(ii) Operating segments

From 1 January 2009, operating segments are identified and segment information disclosed on the basis of internal reports that are regularly provided to and reviewed by the Group's chief operating decision maker, which for the Group is the Managing Director. In this regard such information is provided using different measures to those used in preparing the statement of comprehensive income and statement of financial position. Reconciliations of such management information to the statutory information contained in the financial report have been included.

(iii) Business combinations and consolidation procedures

Revised AASB 3 is applicable prospectively from 1 July 2008. Changes introduced by this Standard, or as a consequence of amendments to other Standards relating to business combinations which are expected to effect the Group, include the following:

- All business combinations, including those involving entities under common control, are accounted for by applying the acquisition method which prohibits the recognition of contingent liabilities of the acquiree at acquisition date that do not meet the definition of a liability. Costs incurred that relate to the business combination are expensed instead of comprising part of the goodwill acquired on consolidation. Changes in the fair value of contingent consideration payable are not regarded as measurement period adjustments and are recognised through profit and loss unless the change relates to circumstances which existed at acquisition date.
- Unrecognised deferred tax assets of the acquiree may be subsequently realised within 12 months of acquisition date on the basis of facts and circumstances existing at acquisition date with a consequential reduction in goodwill. All other deferred tax assets subsequently recognised are accounted for through profit or loss.

The proportionate interest in losses attributable to non-controlling interests is assigned to non-controlling interests irrespective of whether this results in a deficit balance. Previously, losses causing a deficit to non-controlling interests were allocated to the parent entity.



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2 Revenue	2010	2009
	\$	\$
Revenue from continuing operations		
Sales revenue		
Sale of goods and services	22,705,955	20,430,990
Other revenue		
Interest received or receivable	299,238	129,123
Sundry income	46,955	10,173
Total revenue from continuing operations	23,052,148	20,570,286
Other income from discontinued operations		
Net gain on sale of interest in "Broughton" joint venture mining tenement	5,347,159	-
Total income from continuing and discontinued operations	28,399,307	20,570,286
3 Expenses	2010	2009
	\$	\$
Profit/(loss) before income tax includes the following specific expenses:		
<i>Depreciation and amortisation</i>		
Mining operations		
<i>Depreciation</i>		
Buildings and leasehold improvements	33,634	42,728
Mine infrastructure	164,397	39,597
Plant and equipment	345,864	417,819
Plant and equipment under finance leases	372,471	246,547
Vehicles	39,985	31,696
<i>Amortisation</i>		
Mining licenses	499,496	427,962
Intangible - rehabilitation asset	71,667	86,765
	1,527,514	1,293,114
Exploration and evaluation		
<i>Depreciation</i>		
Plant and equipment	43,914	63,085
Administration		
<i>Depreciation</i>		
Buildings and leasehold improvements	10,687	13,118
Motor vehicles	4,729	6,841
Plant and equipment	33,550	25,570
	48,966	45,529
Total depreciation and amortisation	1,620,394	1,401,728
<i>Net Loss/(Gain) on disposals of property, plant and equipment</i>	37,322	(129,821)
<i>Finance costs - Interest and finance charges paid/payable</i>	671,435	934,815
<i>Rental expense relating to operating leases - minimum lease payments</i>	250,097	277,970
<i>Net foreign exchange losses/(gains)</i>	(11,024)	22,355



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4 Other comprehensive income, net of tax	2010	2009
	\$	\$
Net gain on foreign currency translation	69,542	61,306
5 Income tax expense	2010	2009
	\$	\$
(a) Income tax expense/(benefit)		
Current tax	-	-
Deferred tax, arising from the recognition and reversal of temporary differences	829,678	440,444
Adjustments for deferred tax of prior periods	(188,031)	98,154
	641,647	538,598
Income tax expense/(benefit) is attributable to:		
Profit from continuing operations	(1,649,992)	538,598
Profit from discontinued operations	2,291,639	-
	641,647	538,598
Deferred income tax expense/(revenue) included in income tax expense/(benefit) comprises:		
Decrease/(Increase) in deferred tax assets (note 18)	(374,970)	190,577
Increase/(Decrease) in deferred tax liabilities (note 21)	1,204,648	249,867
	829,678	440,444
b) Numerical reconciliation of Income tax expense to prima facie tax payable:		
Profit/(loss) from continuing operations before income tax (expense)/benefit	(5,399,093)	(1,908,725)
Profit/(loss) from discontinued operations before income tax (expense)/benefit	7,638,798	-
	2,239,705	(1,908,725)
Profit/(loss) before income tax	671,912	(572,618)
Tax at the Australian tax rate of 30% (2009: 30%)	3,805	2,358
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible expenses	3,206	3,544
Non-deductible depreciation	104,800	43,576
Non-deductible share based payments	150,000	-
Assessable income on tenements	-	853,417
Current year tax losses not recognised	933,723	330,277
Effect of exchange rate change on deferred tax assets and liabilities	21,075	(15,866)
Adjustments for current tax of prior periods	(188,031)	98,154
Adjustments for deferred tax of prior periods	(125,120)	126,033
	641,647	538,598
(c) Amounts recognised directly in equity		
Aggregate deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited/(credited) to equity (refer Note 23)	53,924	48,305
(d) Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	26,960,190	26,647,951
Potential tax benefit at country rates of tax	8,088,057	7,994,385



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5 Income tax expense (continued)**(e) Tax consolidation legislation**

Galilee Energy Limited and its wholly owned Australian resident subsidiaries have implemented the tax consolidation legislation. The accounting policy in relation to this legislation is set out in note 1(e).

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Galilee Energy Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Galilee Energy Limited for any current tax payable assumed and are compensated by Galilee Energy Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Galilee Energy Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the head entity had determined its funding needs. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables where it is expected funding will be required from member entities in the next 12 months, otherwise they are classified as non-current.

6 Interests of Key Management Personnel (KMP)

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2010.

The totals of remuneration paid to KMP of the Group during the year are as follows:

	2010	2009
	\$	\$
Short-term employee benefits	507,460	418,705
Post-employment benefits	42,002	35,549
Share-based equity settled payments	250,166	145,250
Consulting services	431,045	184,685
	1,230,673	784,189

KMP options and rights holdings

The number of options over ordinary shares held by each KMP of the Group during the financial year is as follows:

	Balance at the start of the year	Granted as remuneration	Options Exercised	Balance at the end of the year	Total vested	Vested and exercisable	Vested and unexercisable
2010							
R J May	2,000,000	-	-	2,000,000	-	-	-
J S McIntyre	2,000,000	-	-	2,000,000	-	-	-
S J Koroknay	-	2,000,000	-	2,000,000	-	-	-
L C Rathie	-	2,000,000	-	2,000,000	-	-	-
2009							
R J May	-	2,000,000	-	2,000,000	1,000,000	-	1,000,000
J S McIntyre	-	2,000,000	-	2,000,000	1,000,000	-	1,000,000



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6 Interests of Key Management Personnel (KMP) (continued)**KMP shareholdings**

The number of ordinary shares in Galilee Energy Limited held by each KMP of the Group during the financial year is as follows:

Ordinary shares	Balance at the start of the year	Shares acquired during the year	Other changes during the year	Balance at the end of the year
2010				
S J Koroknay	100,000	25,000	-	125,000
C G Smith	17,263,953	13,093,167	-	30,357,120
J S McIntyre (<i>resigned 21st June 2010</i>)	880,432	220,108	(1,100,540)	-
R J May (<i>resigned 10th June 2010</i>)	241,126	60,282	(301,408)	-
L C Rathie (<i>appointed 21 June 2010</i>)	-	-	-	-
R Camarri (<i>appointed 21 June 2010</i>)	25,000	6,250	204,286	235,536
S Aarons	137,300	34,325	-	171,625
WA Parker	15,000	5,000	-	20,000
2009				
C G Smith	17,263,953	-	-	17,263,953
J S McIntyre	880,432	-	-	880,432
R J May	241,126	-	-	241,126
S J Koroknay	-	100,000	-	100,000
S Aarons	137,300	-	-	137,300
WA Parker	15,000	-	-	15,000

There were no shares held nominally by key management personnel (2009: Nil)

There were no shares granted as compensation or on exercise of options previously granted as compensation (2009: Nil)

Other KMP transactions

There have been no other transactions involving equity instruments other than those described in the tables above. For details of other transactions with KMP, refer to Note 32: Related party transactions. The Company's employee and consultants share incentive scheme was wound up during the year.

7 Auditors' remuneration

	2010	2009
	\$	\$
Remuneration of the auditor of the parent company for:		
Auditing or reviewing the financial report	122,099	130,000
Taxation services	18,160	8,250
	140,259	138,250

8 Earnings per share (EPS)

	2010	2009
	\$	\$
(a) Earnings used in calculating earnings per share		
<i>Basic and diluted earnings</i>		
Profit/(Loss) for the year from continuing operations	(3,749,101)	(2,447,323)
Profit/(Loss) for the year from discontinued operations	5,347,159	-
Profit/(Loss) for the year	1,598,058	(2,447,323)
(b) Weighted average number of ordinary shares	2010	2009
	Number	Number
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	105,944,612	73,521,512
Weighted average number of dilutive options outstanding *	-	-
Weighted average number of ordinary shares and potential ordinary shares outstanding during the year used in calculating diluted EPS	105,944,612	73,521,512

* Options were not included in the previous year because the Group had a loss and options were therefore considered anti-dilutive. Options were not included in the current year as they are out of the money and are not considered dilutive.



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8 Earnings per share (EPS) (continued)	2010	2009
	Cents	Cents
(c) Basic earnings per share		
Profit/(Loss) for the year from continuing operations	(3.5)	(3.3)
Profit/(Loss) for the year from discontinued operations	5.0	-
	<hr/>	<hr/>
Profit/(Loss) for the year	1.5	(3.3)
	<hr/>	<hr/>
(d) Diluted earnings per share		
Profit/(Loss) for the year	(3.5)	(3.3)
Profit/(Loss) for the year from discontinued operations	5.0	-
	<hr/>	<hr/>
Profit/(Loss) for the year	1.5	(3.3)
	<hr/>	<hr/>

Losses attributable to non-controlling interests are considered anti-dilutive.

9 Cash and cash equivalents	2010	2009
	\$	\$
Cash at bank and in hand	1,749,548	2,822,111
Deposits at call	9,685,792	1,533,832
	<hr/>	<hr/>
	11,435,340	4,355,943
	<hr/>	<hr/>

10 Trade and other receivables	2010	2009
	\$	\$
CURRENT		
Trade receivables	1,464,586	1,079,894
Other receivables	77,511	3,179
Prepayments	506,536	220,362
	<hr/>	<hr/>
	2,048,633	1,303,435
	<hr/>	<hr/>
NON-CURRENT		
Environmental bonds and deposits	839,751	213,503
	<hr/>	<hr/>

The carrying amount of financial assets (loans and receivables) represents the maximum exposure to credit risk.

Trade receivables is considered the main source of credit risk for the Group. There are no significant concentrations of credit risk, as trade receivables are mainly receivables from customers for coal sold in New Zealand. Customers cover several different industries, including food, dairy, cement manufacturing, timber, hospitals and schools. The Group has policies in place to ensure that sales of products and services are made to customers with appropriate credit histories. The Group's two largest customers are substantial New Zealand and international companies with high credit ratings.

As of 30 June 2010, trade receivables of \$30,820 (2009: \$24,699) were past due but not impaired. The customers involved have no history of default. All past due receivables were less than two months overdue. The other classes within trade and other receivables do not contain impaired assets and are not past due. Receivables remaining within the initial trade terms are of good credit quality.

Refer to Note 33 for further description of the Group's credit risk exposures.

11 Inventories	2010	2009
	\$	\$
Raw materials and stores - at cost	33,718	19,648
Work in progress - at cost	258,005	250,200
Finished goods - at cost	919,223	784,008
	<hr/>	<hr/>
	1,210,946	1,053,856
	<hr/>	<hr/>



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12 Other assets	2010	2009
	\$	\$
Overburden stripped in advance of coal production	913,591	1,280,772
	913,591	1,280,772
13 Assets classified as held for sale	2010	2009
	\$	\$
Exploration and evaluation expenditure		
Movements in exploration and evaluation expenditure		
Opening net book amount	722,576	722,576
Sales at net book value (refer Note 14(b))	(722,576)	-
Closing net book amount	-	722,576

14 Interests in joint ventures**(a) Interest in Joint Venture**

The group through its subsidiary Galilee Resources Limited has a joint venture agreement in place for the development of its tenement ATP529P in the Galilee basin with AGL Ltd. Under the farm-in and Joint Operating Agreement AGL will provide \$37 million of funding for a two stage exploration and development program. The group will retain a 50% interest. As at balance date the development was in progress but had yet to reach the stage of being an accounting joint venture in accordance with AASB 131.

(b) Jointly controlled assets

A subsidiary, Broughton Coal Mining Pty Ltd, entered into a joint venture called Broughton Coal Joint Venture to develop coal reserves in exploration permit EPC818. The subsidiary had a 90% participating interest in this joint venture. The joint venture interest was sold during the year for \$8,500,000 and completion occurred on 10th May 2010.

	2010	2009
	\$	\$
Non-current assets		
Exploration and evaluation expenditure	-	722,576
Share of net assets employed in joint venture	-	722,576

15 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1(b):

Name of entity	Country of Incorporation	Class of equity	Equity Holding	
			2010	2009
Beaconsfield Energy Development Pty Ltd **	Australia	Ordinary	100%	68%
Broughton Coal Mining Pty Ltd	Australia	Ordinary	100%	100%
Capricorn Energy Pty Ltd **	Australia	Ordinary	100%	68%
Cascade Coal Limited	New Zealand	Ordinary	100%	100%
Cascade West Limited (dormant)	New Zealand	Ordinary	100%	100%
Dorben Pty Ltd (dormant)	Australia	Ordinary	100%	100%
Eastern Resources Group Limited *	New Zealand	Ordinary	100%	100%
Eastern Coal Supplies Limited	New Zealand	Ordinary	100%	100%
Galilee Resources Limited **	Australia	Ordinary	100%	68%
Rochfort Coal Mining Limited	New Zealand	Ordinary	100%	100%
Roverwich Pty Ltd (dormant)	Australia	Ordinary	100%	100%
Takitimu Coal Limited	New Zealand	Ordinary	100%	100%

* Eastern Resources Group Limited (formerly Eastern Coal Holdings (NZ) Limited) is the intermediate parent company of Galilee Energy Limited's New Zealand group. Cascade Coal Limited, Takitimu Coal Limited, Eastern Coal Supplies Limited, Rochfort Coal Mining Limited and Cascade West Limited are all wholly owned and held directly by Eastern Coal Holdings (NZ) Limited and indirectly by Galilee Energy Limited.



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15 Subsidiaries (continued)

** During the year Galilee Energy Limited acquired the shares owned by the non-controlling shareholders of Galilee Resources Limited through a 1 for 7 scrip for scrip share issue. Shareholders in Galilee Resources were issued 1 share in Galilee Energy for every 7 shares they held in Galilee Resources. Galilee Resources Limited is the intermediate parent of Beaconsfield Energy Development Pty Ltd and Capricorn Energy Pty Ltd. These two companies are wholly owned and held directly by Galilee Resources Limited and indirectly by Galilee Energy Limited.

All of the above-mentioned subsidiaries have the same reporting date as the parent, Galilee Energy Limited.

16 Property, plant and equipment

	Freehold land	Buildings & leasehold improvements	Mining infra- structure	Plant and equipment	Leased plant and equipment	Vehicles	Total
	\$	\$	\$	\$	\$	\$	\$
At 30 June 2010							
Cost	617,360	653,483	766,744	5,128,374	3,200,965	363,469	10,730,395
Accumulated depreciation	--	(138,743)	(207,804)	(2,497,406)	(788,195)	(176,346)	(3,808,494)
Net book amount	617,360	514,740	558,940	2,630,968	2,412,770	187,123	6,921,901
Year ended 30 June 2010							
Balance, 1 July 2009	611,476	555,312	707,279	2,795,499	2,702,027	198,932	7,570,525
Exchange differences	5,884	3,749	3,938	22,732	20,332	1,715	58,350
Re-classifications	-	-	-	151,390	(151,390)	-	-
Additions	-	-	12,120	272,015	217,064	32,515	533,714
Disposals	-	-	-	(187,339)	-	(4,118)	(191,457)
Depreciation charge	-	(44,321)	(164,397)	(423,329)	(375,263)	(41,921)	(1,049,231)
Balance, 30 June 2010	617,360	514,740	558,940	2,630,968	2,412,770	187,123	6,921,901
At 30 June 2009							
Cost	611,476	647,545	747,105	4,864,760	3,145,119	382,457	10,398,462
Accumulated depreciation	--	(92,233)	(39,826)	(2,069,261)	(443,092)	(183,525)	(2,827,937)
Net book amount	611,476	555,312	707,279	2,795,499	2,702,027	198,932	7,570,525
Year ended 30 June 2009							
Balance, 1 July 2008	602,813	572,875	37,360	2,723,998	1,404,360	189,942	5,531,348
Exchange differences	8,663	6,737	(5,379)	34,899	9,152	2,509	56,581
Re-classifications	-	-	-	177,303	(177,303)	-	-
Additions	-	31,546	714,895	519,150	1,731,215	152,093	3,148,899
Disposals	-	-	-	(153,378)	(15,511)	(110,415)	(279,304)
Depreciation charge	-	(55,846)	(39,597)	(506,473)	(249,886)	(35,197)	(886,999)
Balance, 30 June 2009	611,476	555,312	707,279	2,795,499	2,702,027	198,932	7,570,525



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16 Property, plant and equipment (continued)**(a) Mine infrastructure**

Ultimate recoupment of mine infrastructure expenditure carried forward is dependent on successful development and commercial exploitation, or alternatively, sale of the respective mines. The directors have considered the expenditure, particularly in relation to planned mining activities, and are confident the amounts will be realised either through sale or future cash flows from sales of coal extracted from the mines.

(b) Non-current assets pledged as security

Refer to note 20 for information on non-current assets pledged as security by the parent company and its subsidiaries.

17 Intangible assets

	Mining Licences \$	Goodwill \$	Rehabilitation Asset	Total \$
2010				
Movements in intangible assets				
Balance, 1 July 2009	2,422,113	535,065	333,972	3,291,150
Additions	-	-	120,433	120,433
Used	-	-	(199,251)	(199,251)
Amortisation charge *	(499,496)	-	(71,667)	(571,163)
Exchange differences	13,915	5,217	336	19,468
Balance, 30 June 2010	1,936,532	540,282	183,823	2,660,637
Closing balance				
Cost	3,559,619	568,309	415,008	4,542,936
Accumulated amortisation	(1,623,087)	-	(231,185)	(1,854,272)
Accumulated exchange differences	-	(28,027)	-	(28,027)
Net book amount	1,936,532	540,282	183,823	2,660,637
2009				
Movements in intangible assets				
Balance, 1 July 2008	2,805,464	527,384	334,003	3,666,851
Additions	-	-	81,827	81,827
Amortisation charge *	(427,962)	-	(86,766)	(514,728)
Exchange differences	44,611	7,681	4,908	57,200
Balance, 30 June 2009	2,422,113	535,065	333,972	3,291,150
Closing balance				
Cost	3,525,249	568,309	490,572	4,584,130
Accumulated amortisation	(1,103,136)	-	(156,600)	(1,259,736)
Accumulated exchange differences	-	(33,244)	-	(33,244)
Net book amount	2,422,113	535,065	333,972	3,291,150

* The amortisation charge is included in the statement of comprehensive income.

Goodwill is allocated to the cash-generating unit (CGU) to which it relates. The applicable CGU has been determined to be coal mining and distribution in New Zealand. The recoverable amount of the CGU has been determined on a value in use approach, which is based on financial budgets approved by management covering a five year period that reflect current contracts and agreements in place for revenues and major expenses, as well as management's best estimates for all other costs. Cash flows beyond the five year period are extrapolated using a growth rate of 2.5% (2009: 2.5%). The pre-tax discount rate applied to the cash flow projections is 18.0% (2009:18.0%).

Impact of possible changes in key assumptions

The recoverable amount of the goodwill of the New Zealand business is estimated to be significantly in excess of its carrying amount. Management does not consider a change in any of the key assumptions to be reasonably possible at this time.



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18 Deferred tax assets	2010	2009
	\$	\$
The balance comprises temporary differences attributable to:		
<i>Amounts recognised in profit or</i>		
Intangibles	-	38,070
Accrued expenses	28,389	6,348
Employee benefits	62,118	52,749
Provision for rehabilitation	197,462	166,176
Provision for lease make-good expense	2,940	2,940
Lease fitout allowance	9,351	11,688
Black hole expenses	57,630	62,565
Property, plant and equipment	-	165,604
Unused tax losses (New Zealand)	47,383	765,364
	405,273	1,271,504
<i>Amounts recognised directly in equity</i>		
Share issue expenses	122,163	271,504
Amortisation of share issue expense	(433)	(203,699)
	527,003	1,339,309
Set-off against deferred tax liabilities	(527,003)	(714,629)
	-	624,680
Movements:		
Opening balance at 1 July	1,339,309	1,529,886
Credited/(charged) to the income statement (note 5(a))	374,970	(190,577)
Reclassified as deferred tax liability (note 21)	(1,241,200)	
Debited to equity	53,924	-
	527,003	1,339,309
19 Trade and other payables	2010	2009
	\$	\$
Trade payables	1,792,232	1,763,338
Funds held in advance of rights issue	-	390,731
Other payables and accrued expenses	138,490	147,288
Employee benefits payable	207,061	175,831
	2,137,783	2,477,188



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20 Financial liabilities	2010	2009
	\$	\$
CURRENT		
Secured		
Lease liabilities (note 25)	634,758	569,229
Bank term loan	286,760	2,295,575
Finance company term loan	-	357,615
Unsecured		
Loan from related company	200,000	2,600,000
	1,121,518	5,822,419
NON-CURRENT		
Secured		
Lease liabilities (note 25)	915,490	1,435,403
Bank term loan	1,744,436	-
Finance company term loan	-	1,059,356
	2,659,926	2,494,759
The total secured liabilities (current and non-current) are as follows:		
Lease liabilities	1,550,248	2,004,632
Bank term loans	2,031,196	2,295,575
Finance company term loan	-	1,416,971
	3,581,444	5,717,178

(a) Breach of covenant and remedy

As at 30 June 2009, the group had breached the interest cover covenant on its term loan facility with its bank. Because of the breach, the outstanding loan balance at 30 June 2009 was reclassified as a current liability. After 30 June 2009 the bank advised the company that it has waived the right to recall the loan balances as a result of the breach. The group was not in breach of any of its bank covenants at 30 June 2010.

(b) Assets pledged as security

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default. The carrying amount of leased assets pledged as security for the lease liabilities is \$2,412,770 (2009: \$2,702,027). Refer note 16.

The bank loans and overdraft are secured by an all obligations General Security Agreement (incorporating cross guarantee) given by all the Group's New Zealand subsidiaries ("the NZ Group") under which all members of the NZ Group grant to the bank a first ranking security interest over all their present and future acquired property (including proceeds) and undertakings, and a registered first and exclusive mortgage over the property at Timaru owned by a subsidiary company. The NZ Group has assets valued at A\$13,507,552 (2009: A\$14,060,771) pledged under this security.

The bank loans and overdraft are also secured by a negative pledge that imposes certain covenants on the NZ Group. The negative pledge states that the NZ companies will not provide any other security over their assets, and the covenants require the NZ Group to ensure that total equity always exceeds 45% of its net assets including mining licences but excluding other intangible assets, and that net profit before income tax always exceeds 2.5 its funding costs. For the year ended 30 June 2010 and at 30 June 2010 the NZ Group complied with both covenants.



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21 Deferred tax liabilities	2010	2009
	\$	\$
The balance comprises temporary differences attributable to:		
<i>Amounts recognised in profit or loss</i>		
Overburden in advance	274,077	-
Intangibles	149,193	281,192
Rehabilitation asset	55,147	-
Property, plant and equipment	226,193	57,569
Finance leases	-	209,026
Receivables	153,513	137,427
Unrealised exchange gains	70,940	63,628
Exploration and evaluation expenditure	-	216,773
	929,063	965,615
Set-off against deferred tax assets	(527,003)	(714,629)
Net deferred tax liabilities	402,060	250,986
Movements:		
Opening balance at 1 July	965,615	715,748
Charged/(credited) to the income statement (note 5(a))	1,204,648	249,867
Reclassified from deferred tax asset (note 18)	(1,241,200)	-
Closing balance at 30 June	929,063	965,615
22 Provisions	2010	2009
	\$	\$
Rehabilitation	658,207	553,920
Make-good obligation under lease agreement	9,800	9,800
	668,007	563,720
(a) Movement in provision for rehabilitation	2010	2009
	\$	\$
Opening balance 1 July	553,920	403,585
Additional provisions recognised	269,945	322,464
Amounts used	(172,943)	(176,728)
Exchange variance	7,285	4,599
Closing balance 30 June	658,207	553,920
The amount represents the obligation to restore land disturbed during mining activities to the conditions specified in the mining licence. It is anticipated that the Cascade mine will be rehabilitated in stages over the next 3 to 4 years, and the Takitimu mine over the next 10 to 15 years.		
(b) Movement in provision for make-good under lease agreement	2010	2009
	\$	\$
Opening balance 1 July	9,800	9,800
Amount recognised	-	-
Closing balance 30 June	9,800	9,800

The provision for make-good represents the company's obligation under a lease agreement to return a property to its original condition upon termination of the lease.



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23 Issued capital**(a) Share capital**

	2010 \$	2009 \$
152,140,466 (2009: 82,202,068) fully paid ordinary shares	61,518,356	43,154,098
Transaction costs relating to share issues (net of tax)	(1,169,052)	(542,440)
	60,349,304	42,611,658

(b) Movements in ordinary share capital:

Date	Details	Number of shares	Issue price	\$
30 June 2008	Balance	71,785,401		40,200,853
	Changes in the year from 1 July 2008 to 30 June 2009			
	Share placement May 2009	10,416,667	\$0.24	2,500,000
	Less: Share issue costs in relation to share placement (net of tax)			(89,195)
30 June 2009	Balance	82,202,068		42,611,658
	Changes in the year from 1 July 2009 to 30 June 2010			
	Rights issue (1 for 4) July 2009	20,550,591	\$0.240	4,932,124
	Shares issued to acquire non-controlling interest in Galilee Resources Limited June 2010 (refer Note 15)	42,431,285	\$0.260	11,032,134
	Capitalise loan from Becamal Pty Ltd June 2010 (refer Note 32)	6,956,522	\$0.345	2,400,000
	Less: Expenses in relation to share issues (net of tax)			(626,612)
30 June 2010	Balance	152,140,466		60,349,304

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) Capital Management

Management controls the capital and the debt of the group to ensure that it can fund its operations and continue as a going concern.

The group's capital and debt includes ordinary share capital and financial liabilities, supported by financial assets. There are no externally imposed capital requirements.

Management manages the group's capital by assessing the group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. Responses to these changes include management of debt levels and share issues.

There have been no changes in the strategy since the prior year.

The gearing ratios of the group have been as follows:

	2010 \$	2009 \$
Total borrowings	3,781,444	8,317,178
Less cash and cash equivalents	(11,435,340)	(4,355,943)
Net debt/(cash)	(7,653,896)	3,961,235
Total equity	19,041,505	8,807,368
Total capital	11,387,609	12,768,603
Gearing ratio	-	31.02%



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(Formerly Eastern Corporation Limited)

Notes to the Consolidated Financial Statements

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24 Parent Company Information

The *Corporations Act* requirement to prepare parent company financial statements where consolidated financial statements are prepared has been removed and replaced by the new regulation 2M.3.01 which requires limited disclosure in regards to the parent company Galilee Energy Limited. The consolidated financial statements incorporate the assets, liabilities and results of the parent company in accordance with the accounting policy described in Note 1 (b).

Galilee Energy Limited	2010	2009
	\$	\$
Current assets	9,410,056	1,721,250
Non-current assets	38,175,395	15,997,960
Total assets	47,585,451	17,719,210
Current liabilities	915,677	3,561,942
Non-current liabilities	21,646	210,855
Total liabilities	937,323	3,772,797
Net assets	46,648,128	13,946,413
Issued capital	60,349,304	42,611,658
Share-based payments reserve	566,283	145,250
Retained earnings.(accumulated losses)	(14,267,459)	(28,810,495)
Total shareholders' equity	46,648,128	13,946,413
Profit/(Loss) for the year	6,221,066	(1,074,078)
Total comprehensive income/(loss) for the year	14,543,036	(1,074,078)

The net assets of the parent include an investment in Galilee Resources Limited of \$24,090,412, of which no exploration and evaluation expenditure has been capitalised in the consolidated entity. In the opinion of the Directors the investment in this subsidiary is not impaired.

Guarantees

The parent company has entered into an all obligations Deed of Guarantee in favour of the "NZ Group" limited to NZ\$6,000,000 (2009: NZ\$6,000,000) plus interest plus costs. The "NZ Group" is defined in Note 20(b).

Contractual commitments

The parent company had no contractual commitments for the acquisition of property, plant and equipment at 30 June 2010 (2009: \$Nil).

Contingent Liabilities

The parent company has no contingent liabilities (2009: \$Nil).



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Notes to the Consolidated Financial Statements

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25 Commitments**(a) Lease commitments : Group as lessee**

	2010 \$	2009 \$
Commitments in relation to leases contracted for at the reporting date but not recognised as liabilities, payable:		
Within one year	414,054	444,894
Later than one year but not later than five years	790,680	1,118,066
Later than five years	133,058	88,270
	<u>1,337,792</u>	<u>1,651,230</u>
Representing:		
Non-cancellable operating leases	1,137,412	1,301,938
Future finance charges on finance leases	200,380	349,292
	<u>1,337,792</u>	<u>1,651,230</u>

(i) Operating leases

The Group leases offices, equipment and vehicles under non-cancellable operating leases expiring within three years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	2010 \$	2009 \$
Within one year	289,269	274,356
Later than one year but not later than five years	715,085	939,312
Later than five years	133,058	88,270
	<u>1,137,412</u>	<u>1,301,938</u>

(ii) Finance leases

The Group leases various plant and equipment with a carrying amount of \$2,412,770 (2009 - \$2,702,027) under finance leases expiring within two to five years. Under the terms of the leases, the Group has the option to acquire the leased assets. This option lapses in the event the Group fails to maintain its credit rating at the level prevailing at inception of the lease.

	2010 \$	2009 \$
Commitments in relation to finance leases are payable as follows:		
Within one year	759,543	739,767
Later than one year but not later than five years	991,085	1,614,157
Later than five years	-	-
Minimum lease payments	1,750,628	2,353,924
Future finance charges	(200,380)	(349,292)
Recognised as a liability	<u>1,550,248</u>	<u>2,004,632</u>
Representing lease liabilities:		
Current (note 20)	634,758	569,229
Non-current (note 20)	915,490	1,435,403
	<u>1,550,248</u>	<u>2,004,632</u>

The weighted average interest rate implicit in the leases is 9.85% (2009: 8.94%)



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25 Commitments (continued)**(b) Exploration commitments***(i) Galilee Resources Limited*

In order to maintain current rights to tenure to exploration and mining tenements, the consolidated entity has discretionary exploration expenditure obligations until expiry of the tenement holdings.

If the consolidated entity decides to relinquish certain leases and/or does not meet these obligations, assets recognised in the statement of financial position may require review to determine the appropriateness of carrying values. The sale, transfer or farm-out of exploration rights to third parties reduces or extinguishes these obligations.

In the case of ATP799P the obligations were renegotiated upon expiry on 28 February 2010 for a further term to expire on 28 February 2014 subject to mandatory relinquishment of $\frac{1}{3}$ of tenement blocks and further expenditure totalling \$6,000,000.

In the case of ATP529P, 50% of the exploration rights were transferred to a third party under a farm-in agreement entered into in July 2008 and the Group no longer has any commitment in relation to this tenement, unless the farm-in agreement is terminated or there are cost over-runs in relation to the initial work program.

In the case of ATP799P, expenditure targets both annual and for the period of the term can be reduced at the Minister's discretion, by the relinquishment of unwanted blocks, nominated by the ATP holder.

	2010 \$	2009 \$
Commitments in relation to exploration permit ATP 799 are as follows:		
Within one year	-	4,088,000
Later than one year but not later than five years	6,000,000	-
	<hr/>	<hr/>
Minimum payments	6,000,000	4,088,000

(ii) Broughton Coal Mining Pty Ltd

As disclosed in Note 14, Broughton's interest in EPC 818 was sold during the year and the Group no longer has any on-going commitments in relation to this tenement.

	2010 \$	2009 \$
Commitments in relation to exploration permit EPC 818 are as follows:		
Within one year	-	49,500
Later than one year but not later than five	-	11,000
	<hr/>	<hr/>
Minimum payments	-	60,500

26 Contingent liabilities**(a) Share of cost overruns in joint venture**

Under the terms of the joint venture agreement with AGL, a subsidiary company Galilee Resources Limited, is required to contribute 50% of cost overruns to the initial work program if it is to maintain its current equity position. At the most recent operations meeting, AGL indicated that cost overrun is not expected.

(b) Royalties

The NZ Group has entered an agreement with a neighbouring landholder to pay a royalty of NZ\$3.50 per tonne of coal extracted from his land, and rehabilitate the land after extraction has ceased. An advance of NZ\$250,000 has been made to the landholder, to be rebated at the rate of NZ\$1.50 per tonne after extraction commences.



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Notes to the Consolidated Financial Statements

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27 Operating Segments**(a) Accounting policies adopted**

Unless stated otherwise, all amounts reported to the Managing Director, being the chief decision maker with respect to operating segments, and the Board, are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

(b) Inter-segment transactions

An internally determined transfer price is set for all inter-segment sales. This price is reset as required and is based on what would be realised in the event the sale was made to an external party at arm's length. All such transactions are eliminated on consolidation of the Group's financial statements.

Management fees are charged to reporting segments based on the segments' estimated use of head office resources.

Inter-segment loans payable and receivable are initially recognised at the consideration received/to be received net of transaction costs. Interest is charged on inter-segment loans receivable and payable on commercial terms.

(c) Segment assets

Except for assets held by head office, segment assets are usually clearly identifiable on the basis of their nature and physical location.

(d) Segment liabilities

Liabilities are allocated to segments where there is a direct nexus between the incurrence of the liability and the operations of the segment. Segment liabilities include trade and other payables direct borrowings, and tax liabilities where they can be related to a particular segment.

(e) Unallocated items

The only items of revenue, expenses, assets and liabilities not allocated to operating segments are head office items.

(f) Comparative information

This is the first reporting period in which AASB 8 has been adopted. Comparative information has been restated to conform to the requirements of this standard.

(g) Segment performance

Coal mine operations refers to the operation of two coal mines and a coal distribution facility on New Zealand's south island and includes exploration and evaluation activities relating to those operations.

Exploration and evaluation refers to coal and coal seam gas deposits in Queensland.

	Coal mine operations \$	Exploration and evaluation \$	Consolidated \$
2010			
Revenue from sales to external customers	22,705,955	-	22,705,955
Other revenue	89,002	133,578	222,580
Total segment revenue/income	22,794,957	133,578	22,928,535
Segment net profit/(loss) result before tax	2,257,615	(6,705,324)	(4,447,709)
Unallocated items:			
Other corporate income			123,613
Other corporate expenses			(1,074,997)
Net profit before tax from continuing operations			(5,399,093)
Other income from discontinued operations before tax			7,638,798
Net profit before tax			2,239,705



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27 Operating Segments (continued)

	Coal mine operations \$	Exploration and evaluation \$	Consolidated \$
2009			
Revenue from sales to external customers	20,430,990	-	20,430,990
Other revenue	20,084	86,864	106,948
Total segment revenue/income	20,451,074	86,864	20,537,938
Segment net profit/(loss) result before tax	1,268,451	(2,288,665)	(1,020,214)
Unallocated items:			
Other corporate income			32,348
Other corporate expenses			(920,859)
Net profit before tax from continuing operations			(1,908,725)
Other income from discontinued operations before tax			-
Net profit before tax			(1,908,725)
(h) Segment assets			
	Coal mine operations \$	Exploration and evaluation \$	Consolidated \$
2010			
Segment assets	16,157,431	831,155	16,988,586
Unallocated assets:			
Deferred tax assets			-
Other corporate assets			9,042,213
Total group assets			26,030,799
Segment asset increase for the year			
Capital expenditure	516,112	-	516,112
2009			
Segment assets	15,935,522	2,589,195	18,524,717
Unallocated assets:			
Deferred tax assets			624,680
Other corporate assets			1,267,043
Total group assets			20,416,440



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Notes to the Consolidated Financial Statements

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27 Operating Segments (continued)**(i) Segment liabilities**

	Coal mine operations \$	Exploration and evaluation \$	Consolidated \$
2010			
Segment liabilities	5,547,544	121,936	5,669,480
Unallocated liabilities:			
Deferred tax liabilities			402,060
Other corporate liabilities			917,754
Total group liabilities			<u>6,989,294</u>
2009			
Segment liabilities	7,584,933	201,411	7,786,344
Unallocated liabilities:			
Deferred tax liabilities			250,986
Other corporate liabilities			3,571,742
Total group liabilities			<u>11,609,072</u>

(j) Geographical segments

All segment information relating to the New Zealand geographical segment is identical to the coal mine operations segment. All segment information for the Exploration and Evaluation segment relates to Australia.

(k) Information about major customers

The coal mine segment has two major customers who each contributed 39% and 27% (2009: 39% and 31%) of the segment's revenue from coal sales.

28 Notes to the Statement of Cash Flows

	2010 \$	2009 \$
Reconciliation of profit for the period to net cash flows from operating activities:		
Profit/(loss) for the year	1,598,058	(2,447,323)
Net cash received from disposal of asset classified as held for sale accounted for in the Statement of Cash Flows as inflow from investing activities	(8,361,378)	-
Depreciation	1,049,231	887,001
Amortisation	571,163	514,727
(Loss)/Gain on disposal of property, plant and equipment	37,322	(129,821)
Unrealised exchange differences	(145,131)	127,261
Share-based payments for services received	349,333	145,250
Changes in operating assets and liabilities:		
(Increase) decrease in trade and other receivables	(451,942)	270,150
(Increase) decrease in prepayments	(293,256)	26,022
(Increase) decrease in inventories	(157,090)	(379,301)
(Increase) decrease in overburden in advance	367,181	218,632
(Increase) decrease in assets held for sale	722,580	-
(Increase) decrease in rehabilitation asset	150,149	-
(Increase) decrease in deferred tax assets	624,680	190,577
Increase (decrease) in trade and other payables	20,394	(235,943)
Increase (decrease) in current tax liability	-	-
Increase (decrease) in deferred tax liability	151,074	249,867
Increase (decrease) in provisions	104,287	322,464
Increase (decrease) in employee entitlements	31,230	18,244
Net cash provided by operating activities	<u>(3,632,115)</u>	<u>(222,193)</u>



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29 Non-cash investing and financing activities

	2010	2009
	\$	\$
Acquisition of plant and equipment by means of finance leases	217,064	1,715,704
Conversion of related party loan to equity	2,400,000	-
Issue of shares to acquire non-controlling interests	11,032,134	-

30 Share-based payments

On 3rd December 2009, two directors were issued with 2,000,000 options each to take up ordinary shares with an exercise date of 3 years from their issue date. 1,000,000 options for each director with an exercise price of \$0.80 will vest one year from their issue date, and the remainder with an exercise price of \$0.87 will vest two years from their issue date. The options hold no voting or dividend rights and are not transferable, other than to related parties of the directors involved. The fair value of the options granted is deemed to represent the value of the directors' services received over the vesting period.

On 4th December 2008, two directors were issued with 2,000,000 options each to take up ordinary shares with an exercise date of 3 years from their issue date. 1,000,000 options for each director with an exercise price of \$0.30 will vest one year from their issue date, and the remainder with an exercise price of \$0.35 will vest two years from their issue date. The options hold no voting or dividend rights and are not transferable, other than to related parties of the directors involved. The fair value of the options granted is deemed to represent the value of the directors' services received over the vesting period.

	2010		2009	
	No. of Options	Weighted average exercise price	No. of Options	Weighted average exercise price
Outstanding at beginning of the year	4,000,000	\$0.325	-	-
Granted	4,000,000	\$0.835	4,000,000	\$0.325
Forfeited	-	-	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at end of year	8,000,000	\$0.580	4,000,000	\$0.325
Exercisable at end of year	2,000,000	\$0.300	-	-

The weighted average remaining life of options outstanding at the year end was 1.929 years (2009: 2.430 years).

The weighted average fair value of options granted during the year was \$0.0835. The values were calculated using a binomial model tailored specifically for use in valuing employee and director options, applying the following inputs:

	2010		2009	
	One year	Two years	One year	Two years
Weighted average exercise price:	\$0.80	\$0.87	\$0.30	\$0.35
Weighted average life of the option:	One year	Two years	One year	Two years
Underlying share price:	\$0.384	\$0.384	\$0.237	\$0.237
Expected share price volatility:	75%	75%	65%	65%
Risk-free interest rate:	4.72%	4.72%	4.37%	4.37%
Fair value	\$0.1126	\$0.1148	\$0.0840	\$0.0810

The expected share price volatility was estimated based on expected future volatility taking into account the level of historical volatility in the share price.

Included under Directors' Remuneration expense in the Income Statement is \$349,333 which relates to equity-settled share-based payment transactions (2009: \$145,520).



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31 Events occurring after the balance sheet date

Other than the matter referred to below, no events have occurred after the balance sheet date that require recognition or disclosure in the financial report.

Strategic review of New Zealand coal business

The parent company advised the ASX on 29th June 2010 that it is conducting a strategic review of its New Zealand coal assets. Galilee is considering an IPO of its coal assets into a separate ASX-listed entity in order to finance the next stage of exploration and development of those assets.

The Board is still considering the feasibility, structure and size of any such transaction and notes there is no guarantee that it will proceed.

32 Related party transactions**(a) Parent entities**

The parent company within the Group and the ultimate parent company is Galilee Energy Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 15.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 6.

(d) Transactions with related parties

Becamal Pty Ltd is a related party because C G Smith is a director and shareholder.

	2010 \$	2009 \$
<i>Loan from Becamal Pty Ltd</i>		
Opening balance 1 July	2,600,000	-
Loans received	-	2,600,000
Loan reduction - consideration for share issued (refer Note 23)	(2,400,000)	-
	<hr/> 200,000	<hr/> 2,600,000
<i>Other transactions with Becamal Pty Ltd</i>		
Guarantee fee	-	81,712
Interest on loan	289,118	196,701
	<hr/>	<hr/>
<i>Payable to Becamal Pty Ltd at 30 June for:</i>		
Guarantee fee	-	81,712
Interest on loan	485,819	196,701
	<hr/>	<hr/>

Becamal Pty Ltd provided a guarantee to the parent company's bankers as security for an overdraft facility during the previous financial year. The parent company paid a guarantee fee on normal commercial terms to Becamal Pty Ltd. Interest was paid on the loan balance from Becamal Pty Ltd at normal commercial rates.

The total amount owing to key management personnel at 30 June 2010 in respect of services provided was \$30,537 (2009: \$63,750).

There were no other loans to or from key management personnel during the year.

(e) Terms and conditions

The terms and conditions of the tax funding agreement are set out in note 5(e)

All transactions with related parties are made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parties. The average interest rate on loans during the year was 12.0% (2009: 12.0%).

Outstanding balances are unsecured and are payable in cash.



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33 Financial instruments

The Group's financial instruments consist of deposits with banks, short-term investments, accounts receivable and payable, loans to and from subsidiaries, and leases.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements are as follows:

	2010	2009
	\$	\$
Financial assets		
Cash and cash equivalents	11,435,340	4,355,943
Trade and other receivables	2,381,848	1,296,576
	<u>13,817,188</u>	<u>5,652,519</u>
Financial liabilities		
Trade and other payables	2,137,783	2,477,188
Borrowings	3,781,444	8,317,178
	<u>5,919,227</u>	<u>10,794,366</u>

The Group's financial risk management strategy seeks to assist the group to meet its financial targets while minimising potential adverse effects on financial performance.

Risk management is carried out under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas, such as mitigating foreign exchange, interest rate and credit risks, use of derivative financial instruments and investing excess liquidity.

Specific financial risk exposures and management

The main risks the Group is activities exposed to are credit risk, liquidity risk, and market risk consisting of interest rate risk, foreign currency risk and commodity and equity price risk.

(a) Credit risk

The group is exposed to credit risk through its sales of coal in New Zealand on 30 day trading terms. There is no significant concentration of credit risk, as coal is sold to customers in several different industries, including food, dairy, cement manufacturing, timber and hospitals. The Group has policies in place to ensure that sales of products and services are made to customers with appropriate credit histories. Receivables from entities other than coal customers are not material. Refer also to Note 10.

The group is also exposed to credit risk through its cash at bank. At 30 June 2010 the group had \$11,434,045 (2009: \$4,354,661) in accounts with the Westpac Banking Corporation.

(b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses the Group aims at maintaining flexibility in funding by arranging appropriate banking facilities as and when required. At the reporting date the Group held cash and cash equivalents of \$11,435,340 (2009: \$4,355,943) and access to unused bank overdraft facilities of \$437,927 (2009: \$594,625). All other finance facilities are fully utilised based on the amounts disclosed in Note 20.



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33 Financial Instruments (continued)**(b) Liquidity risk (continued)***Financial liability and financial asset maturity analysis*

	Less than six months	Six months to one year	one year to three years	Over three years	Total
30 June 2010					
<i>Financial liabilities due for payment</i>					
Trade and other payables	2,137,783	-	-	-	2,137,783
Borrowings (secured)					
Lease liabilities	379,772	379,771	991,085	-	1,750,628
Bank term loans	143,380	143,380	1,744,436	-	2,031,196
Borrowings (unsecured)					
Loan from related company	200,000	-	-	-	200,000
Total expected outflows	2,860,935	523,151	2,735,521	-	6,119,607
<i>Financial assets - cash flows realisable</i>					
Cash and cash equivalents	11,435,340	-	-	-	11,435,340
Trade and other receivables	1,542,097	-	839,751	-	2,381,848
Total anticipated inflows	12,977,437	-	839,751	-	13,817,188
Net outflow/(inflow) on financial instruments	(10,116,502)	523,151	1,895,770	-	(7,697,581)
30 June 2009					
<i>Financial liabilities due for payment</i>					
Trade and other payables	2,477,188	-	-	-	2,477,188
Borrowings (secured)					
Lease liabilities	369,884	369,883	1,359,388	254,769	2,353,924
Bank term loans	2,295,575	-	-	-	2,295,575
Finance company term loan	178,808	178,807	1,059,356	-	1,416,971
Borrowings (unsecured)					
Loan from related company	2,600,000	-	-	-	2,600,000
Total expected outflows	7,921,455	548,690	2,418,744	254,769	11,143,658
<i>Financial assets - cash flows realisable</i>					
Cash and cash equivalents	4,355,943	-	-	-	4,355,943
Trade and other receivables	1,083,073	-	213,503	-	1,296,576
Total anticipated inflows	5,439,016	-	213,503	-	5,652,519
Net outflow/(inflow) on financial instruments	2,482,439	548,690	2,205,241	254,769	5,491,139

(c) Market risk*(i) Interest rate risk*

Exposure to interest rate risk arises on financial assets and liabilities because a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The group is also exposed to earnings volatility on floating rate instruments.

Interest rate risk is managed by using a mix of fixed and floating rate debt and a mix of maturity dates. At 30 June 2010 approximately 57% of total debt is fixed rate debt (2009: 69%).



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Notes to the Consolidated Financial Statements

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33 Financial Instruments (continued)**(c) Market risk (continued)****(ii) Foreign exchange risk**

Foreign exchange risk arises from financial assets and liabilities denominated in a currency that is not the operating entity's functional currency. The group's reporting currency is Australian dollars (AUD), but various subsidiaries operate in New Zealand and their functional currency is New Zealand dollars (NZD).

The group manages exposure to NZD foreign exchange risk by using the "natural" hedge, that is, by matching expected outflows of NZD with expected inflows of NZD. Financial assets and liabilities denominated in NZD with counterparties external to the Group at balance date were as follows (measured in AUD):

	2010	2009
	\$	\$
Cash and cash equivalents	2,649,879	1,873,216
Trade and other receivables	1,451,487	1,078,223
Trade and other payables	(1,131,579)	(1,189,660)
Borrowings	(3,581,444)	(5,717,178)
Net	<u>(611,657)</u>	<u>(3,955,399)</u>

(iii) Price risk

Coal is not exported from New Zealand so the Group is not exposed to commodity price risk flowing from the international price of coal, except to the extent that the international price influences the price of coal on the New Zealand domestic market. The Group attempts to manage price risk by negotiating medium to long term supply contracts with major customers whenever possible.

Sensitivity Analysis

The following table illustrates sensitivities to the Group's exposures to changes in interest rates and exchange rates. The table indicates how profit and equity values reported at balance date would have been affected by changes in the relevant risk variable. These sensitivities assume that the movement in a particular variable is independent of other variables.

	Consolidated	
	Profit	Equity
	\$	\$
<i>Year ended 30 June 2010</i>		
+/- 2% in interest rates	-/+ 21,785	-/+ 21,785
+/- 5% in exchange rate NZD/AUD	+/- 59,994	+/- 163,303
<i>Year ended 30 June 2009</i>		
+/- 2% in interest rates	-/+ 79,225	-/+ 79,225
+/- 5% in exchange rate NZD/AUD	+/- 7,488	+/- 101,158

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. Fair values are the amounts at which an asset could be exchanged, or a liability settled, between knowledgeable parties in an arm's length transaction.

The Group has no financial assets or financial liabilities for which the fair value differs materially from the carrying value in the financial statements.



GALILEE ENERGY LIMITED

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34 Reserves

	2010	2009
	\$	\$
Share based payments reserve	618,918	197,885
Foreign currency translation reserve	(459,975)	(529,517)
Gain on change in proportionate interest	-	4,051,348
Non-controlling interests elimination reserve	(7,656,400)	-
	<u>(7,497,457)</u>	<u>3,719,716</u>

(i) Share based payments reserve

This reserve reflects:

- (a) the change in fair value, between the date of purchase and the date of issue, of shares awarded to employees and consultants under the share incentive scheme, and
- (b) items recognised as expenses relating to directors' share options.

(ii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign subsidiaries are taken to the foreign currency translation reserve, as described in note 1(c). The reserve is recognised in the statement of comprehensive income when the net investment is disposed of.

(iii) Gain on change in proportionate interest

This reserve has arisen as a result of capital contributed to the group by non-controlling interests. During the year the group acquired all the shares held by the non-controlling interests, extinguishing the reserve.

(iv) Non-controlling interests elimination reserve

This reserve has arisen as a result of the acquisition of the non-controlling interest in subsidiary company Galilee Resources Limited. The value of consideration paid for the non-controlling interest was greater than the value of the non-controlling interest upon gaining 100% control of the subsidiary.



Galilee Energy Limited
(formerly Eastern Corporation Limited)

Declaration by Directors

The directors of the company declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows, and accompanying notes, are in accordance with the Corporations Act 2001 and:
 - (a) comply with Australian Accounting Standards including Australian Accounting Interpretations and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position as at 30 June 2010 and performance for the year ended on that date.
2. The financial statements also comply with International Financial Reporting Standards as disclosed in Note 1 (a) (i).
3. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
4. The remuneration disclosures included in pages 8 to 13 of the directors' report (as part of audited Remuneration Report) for the year ended 30 June 2010, comply with section 300A of the *Corporations Act 2001*.
5. The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



Director

Brisbane

15

September 2010



INDEPENDENT AUDITOR'S REPORT

To the members of Galilee Energy Limited

Report on the Financial Report

We have audited the accompanying financial report of Galilee Energy Limited, which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

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 controls 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 the financial statements comply with *International Financial Reporting Standards*.

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.

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 judgement, 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 controls 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 controls. 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.

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*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

Auditor's Opinion

In our opinion:

- (a) the financial report of Galilee Energy Limited is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its 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; and
- (a) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Galilee Energy Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

BDO Audit (QLD) Pty Ltd



CRAIG JENKINS

Director

Brisbane, 15 September 2010

Tenement Interests

Coal Seam Gas	Interest	Location
ATP 529P	Galilee Energy Limited - 50% AGL Energy Limited - 50%	Queensland
ATP 799P	Galilee Energy Limited - 100%	Queensland
Coal	Interest	Location
MP 41 455 - Cascade	Cascade Coal Limited - 100%	New Zealand
ML 37 079 - Takitimu	Takitimu Coal Limited - 100%	New Zealand
EP 40 591 - Whareatea West	Rochfort Coal Limited - 100%	New Zealand
EP 51 260 - Ohai	Rochfort Coal Limited - 100%	New Zealand
PP 52 484 - Albury	Rochfort Coal Limited - 100%	New Zealand

Shareholder Information

Shareholder information set out below was applicable as at 16 September 2010

The Company has the following equity securities on issue:

ASX quoted: 152,140,466 ordinary shares, each fully paid
Unquoted: 9,000,000 options, as detailed (g)

(a) Distribution of ordinary shares

Analysis of shareholders by size of holding:

Range	Total Holders	No of Shares	% of Issued Capital
1 - 1,000	307	174,639	0.11
1,001 - 5,000	994	2,872,862	1.89
5,0001 - 10,000	479	3,957,838	2.6
10,001 - 100,000	714	21,763,132	14.3
100,001 - and over	129	123,371,995	81.09
Total Holders	2,623	152,140,466	

The number of shareholders holding less than a marketable parcel (minimum \$500.00 at 19.5¢ per share) is 800



(b) 20 Largest Shareholders

Rank	Shareholder	Number Held	Percentage of Issued Shares
1	Becamal Pty Ltd <Gordon Smith Family A/C>	25,643,142	16.85
2	Ecarlate Pty Ltd	18,342,608	12.06
3	Jade Securities Pty Ltd <Bek Unit A/C>	10,671,055	7.01
4	AMP Life Limited	8,419,967	5.53
5	Corostar Pty Ltd <The Campbell Smith A/C>	3,919,116	2.58
6	J P Morgan Nominees Australia Limited	3,515,745	2.31
7	Venturin Nominees Pty Limited	2,996,337	1.97
8	Mr Stephen Harry Jones	2,257,416	1.48
9	Pacific Tug Pty Ltd <The Kythera Unit A/C>	1,698,984	1.12
10	Edwards Investments Australia Pty Ltd	1,401,975	0.92
11	Kirkham Investments Australia Pty Ltd	1,401,975	0.92
12	Mr RC Wilson + Mrs SF Wilson <Wilson Super Fund A/C>	1,362,582	0.90
13	Arles International Ltd	1,314,286	0.86
14	Aspac Mining Limited	1,228,609	0.81
15	Ekco Investments Pty Ltd	1,209,956	0.80
16	Mr DK Edwards + Mrs RM Edwards <Edwards Super Fund A/C>	1,183,956	0.78
17	Mr PR Kirkham + Mrs EA Kirkham <Kirkham Super Fund A/C>	1,165,206	0.77
18	Mr PM Shannon + Mrs RJ Shannon <Shannon Super Fund A/C>	1,104,000	0.73
19	Cudeco Limited	1,095,239	0.72
20	McIntyre Superannuation Fund Pty Ltd <McIntyre Family S/F A/C>	1,056,791	0.69
Totals:		90,988,945	59.81

(c) Substantial Shareholders

1	Becamal Pty Ltd <Gordon Smith Family A/C> and associates*	30,357,120	19.95
2	Ecarlate Pty Ltd	18,342,608	12.06
3	Jade Securities Pty Ltd <Bek Unit A/C> and associates	11,881,001	7.81
4	AMP Limited and associates	9,368,593	6.16

*Becamal Pty Ltd is an entity associated with Mr Campbell Smith, who also holds a relevant interest in Corostar Pty Ltd <The Campbell Smith A/C>, Storth Pty Ltd and has shares in his own name.



(d) Voting Rights

The voting rights attaching to each class of equity securities are set out below:

(i) Ordinary Shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

(ii) Options

Holders of options have no voting rights until such options are exercised

(e) Share Buy-backs

There is no current on-market buy-back.

(f) Restricted securities

There are no restricted securities (held in escrow) on issue.

(g) Optionholder Details

Unquoted options are held as follows:

	Number held	Exercise Prices	Expiry Dates
Directors (including former directors)	8,000,000	30¢ - 87¢	4 Dec 2011 - 3 Dec 2012
Patersons Securities Limited	1,000,000	24¢	3 December 2012



Corporate Directory**Principal registered office in Australia**

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Fortitude Valley QLD 4000
PO Box 2145,
Fortitude Valley BC QLD 4006

Phone: (07) 3216 1155
Fax: (07) 3216 1199
Email: email@galilee-energy.com.au
Internet: www.galilee-energy.com.au

Share and options registry

Computershare Investor Services Pty Limited
Level 19
307 Queen Street
Brisbane QLD 4000
Phone: 1300 552 270

Stock exchange

Australian Securities Exchange
Home Branch: Brisbane

Auditor

BDO Audit (Qld) Pty Ltd
300 Queen St
Brisbane QLD 4000

Solicitors

Norton Rose Australia
Grosvenor Place
225 George Street
Sydney NSW 2000

Bankers

Westpac Banking Corp
260 Queen St
Brisbane QLD 4000



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GALILEE
ENERGY LIMITED

ABN 11 064 957 419

