

2014



GALILEE
ENERGY LIMITED

Annual Report **2014**

CORPORATE DIRECTORY

Directors & Management

Dr David King - Non-executive Chairman
Peter Lansom - Managing Director
Paul Bilston - Executive Director
Ray Shorrocks - Non-executive Director

Chief Financial Officer

Don Langdon

Company Secretary

Stephen Rodgers

Principal Registered Office

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Share and Options Registry

Computershare Investor Services Pty Limited
17 Victoria Street
West End QLD 4101
Phone: 1300 552 270

Stock Exchange

Australian Securities Exchange
Home Branch: Brisbane

ASX Code

GLL

Auditors

BDO Audit (Qld) Pty Ltd
12 Creek Street Street
Brisbane QLD 4000

Solicitors

Piper Alderman
Level 36, Riverside Centre
123 Eagle St
Brisbane QLD 4000

Bankers

Westpac Banking Corp
260 Queen St
Brisbane QLD 4000

www.galilee-energy.com.au

CONTENTS

| | |
|---|----|
| Chairman's letter | 2 |
| Managing Director's report | 3 |
| Corporate governance statement | 14 |
| Directors' report | 19 |
| Auditors' independence declaration | 29 |
| Financial report | 30 |
| Directors' declaration | 60 |
| Independent Auditor's report to the members | 61 |
| Shareholder information | 63 |
| Tenement interests | 64 |

CHAIRMAN'S LETTER

Dear Shareholder,

I am pleased to present to you the 2014 Annual Report for Galilee Energy Limited. The past financial year has seen a period of significant change and exciting growth for your Company. In late November last year I wrote to you for the first time as Chairman, following the appointments in October (subsequent to a General Meeting of shareholders in September) of myself as Non-Executive Chairman, and Peter Lansom and Paul Bilston as Managing Director and Executive Director respectively.

Since then the Company has delivered on the changes I foreshadowed in that letter, and is now poised for growth with significant activity occurring across a new portfolio of projects.

Following a detailed in-house technical review of ATP 529 and the existing Glenaras Pilot, we agreed with the operator AGL Energy to cease the ongoing pilot production operations. We took this step, as it was clear that as a result of the well designs used in the pilot, the majority of the water being produced was not coming from the coals, but adjacent water bearing sandstones. We have proposed a completion of the upper coal (R1 coal), which was untested by the previous pilot production operations; we expect this new test will allow the pressure to be drawn down in the coal without interference from the sandstones and provide the first definitive test of production potential. Whilst this new test has been agreed to in principle by AGL we are currently waiting on their internal funding approval process to carry out this work.

Earlier this year we outlined a three part strategy for the Company to deliver value for shareholders. This included maximising the value of ATP529 by demonstrating our ability to produce gas from the coals; developing a sustainable foundation by building a solid production base; and finally build our exploration portfolio by acquiring large low cost positions in underexplored areas.

I am extremely pleased with the progress made by the Company since then. The Company has focussed on building on a production base with a number of projects acquired in the US. These projects are all characterised by their relatively low cost to carry out the exploration yet in each instance there is material upside and the ability to quickly turn any success into cashflow. These acquisitions will see a significant ramp up in activity for the Company over the next year, and will be the first drilling activity by the Company for a number of years.

By leveraging existing relationships the Company has also signed an MOU with the Chilean State- owned oil and gas Company, Empresa Nacional del Petróleo (ENAP), to explore jointly for unconventional hydrocarbons in the Magallanes Basin in southern Chile. A joint study of a significant coal seam gas resource is currently underway which we hope will lead to the application for a CEOP (which is a contract with provisions covering the right to explore and exploit hydrocarbons) early next year.

It is pleasing to see the recent improved interest in the Company's securities. I anticipate the active exploration programme now in front of us will continue to attract interest and support from both existing and new shareholders.

I would like to thank shareholders for your ongoing support and I am looking forward to seeing the ongoing development of the Company over the next 12 months.

Yours faithfully



David King
Chairman



MANAGING DIRECTOR'S REPORT

Galilee Energy Limited (Galilee) is a Brisbane based energy company growing its exploration portfolio to include a mixture of near term production focussed exploration with larger early stage exploration interests in Australia, Chile and North America. After restructuring the Company with a new board, new management and a clear strategy, Galilee is positioned for growth.

During 2013-14 the Company was re-energised with a new board and management appointed in late 2013.

Since then the company has been busy on a number of fronts:

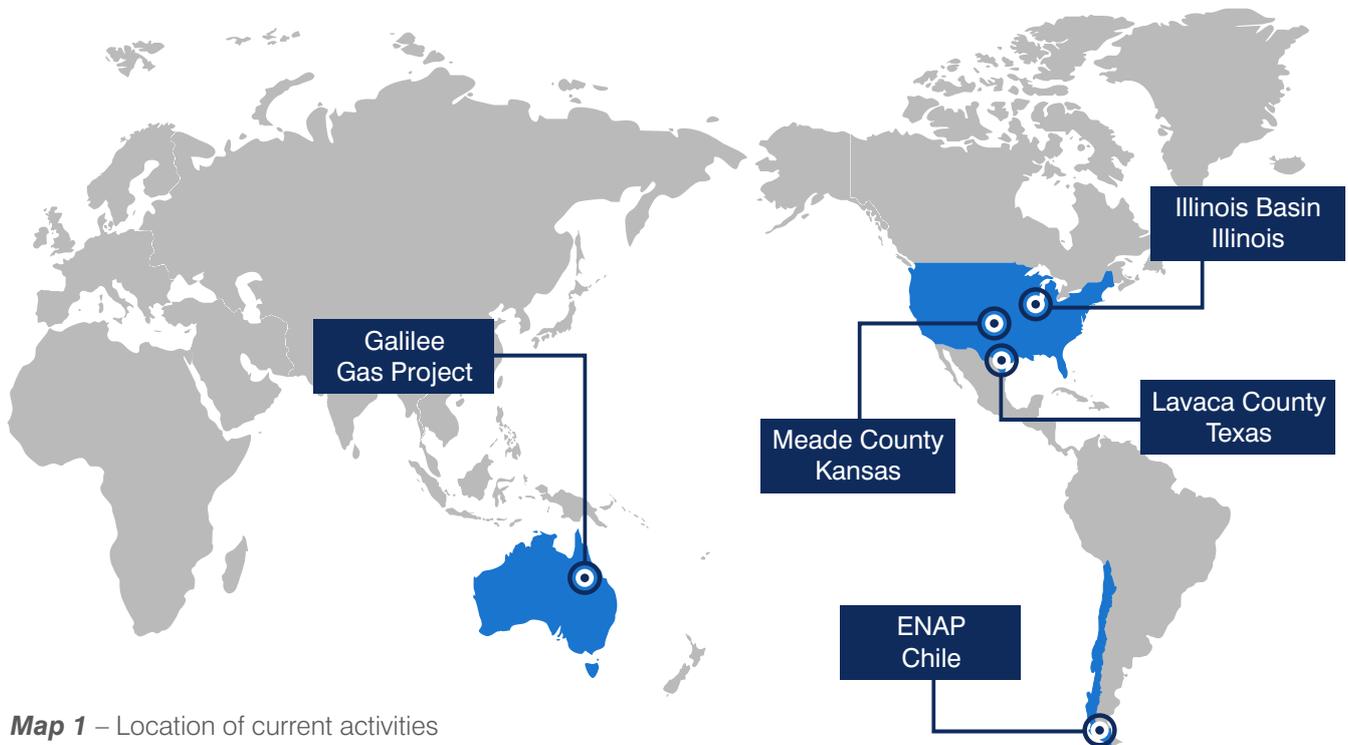
- Completed a detailed technical review of ATP 529P and the Glenaras Pilot, resulting in ceasing production operations on the existing Glenaras pilot and promoting an alternative completion strategy for the existing wells (in the same pilot) to better demonstrate the ability to draw the water pressure down in the coals and not the surrounding sandstones. The Company reached agreement with

with AGL on the scope of the R1 coal seam test program within ATP 529P, however the program has been deferred as AGL do not have an approved budget for the work at this time.

- Signed a MOU with ENAP, Chile's state owned oil and gas company to carry out a study into a substantial unconventional potential gas project in the Magallanes Basin in southern Chile.
- Partnered with Gruy LLC to target a number of low cost, high return shallow oil prospects in the prolific Illinois Basin with drilling on the first of these projects commencing in mid-October 2014.
- Agreed to a significant participation with Calex Resources LLC in a high impact, liquids rich exploration target in Lavaca County – Onshore Gulf Coast Texas.
- Signed a MOU taking an option over a massive 110,000 acre lease block within the Anadarko Basin in south western Kansas. This will allow Galilee to carry out a 3D seismic program with follow up drilling to progressively earn a 75% Working Interest within selected areas of the block.



MANAGING DIRECTOR'S REPORT



Map 1 – Location of current activities

Galilee Gas Project

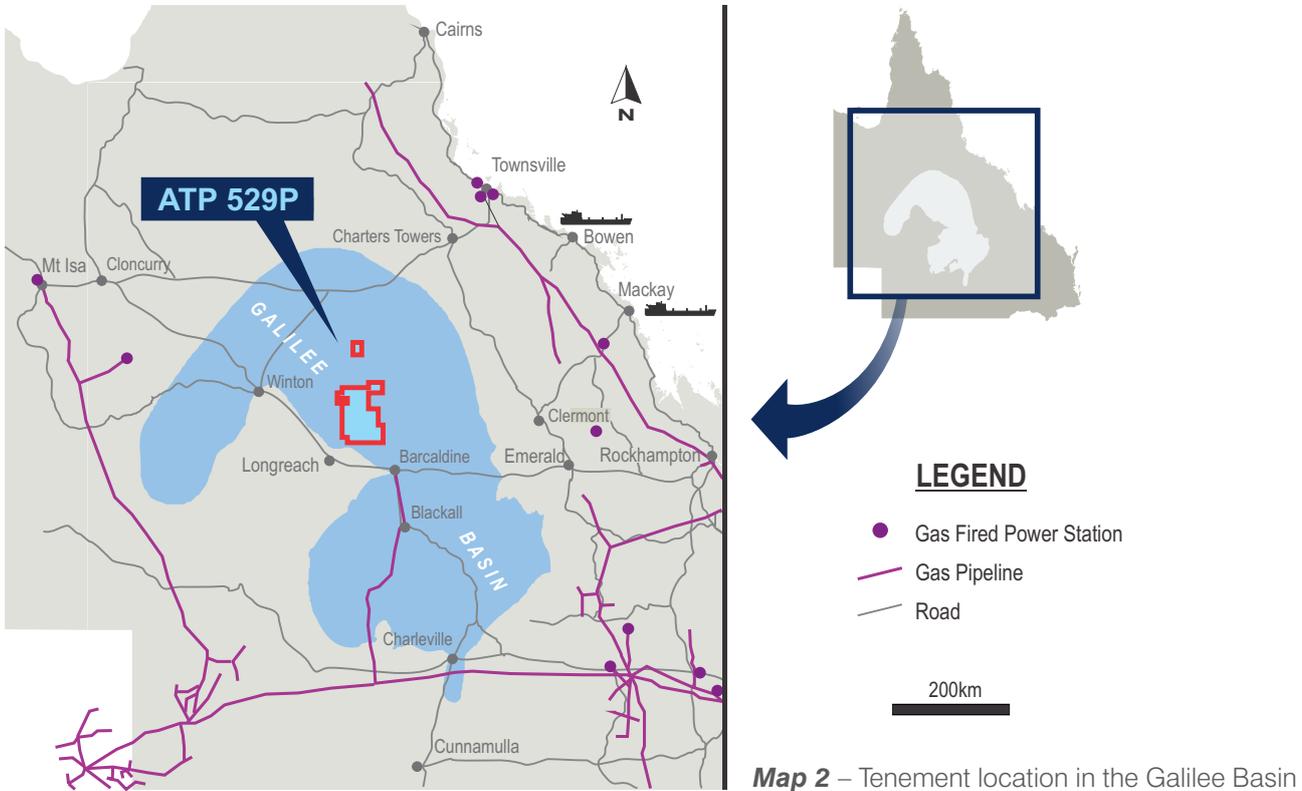
(ATP 529P - Galilee 50%, AGL 50% and operator)

In early 2014 a detailed technical review of the Glenaras Pilot in ATP 529P was completed utilising the technical skills and experience of the new board and management. The review included a comprehensive geological and engineering assessment of all the available technical data from both the Glenaras and Rodney Creek pilots along with information from exploration wells and seismic data collected across ATP 529P.

In summary the review:

- Confirmed the coal seam gas (CSG) prospectivity of the Late Permian Betts Creek beds over a large area of ATP 529P. The quality of this resource, including the coal thickness, permeability and gas content, has the potential to support commercial gas production.
- Determined that the well completion design utilised for the current Glenaras Pilot and the previous Rodney Creek pilot, particularly the application of fracture stimulation, is not appropriate for this geological setting. The current design has resulted in the connection of the wells to, and water influx from other zones within the Betts Creek beds and is unlikely to result in sufficient pressure drawdown of the coals in a timely manner. This lack of pressure drawdown in the coals is the reason for the minimal gas production seen in this pilot to date.

MANAGING DIRECTOR'S REPORT

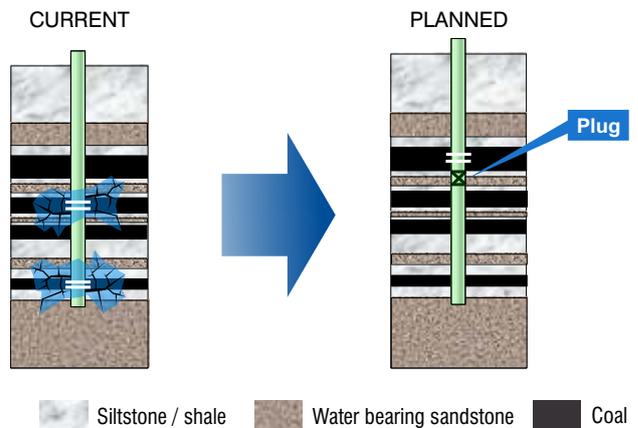


As a result of the review, and in consultation with AGL, the Operator of ATP 529P, the Joint Venture agreed to cease operation of the Glenaras Pilot. Galilee proposed to the Operator AGL a modest workover programme to test an alternate completion strategy.

The programme will involve isolating the existing open completions and perforation of the presently untested uppermost R1 coal seam within the Betts Creek beds.

Pumps will then be re-run and the wells put back on production test. This completion design will provide drawdown on the coal only, and not the permeable sandstones within the Betts Creek beds, allowing a definitive test of the gas production potential of this project.

Whilst agreement has been reached with AGL on the scope of the R1 test program within ATP 529P, the program has been deferred as AGL do not have an approved budget for the work at this time.



MANAGING DIRECTOR'S REPORT

Chile

On 27 May 2014, Galilee signed a memorandum of understanding (MOU) with Chile's state owned oil and gas company, Empresa Nacional del Petróleo (ENAP) to jointly explore for unconventional hydrocarbons in the Magallanes Basin in southern Chile.

Under the terms of the MOU, Galilee and ENAP will focus on a region covering approximately 7,200 sq km (1.8 million acres) in the north-west portion of the Magallanes Basin (Puerto Natales - Seno Otway) to evaluate the potential for large-scale coal seam gas (CSG) production. Previous work has indicated the key objective to be the Eocene-Oligocene Loreto Formation, which contains 10-20m of coals at depths ranging from surface to over 1,200m.

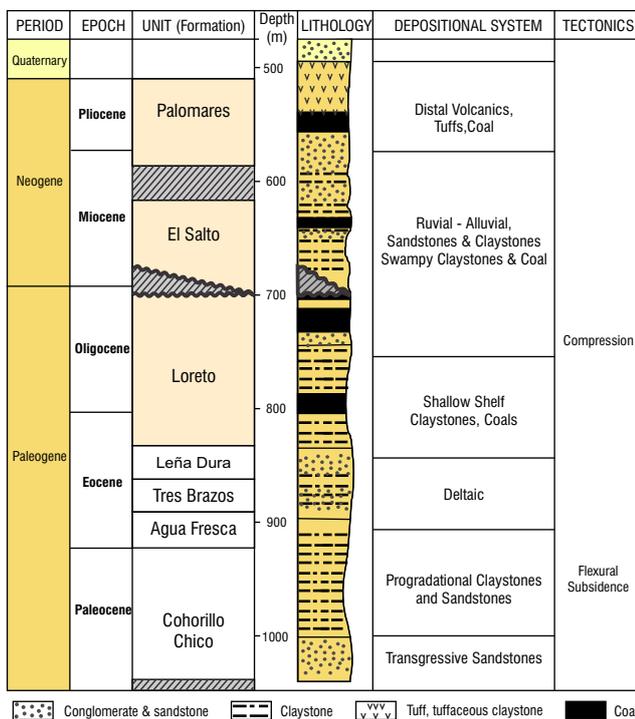


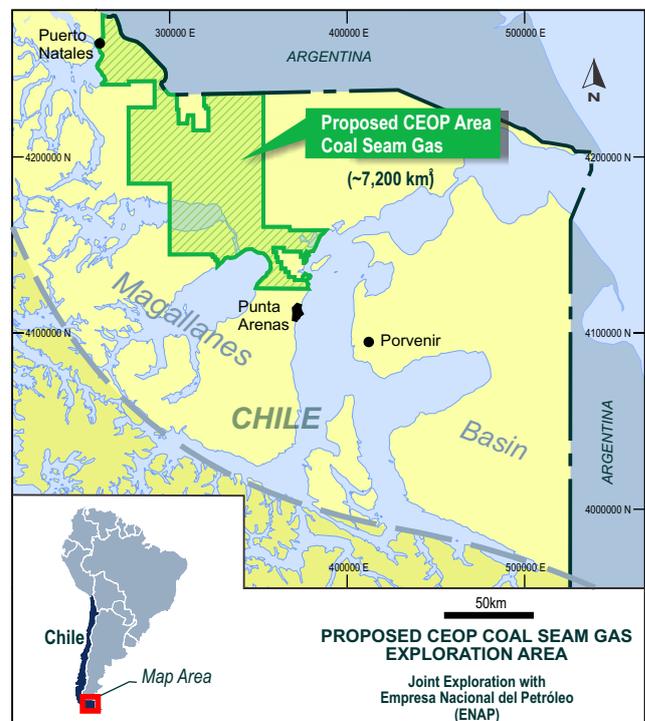
Figure 2 – Stratigraphic section

Galilee this is the first step in building an exploration portfolio in South America in line with the Company strategy outlined in the report for the March Quarter. The Magallanes Basin CSG project provides Galilee

with ground floor entry into an area with significant potential.

Energy exploration and development in Chile, particularly southern Chile, is a national imperative and enjoys strong political support. Chile now imports ~ 80% of its natural gas and has been forced to substitute with more expensive fuel.

The joint study commenced in July and is operated by Galilee. At this time Galilee expect the initial CSG component to be completed in six months. The agreement provides that the two companies apply for



Map 3 – Location of proposed CEOP areas

one or more exploration concessions (CEOPs) over the high-graded CSG areas with Galilee as Operator, and ownership interests to be agreed.

Chile consistently rates as a very favourable destination for resource development due to its political stability, good fiscal terms for hydrocarbon production and strong economic climate.

Galilee has also commenced reviews of a number of other onshore basins in Chile to identify further areas for expansion and to build on the strategic position the Company is establishing in the south.

MANAGING DIRECTOR'S REPORT

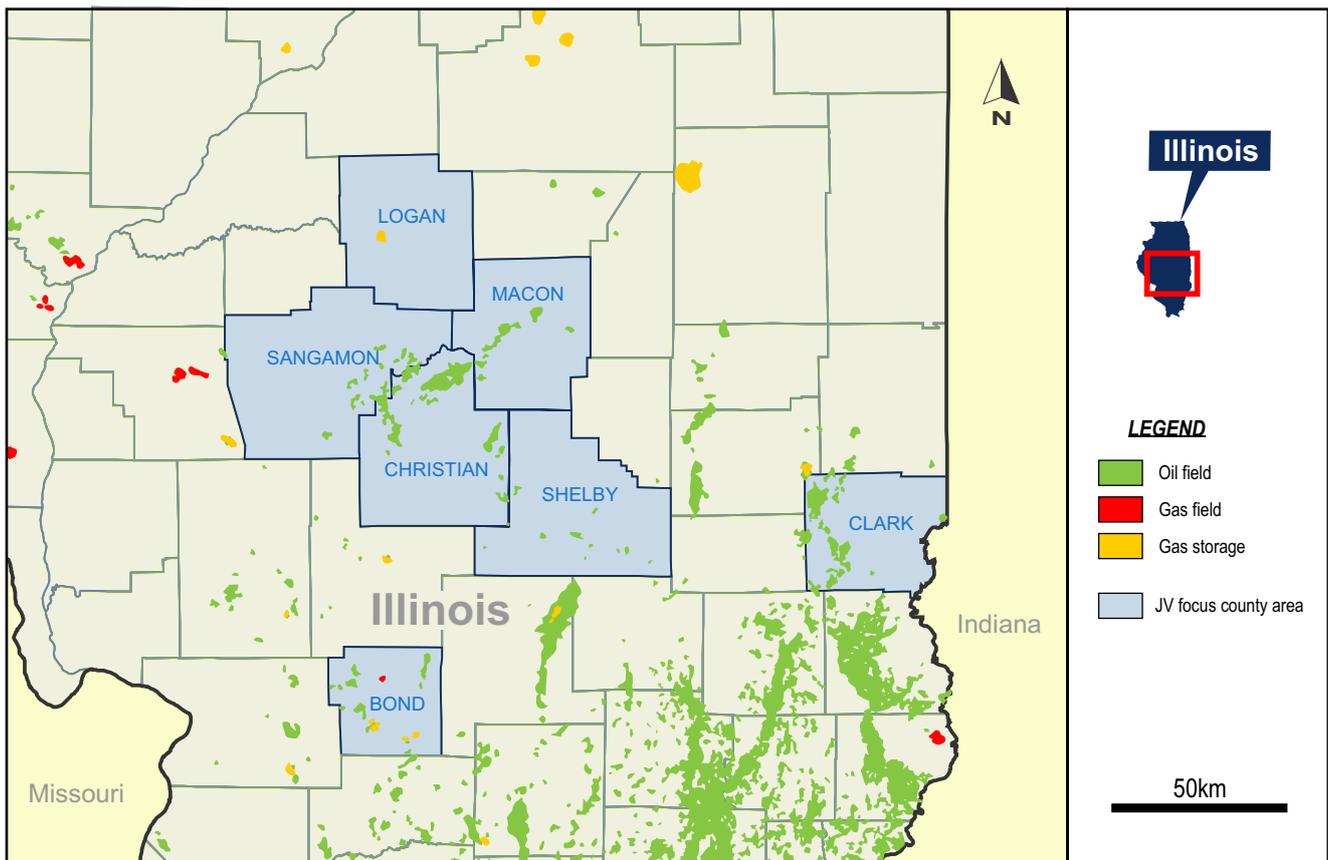
Illinois Basin

On 18 June 2014 Galilee announced that it had entered into a Joint Venture agreement under which it will work with a group of experienced US based oil and gas professionals to carry out exploration drilling targeting large, high return, shallow oil prospects in the Illinois Basin, Illinois, USA.

The expected dry hole cost for the wells is less than US\$200,000 each, allowing very inexpensive tests for what are significant targets. This exploration programme will target Paleozoic reservoirs ranging

between 300m and 1,200m deep in one of the oldest and most prolific oil provinces in the United States.

The Illinois Basin is a shallow, intracratonic basin that has already yielded over 4 billion barrels of oil. It is well known for its Silurian and Devonian aged reservoirs that commonly yield initial flow rates of up to 1,500 Bopd from reservoirs only 600m deep and reserve sizes commonly in the multi-million barrel range. While the project is focused on Silurian and Devonian targets, objectives in the underexplored shallow Mississippian sandstones around 300m deep, and the deeper Ordovician Trenton Group between 1,000 – 1,200m deep have also been identified.



Map 4 – Location of target counties - Illinois

MANAGING DIRECTOR'S REPORT

Galilee and its Joint Venture partners have to date acquired almost 12 sq km (3,000 acres) of leases in an active and ongoing leasing program focused in the Sangamon, Shelby, Bond, Logan, Macon, Christian and Clark counties. High potential prospects have been identified utilizing a combination of surface mapping, modern aerial photography, recently updated coal mapping, gravity, magnetics, existing seismic data and subsurface mapping. All of the prospects have multi-pay potential.

Several of the leased prospects have been finalized, with three currently being permitted ahead of drilling

and another 16 currently under advanced assessment. As recently announced drilling has commenced on the first wells, and the Company expects to drill 5 wells before the end of 2014 subject to ongoing approvals and access.

Galilee has enlisted Enhanced Energy Partners Corporation to carry out field operations. Technical support will come from Dr James Henderson of Dallas, Texas, Peter Lehle of Houston, Texas and Gruy LLC of Dallas, Texas, all of whom have significant experience over many years in the Illinois Basin.

Under the agreement, Galilee will fund 100% of the dry hole cost (DHC) for the first well on each prospect to earn a 75% working interest (WI) in the prospect. All completion costs, and future wells in any successful prospect would be carried by each (WI) holder, with Galilee having between 65% and 75% in each prospect.

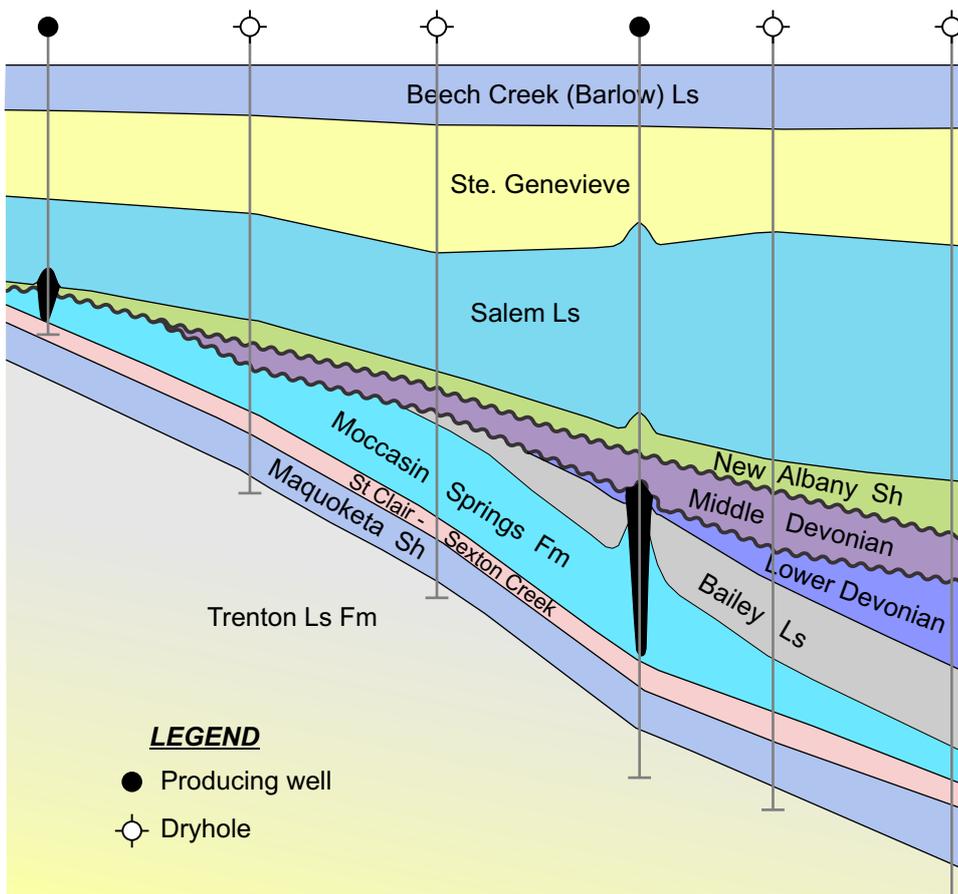


Figure 3 – Stratigraphic section showing target zone

MANAGING DIRECTOR'S REPORT

Lavaca County - Texas Gulf Coast

On the 24 June 2014 Galilee announced it had acquired a 35% working interest in a high impact, liquids rich exploration target in a proven hydrocarbon province in Lavaca County, Texas. Galilee will participate on equal terms with the other Joint Venture partners for a 35% ("WI") in a 4,300m exploration well on the Hoffer Prospect in Lavaca County, Texas.

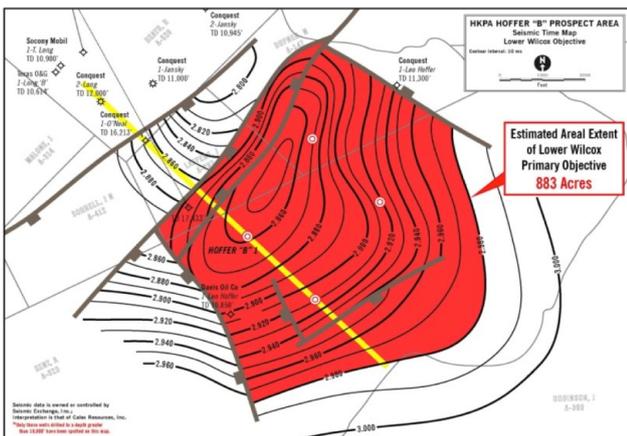


Figure 4 – Seismic time, lower Wilcox primary objective

The well, planned for late 2014, will target the Paleocene Lower Wilcox Formation on a ~3.6 sq km (~900 acre) down-faulted structural closure identified by 3D seismic. Updip wells to the northwest indicated that cross-fault seal will be provided by impermeable shale, however the well is located in the fault independent section of the closure to reduce risk whilst still enabling testing of the prognosed 200 ft sandstone section.

The Lower Wilcox sandstone reservoir has proven to be a prolific producer in the region and this, combined with the large size of the prospect and moderate cost of onshore drilling, provides a significant, high impact addition to Galilee's exploration portfolio.

Production data from previous wells in Lavaca County which have similar depths and reservoir targets has shown initial production in excess of 10 MMscfd and cumulative production per well of over 10 Bcf. Galilee expects the well to deliver sweet natural gas with a good liquids yield. Successful testing of the target will result in immediate follow up development wells and rapid commercialisation with an existing pipeline infrastructure located approximately 500m from the well.



Map 5 – Location of Lavaca County, Texas

As part of the participation agreement, Galilee also has an option to participate in other wells along trend in a joint venture area covering over 260 sq km (64,000 acres). Work evaluating additional prospects along this trend has already commenced, and provides an opportunity for further growth and consolidation in this exciting province.

MANAGING DIRECTOR'S REPORT

Kansas Shallow Oil and Gas

Subsequent to the end of the year, on 30 July 2014 Galilee signed a Memorandum of Understanding (MOU) with a group of private investors to progressively earn up to a 75% (WI) in selected areas within 445 sq km (110,000 acres) of leases in the Anadarko Basin, south-western Kansas.

The MOU was converted into a formal Joint Venture Agreement (JVA) executed on 8 October 2014. The JVA allows for Galilee to select the location of operations across existing leases primarily in Meade County, Kansas and to jointly expand the asset within the encompassing 1,400 sq km (345,600 acre) Area of Mutual Interest ("AMI").

Galilee will operate all activities utilising its in-house skills and has engaged the services of an experienced geophysicist who has been intimately involved in the development and success of the recent 3D seismic and drilling programs in Kansas. The initial 3D seismic program covering approximately 40 sq. miles is expected to commence mid-November 2014.

This significant operated position in a lightly explored area within a highly contiguous lease position is exciting. Wells, many drilled without seismic data, within the AMI have recovered oil and gas from multiple zones demonstrating hydrocarbon charge and reservoir quality. We believe that the application of 3D seismic data for the first time will uncover a number of both structural and stratigraphic traps not seen on the older, sparse 2D seismic grid.

The key reservoir targets are shallow (4,000-6,000 ft) limestones and sandstones in the Carboniferous section, primarily in the Missourian Lansing and Kansas City groups. The reservoirs are generally from 5 to 40 ft thick and often have more than 20% porosity.

Secondary objectives exist in the slightly deeper Cherokee Group, Marmaton Group, Morrow Sandstone and Mississippi Lime.

Exploration activity targeting these zones has increased significantly in Kansas during 2013/14. The use of high-resolution 3D seismic data, which can resolve the small and subtle structural and stratigraphic anomalies as well as small faults, has resulted in an increase in exploration drilling success rates to over 65%. Importantly, any success is expected to deliver strong economic returns with the dry hole costs for these wells being ~ US\$300,000 and successful wells paying out with less than 10,000 barrels of oil production.

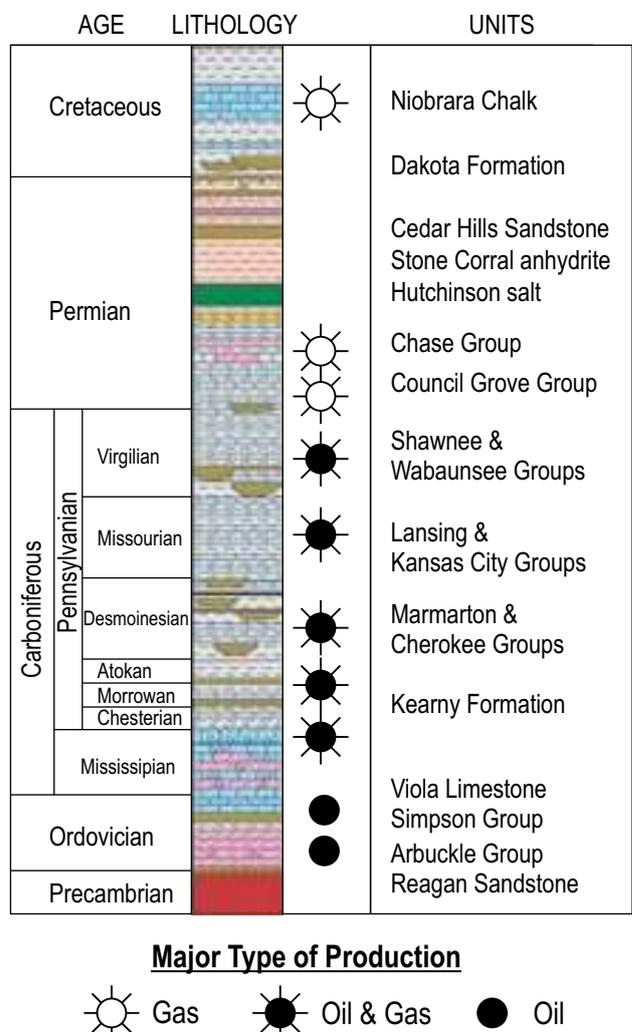
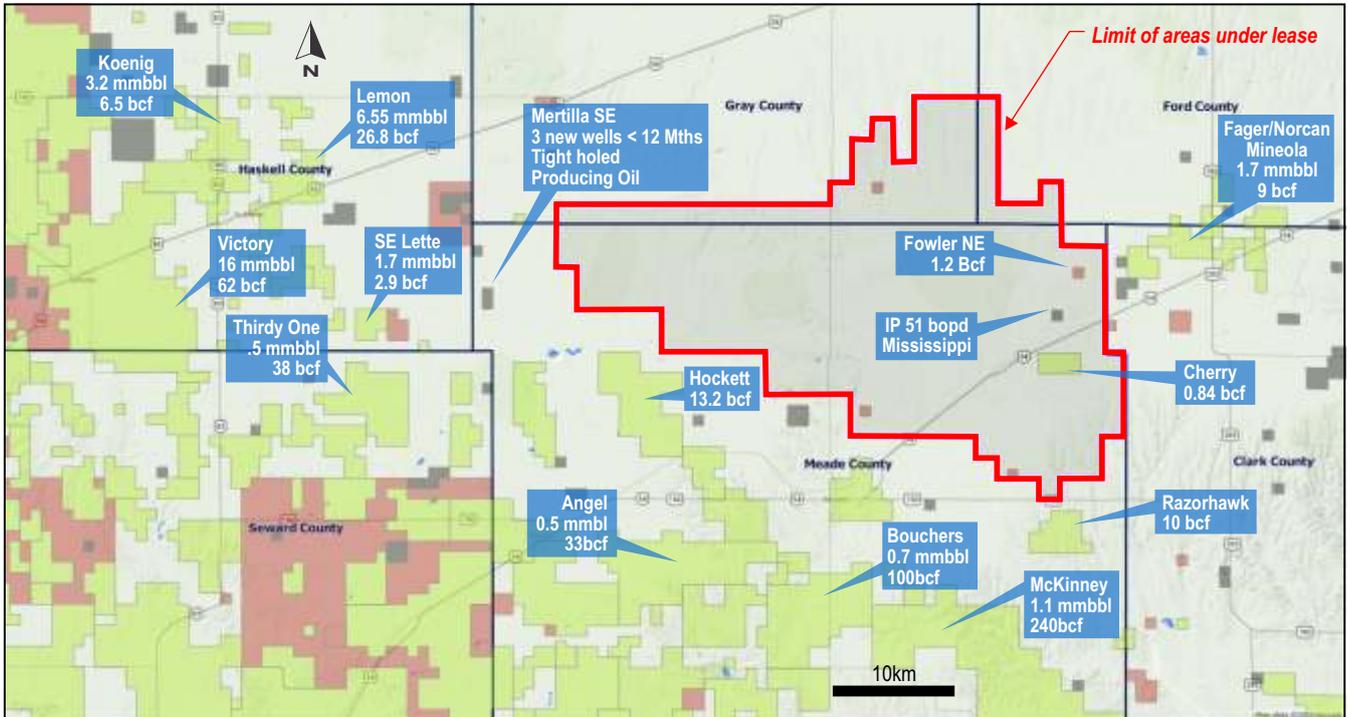


Figure 5 – Down hole well lithology

MANAGING DIRECTOR'S REPORT



Map 6 – Location of Meade County, Kansas

The AMI area is typical of the areas targeted by operators in other parts of Kansas. It is only lightly explored yet surrounded by prolific historical oil and gas production. Production to date from Meade County and the five adjacent counties is in excess of 185 MMB of oil and 5.5 Tcf of gas, with producing fields located one mile to the east and within 10 miles to the south and west.

BOARD OF DIRECTORS



Left to right

Ray Shorrocks
Non-executive Director

Paul Bilson
Executive Director

Peter Lansom
Managing Director

Davis King
Non-executive Chairman

Experienced team

... delivering on strategy

MANAGEMENT

Don Langdon B.Com, FICA, FAICD.
[Chief Financial Officer](#)

Appointed: Chief Financial Officer on 1 September 2014.

Mr Langdon is a Chartered Accountant with more than 40 years experience. He was an Audit Principal with a large mid-tier accounting firm and has extensive experience with external and internal audit, financial reporting, due diligence for company floats and major acquisitions. Since retiring from public practice in October 2009 he has been the Chief Financial Officer (on a part time basis) of Comet Ridge Limited and has acted as the interim Chief Financial Officer for Tlou Energy Limited and was closely involved with that company's initial capital raising and listing on the ASX.

Stephen Rodgers LLB.
[Company Secretary](#)

Appointed: Company Secretary on 1 September 2014.

Mr Rodgers is a lawyer with over 25 years experience and holds a Bachelor of Laws degree from Queensland University of Technology. Stephen practiced law with several firms in Brisbane and for many years operated his own specialist commercial and property law practice before joining the ASX listed Sunshine Gas Limited as the in-house Legal and Commercial Counsel. After the successful takeover of SGL by QGC in 2008 Stephen was appointed as Company Secretary and Legal Counsel to Comet Ridge Limited, a position he still holds. Stephen has extensive experience in the operation and running of an ASX listed oil and gas company.

Jenny Langdon
[Administration Manager](#)

Appointed: Administration Manager on 30 August 2010.

Miss Langdon has over 30 years management experience, having owned and operated successful automotive and commercial property management entities. Jenny has served on state and national industry committees, convened national conferences

and co-wrote the industry's environmental management handbook. She also provided advocacy and liaised on behalf of the industry with State Government. Jenny has experience in all facets of business management and has been a member of Galilee's administration since 2007.

Gerard Ryan B.E. (Mech) M.Sc (Petroleum)
[Consulting Petroleum Engineer](#)

Mr Ryan is currently working on contract with Galilee Energy providing engineering support to exploration activities, with a key focus on management of the Galilee operated Kansas assets and petroleum evaluation of all of current projects.

Gerard has over 19 years experience in petroleum engineering, drilling, production operations, energy transmission and distribution, power generation and coal mining sectors in Australia and Ireland. He has worked for Oil Company of Australia, Origin Energy, Ireland's Bord Gáis Éireann, Eastern Star Gas, BHP Mitsubishi Alliance (BMA) and Senex Energy. He was until recently COO for Eastern Star Gas.

Ashley Edgar B.App.Sc. (Applied Geology),
Grad Dip (Env)
[Consulting Geoscientist](#)

Mr Edgar is currently working on contract with Galilee Energy supporting exploration activities, with a particular emphasis on building the exploration portfolio in Chile.

Ashley is a geologist with 28 years' experience in conventional and unconventional oil and gas. He has held several senior positions in exploration, development and new ventures, including heading up E&P Geoscience Onshore for Origin Energy, and more recently as Executive GM of Exploration and New Ventures for Eastern Star Gas, Non-Executive Director of Orion Petroleum and Exploration Advisor to Comet Ridge.

Corporate Governance

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:

- Setting strategic direction and approving objectives 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 Managing Director conducts the day-to-day affairs of the Company and is accountable directly to the Board.

(ii) Composition

The Board currently comprises four members, a mix of independent Non-executive Directors (one of whom, is the Chairman) and non-independent Non-executive Directors. Details of each Director's background appear in the Directors Report contained in this the Company's Annual Report, which is also available on the Company's web site.

(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 at those times and frequencies that the Board considers necessary. Any member of the Board may call a meeting of directors when he or she considers the need to do so. The number of meetings

and attendances by Directors during the financial year are detailed in the Company's Annual 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 to obtain advice in order for them to conduct their duties as a Director. Any advice that is obtained is also made available to the members of the Board. No member of the current Board availed himself of this right during the year under review.

(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:

Against liability to third parties arising out of conduct undertaken in good faith in their capacity as a Director; and

The costs and expenses of defending legal proceedings arising out of conduct undertaken in their 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.

Any benefit because of a contract between the Company and a Director, or a firm of which the Director is a member, is disclosed as a related party transaction in the Company's Annual Report.

(d) Ethical standards

The Company is committed to high ethical standards in its operations and in its dealings with shareholders and other stakeholders. All Directors are required to adhere to a Code of Conduct and they are governed by a Securities Trading Policy which restricts them and key management personnel from dealing in Company securities during closed periods and when they are in possession of price sensitive information, but otherwise allows share dealings, particularly during specified trading window periods after the release of first and third quarter reports and half and full year results

Corporate Governance

(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. This web-site contains recent announcements, shareholders' circulars and relevant financial data as well as the Company's Annual Corporate Governance Statement, its Charters and Policies, 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 level of total annual remuneration which may be paid to Non-executive Directors of the Company and its subsidiaries (as last approved by shareholders in November 2009) is \$600,000 and is allocated among the Non-executive Directors as they decide – current standard fees payable aggregate to \$125,000 per annum.

Subject to shareholder approval, Non-executive Directors may also be granted options over the Company's shares or participate in other equity based schemes as a reward and incentive for services they provide to assist in furthering the Company's progress, future growth and success. No options or other equity based payments were awarded to Directors in the last 12 months.

(g) Board committees

Only one committee (an Audit Committee) is currently in place as the Board considers it unnecessary to have any others given the Company is relatively small.

The Audit Committee currently comprises two members – the Non-executive Directors Mr Ray Shorrocks (Chair of the Committee) and Dr David King.

The Executive or Managing Director of the Company may be invited to attend meetings should they 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 and 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 (CFO).

The Audit Committee is established under a Charter of the Board which governs its operations.

Minutes of the meetings of the Audit Committee are circulated to the Board.

(h) ASX Corporate Governance Guidelines

The Company is committed to complying, with the 2nd Edition of 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 hydrocarbon 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 directly operated activities, 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.

Even where there is a deviation from the ASX Guidelines the Company continues to review and update its policies and practices in order that these keep abreast of the growth of the Company, the broadening of its activities, current legislation and good governance practice.

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.

Principle One – Lay solid foundations for management and oversight

Functions reserved to the Board and Directors' responsibilities are set out in this Statement and in a separate Board Charter. The Charter defines the functions reserved to the Board and those delegated to management to facilitate accountability to the Company and its shareholders.

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.

Corporate Governance

Principle One – Lay solid foundations for management and oversight (continued)

The Company has 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 and is described in the Remuneration Report section of the Company's Annual Report.

Principle Two – Structure the Board to add value

The Board is comprised of two Non-executive Directors both of whom are independent and two executive Directors. 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 the materiality threshold agreed by the Board as equating to payments to them or related parties of no more than 5% of the Company's annual expenditure.

The Board is currently structured in such a way that all of the Board members have had many years 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 the 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 believes the appropriate mix of skills and diversity of Directors should encompass relevant industry, financial and commercial experience.

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.

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

The Company Secretary whose role includes advising the Board and its Sub-Committees on governance matters, monitoring the adherence of the Company's policies and procedures and ensuring that accurate

minutes of Board and Committee meetings are taken, directly reports to the Board on these and other related matters. The Company Secretary reports directly to the Chair of the Board but Directors are also free to communicate directly with the Company Secretary who is also at liberty to speak to any member of the Board direct in relation to a matter.

Principle Three – Promote ethical and responsible decision-making

The Company has established a formal Code of Conduct which governs Directors and employees. Specific features of the Code include:

Compliance with applicable laws, rules and regulations;

Dealings with customers, employees and other stakeholders;

Protection of Company property and assets;

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;

Protocol for accepting gifts and the like; and

Guidelines for reporting unethical practices.

In addition, 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 potential producer of hydrocarbons, 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.

The Board has approved a Diversity Policy in compliance with the ASX Guidelines but is cognisant of the constraints of a relatively small hydrocarbon exploration company, particularly in relation to gender diversity in the workplace.

This Policy includes measurable objectives for achieving gender diversity over the longer term. In this regard staff, both male and female, have been provided with, and have taken, opportunities to achieve growth in competency and knowledge through mentoring and technical or training courses. Only one position became available in the last 12 months and gender diversity of the workforce remains unchanged with 33% of full time employees being women. There are no women in senior executive positions, or on the Board.

Corporate Governance

Principle Four – Safeguard integrity in financial reporting

The CFO oversees the Company's financial resources, records and reporting.

The Board requires the persons performing the roles of either the MD or CEO and the CFO 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. In terms of the ASX Guidelines the Committee's Chair is a Non-executive Director who has a strong commercial finance and accounting background making him an appropriate person for this role.

Principle Five – Make timely and balanced disclosure

The Company is committed to the promotion of investor confidence by ensuring that it meets its ASX reporting obligations and that trading in the Company's securities takes place in an informed market. In addition, there is an internal protocol that has been established involving the Executives of the Company, to arrange for the timely preparation and release of all announcements to the ASX.

In addition, all changes in Directors' interests in the Company's securities are promptly reported to the ASX in compliance with Section 205G of the Corporations Act and the ASX Listing Rules.

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 an 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.

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 and 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, 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.

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 its exploration activities in the Galilee Basin, the USA and eventually in Chile.

HS&E/risk management is a standing Board agenda item, and relevant matters are discussed regularly by the Board. Also, annually a formal report as to the effectiveness of the management of the Company's material business risks is presented to the Board, and such matters are kept under close consideration at other times.

Also, the Board does require the persons performing the roles of either the MD or CEO and the CFO 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.

Corporate Governance

Principle Eight – Remunerate fairly and responsibly (continued)

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 performance rights scheme in place to allow rights to be issued to deserving staff as a reward for performance. 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 key management personnel is contained in the Remuneration Report section of the Company's Annual Report.

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

In accordance with a resolution of the Board, the directors present their report on the consolidated entity ("Galilee" or "Company") consisting of Galilee Energy Limited and the entities it controlled at the end of or during the year ended 30 June 2014.

Directors

The directors of Galilee in office during the year and up to the date of this report were:

David King

Non-executive
Chairman
(appointed 24/9/13)

Peter Lansom

Managing Director
(appointed 31/10/13)
Non-executive
Director
(appointed 24/9/13)

Ray Shorrocks

Non-executive
Director
(appointed 2/12/2013)

Paul Bilston

Executive Director
(appointed 31/10/13)
Non-executive
Director
(appointed 24/9/13)

Andrew Young

Non-executive
Chairman
(appointed 19/8/13)
(resigned 31/10/13)

Rino Camarri

Non-executive
Director
(resigned 31/10/13)

Cam Rathie AM

Non-executive
Director
(resigned 24/9/13)

Glenn Haworth

Managing Director
(appointed 7/6/13)
(resigned 24/9/13)

Paul Jensen

Non-executive
Director
(appointed 24/9/13)
(resigned 31/10/13)

Principal Activities

The principal activity of the consolidated entity is oil and gas exploration and production. The foundation asset of the Company is the development of coal seam gas in the Galilee Basin near Longreach in Queensland. Further to this, the Company has significantly expanded its exploration portfolio during the year with the addition of exciting new oil and gas projects in the USA and South America.

Business strategies and prospects

During the year the Company announced a clear strategy for growing the business and adding shareholder value. This includes:

1. Maximising the value of the foundation asset in ATP 529 by demonstrating commercial gas flow and booking reserves.
2. Developing a sustainable foundation by building a solid production base. Deliver value and upside with our expertise, and
3. Grow the exploration portfolio by acquiring low cost, early stage positions in underexplored areas.

Profit & Loss financial position

The loss for the year was \$2.601 million (2013: \$6.496 million), a decrease of \$3.895 million.

The Company underwent a significant change in its corporate profile as a result of changes to the board and management. This occurred as a result of a General Meeting held on 24/09/2013 and subsequent legal action. The Company was also the subject of a proportional take over which was ultimately rejected by shareholders at a General Meeting held on 21/1/2014. These activities incurred one-off legal and employee restructure costs of \$1.117 million.

The activities precipitated the following key changes to the Company's financial position - a decrease in cash of \$1.706 million, working capital decrease of \$2.592 million and a decrease in net assets of \$2.775 million. There was no material change in long term liabilities.

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 dividend.

Review of operations

During the year the Company announced the relinquishment of ATP799P in the Galilee Basin. Following a technical review of the acreage post seismic and corehole drilling, it was deemed that this area was unlikely to contain a commercially viable CSG field.

Operations on the Glenaras Pilot in ATP529P were shut in on 03/03/14. A technical review of the pilot by the new technical team at Galilee Energy indicated that the pilot would not achieve commercial gas flows due to the well design utilised for the pilot. AGL, the operator of the Glenaras Pilot at the Galilee Gas Project (ATP 529P 50%), agreed with the decision.

Review of operations (continued)

Galilee Energy has put forward a recommendation to test an alternate well design through a simple perforation and production test of the R1 coals in FY2015. This testing is still under review by AGL.

Galilee signed a memorandum of understanding (MOU) with Chile's state owned oil and gas company, Empresa Nacional del Petróleo (ENAP) to jointly explore for unconventional hydrocarbons in the Magallanes Basin in southern Chile.

Galilee also acquired exploration interests in the United States as follows:

Entry into the prolific Illinois Basin - produced over 4 billion barrels of oil to date, where the Company is targeting low cost, high return shallow oil.

Entered the productive Texas onshore Gulf Coast with a significant participation in a high impact, liquids rich exploration target. The deal involves no promotion on entry, with participation on the same terms as existing partners with significant follow up growth potential.

Both projects will have wells drilled in 2014 by US partners who are well credentialed, including Calex Resources Inc and Gruy LLC.

Significant changes in state of affairs

The Company continues its growth strategy and there were no other significant changes in the Company's activities.

Matters subsequent to the end of financial year

In keeping with its commitment to minimise overheads the Company has replaced the full time position of CFO and Company Secretary with part time consultants.

In addition the Company signed an agreement to progressively earn an interest in selected parts of an existing 110,000 acre lease block in southern Kansas targeting shallow oil and gas plays.

Environmental regulation

The Company conducts its operations in compliance with the Queensland Petroleum Act and the Mineral Resources Act. Environmental considerations are reviewed with and approved by the Queensland Department of Environment and Resource Management and Environmental Protection Authority. The Company has not reported any material breaches of any of its environmental licence conditions nor has it been notified of any material environmental breaches by any government agency during the year. The Company is not aware of any breaches in environmental regulations in relation to its interests in the USA and South America.

Directors and officers insurance

The Company has agreed to indemnify the directors, officers and secretaries of the Company 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 a director or officer of the Company, 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. The contract prohibits disclosure of the details of the nature of the liabilities covered or the premium paid.

The Company has not indemnified its auditors, BDO Audit Pty Ltd.

Proceedings on behalf of the Company

On 15 October 2013, leave was sought to bring derivative action under Section 237 of the Corporations Act in the name of the Company. This action was subsequently settled and withdrawn on 30 October 2013. No other 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 on behalf of the Company for all or any part of those proceedings.

Meetings of directors

The number of meetings of the Company's board of directors and of the audit committee during the year ended 30 June 2014, and the numbers of meetings attended by each director were:

| Name | Meetings of Directors | | Meetings of Audit committee | |
|---------------|-----------------------|----|-----------------------------|---|
| | A | B | A | B |
| David King | 10 | 10 | 1 | 1 |
| Peter Lansom | 10 | 10 | - | - |
| Paul Bilston | 10 | 10 | - | - |
| Ray Shorrocks | 4 | 5 | 1 | 1 |
| Andrew Young | 5 | 5 | 1 | 1 |
| Cam Rathie | 7 | 7 | 1 | 1 |
| Rino Camarri | 6 | 8 | 1 | 1 |
| Glenn Haworth | 7 | 7 | - | - |
| Paul Jensen | 3 | 3 | - | - |

A = Number of meetings attended

B = Number of meetings eligible to attend

Information on Directors

Dr David King

Chairman - Independent Non-executive

Dr King was a founder and non-executive director of Sapex Ltd, Gas2Grid Ltd and Eastern Star Gas Ltd. He has substantial natural resource related experience, having previously served as managing director of North Flinders Mines Ltd and CEO of Beach petroleum and Claremont Petroleum. Dr King is a Fellow of the Australian Institute of Company Directors; a Fellow of the Australasian Institute of Mining and Metallurgy; and a Fellow of the Australian Institute of Geoscientists.

Other directorships in listed companies – current

| | |
|-----------------------------------|--------------------|
| Robust Resources Ltd | Appointed 29/01/10 |
| Cellmid Ltd | Appointed 18/01/08 |
| Republic Gold Ltd | Appointed 01/07/11 |
| African Petroleum Corporation Ltd | Appointed 01/07/13 |

Special responsibilities

Chairman and Finance and Audit Committee

Interest in shares and options

280,000 shares in Galilee Energy Limited

Peter Lansom

Managing Director

Peter holds a Bachelor of Petroleum Engineering (Honours) degree from the University of NSW and has over 25 years experience in conventional and unconventional exploration and development, working with Comet Ridge Ltd, Eastern Star Gas (ESG), Origin Energy and Santos. He has significant expertise in subsurface engineering, asset valuation, field development planning and commercial and corporate finance. In his past role at Origin, in the key management position of chief petroleum engineer, he had responsibility for delivering the corporate year end petroleum reserves report and ensuring that consistently high standards in sub-surface engineering were maintained across that Company's assets. In his recent role as executive director at ESG, Peter had overall engineering responsibility for the exploration and pilot development of the Company's CSG assets in NSW which resulted in certifying 3P reserves of over 3500 PJ over a 5 year period, and saw the Company grow to a \$900 million market capitalisation.

Special responsibilities

Managing Director

Interest in shares and options

4,588,498 shares in Galilee Energy Limited

Paul Bilston

Executive Director

With 18 years experience in the Oil and Gas sector Paul has worked in a number of senior technical, commercial and management roles domestically and overseas. Early in his career, Paul worked in engineering consulting as a senior engineer and as project manager / director for Worley and GHD. This was followed by senior management roles with AGL Energy, head of CSG for AJ Lucas (where he sold the Gloucester CSG Project to AGL for \$370M) and recently as managing director of ASX listed Challenger Energy.

Special responsibilities

Nil

Interest in shares and options

4,600,165 shares in Galilee Energy Limited

Ray Shorrocks

Non-executive Director

With over 20 years experience working in the investment banking industry, Ray is highly conversant and experienced in all areas of mergers and acquisitions and equity capital markets, including a significant track record of transactions in the metals and mining, industrials and property sectors.

Other directorships in listed companies – current

| | |
|----------------------------|--------------------|
| Patersons Capital Partners | Appointed 01/10/07 |
| Republic Gold Limited | Appointed 01/07/11 |

Special responsibilities

Chairman Finance and Audit Committee

Interest in shares and options

Nil

Andrew A Young

*Chairman - Independent Non-executive
Resigned 30 October 2013*

Mr Young has a Bachelor's Degree in Chemical Engineering and Master's Degree in Business Administration. He has over 37 years' experience in the oil and gas industry having held various technical, management and Board positions. He has worked in both major and small Exploration and Production operating companies and contract service companies. These include Esso Australia Ltd, Bridge Oil Ltd, New Zealand Natural Gas Corporation, Century Drilling (MD), Gaffney Cline and Associates, Anzon Australia Ltd/Anzon Energy Ltd (MD), and DigitalCore Pty Ltd (MD).

Andrew was twice a Director of the International Board, including President, of The Society of Petroleum Engineers (SPE, 2003). He is a recipient of a number of International awards including Honorary Member of the SPE (2012) and the American Institute of Mining, Metallurgical and Petroleum Engineers (AIME, 2012).

Information on Directors (continued)**Andrew A Young** (continued)

Andrew is a member of AICD and SPE, and a past Councillor of the Australian Petroleum, Production and Exploration Association (APPEA).

Other directorships in listed companies – current

| | |
|---------------------------|-------------|
| New Guinea Energy Limited | Since 01/09 |
| Cue Energy Resources Ltd, | Since 01/09 |

Cam Rathie AM

*Independent Non-executive Director
Resigned 24 September 2013*

Mr Rathie 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.

Special responsibilities

Member - audit committee

Interest in shares and options

180,000 shares in Galilee Energy Limited

Rino Camarri

*Independent Non-executive Director
Resigned 30 October 2013*

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 Financial Controller of Ekco Investments Pty Ltd.

Special responsibilities

Chairman – audit committee

Interest in shares and options

235,536 shares in Galilee Energy Limited

Glenn Haworth

*Managing Director
Resigned 24 September 2013*

Mr Haworth is a graduate of the University of Edinburgh and has worked in the international oil and gas sector for over 22 years. He started his career as a graduate engineer with BP before undertaking his MBA at

Queensland University of Technology. Over the last six years, Glenn's focus has been on consulting related to engineering and coal seam gas technology, project management and new business ventures.

Paul Jensen

Independent Non-executive Director

Appointed 24/09/2013 resigned 30/10/2013

Mr Jensen has over 25 years of experience in investment banking and investment management. He held senior positions with the Lloyds TSB banking group in New Zealand, United Kingdom and Australia. In 1998 he joined Lend Lease Limited's institutional asset management business and recently he was the Managing Director of HFA Holdings Limited (2008) and Clime Investment Management Limited (2008-2010).

Paul is a Fellow of the Australian Institute of Company Directors and holds a Bachelor of Commerce & Administration in Accounting and Commercial Law from Victoria University in Wellington.

Other directorships in listed companies – current

| | |
|--|-------------------------|
| WAM Capital Ltd | Appointed June 2004 |
| Murchison Metals Ltd | Appointed November 2012 |
| Australian Infrastructure Fund Limited | Appointed October 2013 |

Bill Lyne

*Joint Company Secretary
Resigned 7/03/2014*

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 has a Bachelor's degree in Commerce (Econ) from the University of New South Wales and holds professional memberships bearing the following post-nominal: CA, FCIS, FAICD, FFIN.

Simon Brodie

*Joint Company Secretary
Resigned 1 September 2014*

Simon Brodie has over 23 years experience with a strong resources focus including as CFO and Company secretary for several listed gold and base metals producers including roles as a Director of Bellamel Mining Limited and Iberian Resources Limited.

Mr Brodie has a Bachelor's degree in Accounting from the Queensland University of Technology and holds professional memberships bearing the following post-nominal: FCPA, ACIS, AICD.

Information on Directors (continued)

Simon Brodie (continued)

Interest in shares and options

1,600,000 share rights in Galilee Energy Limited
Lapsed after 30 June

Stephen Rodgers

Company Secretary

Appointed 1 September 2014

Mr Rodgers is a lawyer with over 25 years experience and holds a Bachelor of Laws degree from Queensland University of Technology. Stephen practiced law with several firms in Brisbane and for many years operated his own specialist commercial and property law practice before joining the ASX listed Sunshine Gas Limited as the in-house Legal and Commercial Counsel. After the successful takeover of SGL by QGC in 2008 Stephen was appointed as Company Secretary and Legal Counsel to Comet Ridge Limited, a position he still holds. Stephen has extensive experience in the operation and running of an ASX listed oil and gas company.

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

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms to market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency
- capital management.

A Principles used to determine the nature and amount of remuneration

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 that 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.

Directors' fees

The current base remuneration was last reviewed on 17 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. In accordance with the provisions of Listing Rule 10.11 of the Official Listing Rules of the ASX Limited, a meeting of shareholders held on 27 November 2009 approved the sum of \$600,000 per annum to be the total aggregate annual remuneration payable to non-executive Directors of the Company. The current total of non-executive remuneration is \$125,000.

Remuneration consultants

The Company engaged remuneration consultants Theorem Advisory Pty Ltd for an independent report and remuneration analysis in relation to the employment terms and the structure and amount of remuneration of Executive Directors. The fee for independent advice was \$1,650. Theorem did not provide any other services, the board is satisfied the recommendation was provided without undue influence.

Remuneration Report (audited) (continued)**A Principles used to determine the nature and amount of remuneration** (continued)**Executive pay**

The executive remuneration and reward framework has the following components:

- base pay and non-monetary benefits
- Short term incentives
- Share based payments, and
- other remuneration such as superannuation and long service leave.

The combination of these comprises the executive's total remuneration.

Base pay and non-monetary benefits

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.

Short Term Incentives.

Generally paid in cash and structured with a focus on delivery of specific short term objects aligned with the companies strategies and goals and the Executives role in meeting these targets.

Share-based payments

Share based payments – options or rights are issued to executives generally over a period based on a long term incentive basis. These long term incentives include specific price targets that relate to the expected outcomes from strategies that have been given a high level of importance in relation to the future growth of the Company.

Superannuation and long service leave

Included in the employment package for key management personnel is the statutory obligation for superannuation and long service leave.

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 Company is currently focused on the exploration stage across its projects. Consequently, opportunities for broad performance based incentives are limited.

Given that 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 Company's revenues, earnings, and movements in shareholders' wealth for the five years to 30 June 2014:

| Item | Unit | 2014 | 2013 | 2012 | 2011 | 2010 |
|--|---------|---------|---------|---------|---------|---------|
| Revenue – continuing operations | \$'000s | 1,103 | 1,593 | 2,237 | 1,022 | 265 |
| Net profit/(loss) before tax - continuing operations | \$'000s | (2,601) | (6,496) | (6,261) | (4,571) | (8,379) |
| Net profit(loss) after tax | \$'000s | (2,601) | (6,496) | (6,261) | 21,430 | 1,598 |
| Basic earnings/(loss) per share | cents | (1.7) | (4.3) | (4.1) | 14.1 | 1.5 |
| Last traded share price | cents | 13.0 | 13.0 | 13.5 | 19.0 | 17.5 |

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

Remuneration Report (audited) (continued)

B Details of remuneration

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

| 2014 | Short term benefits | | Termination payments | Post-employment benefits | | Share-based Payments equity settled Options | Total | % paid as options |
|---------------------------------------|---------------------|-------------------|----------------------|--------------------------|---------------------|---|------------------|-------------------|
| | Salary and fees | Non-cash benefits | | Super-annuation | Retirement benefits | | | |
| Name | \$ | \$ | \$ | \$ | \$ | \$ | \$ | % |
| <i>Directors</i> | | | | | | | | |
| D King | 50,656 | - | - | 4,686 | - | - | 55,342 | |
| P Lansom | 210,960 | - | - | 12,418 | - | - | 223,378 | |
| P Bilston | 184,480 | - | - | 12,325 | - | - | 196,805 | |
| R Shorrocks | 26,645 | - | - | 2,465 | - | - | 29,110 | |
| R Camarri | 16,473 | - | - | - | - | - | 16,473 | |
| LC Rathie | 66,196 | - | - | 1,271 | - | - | 67,467 | |
| A Young | 114,880 | - | - | - | - | - | 114,880 | |
| P Jensen | 4,931 | - | - | - | - | - | 4,931 | |
| G Haworth | 153,435 | - | - | 6,389 | - | - | 159,824 | |
| <i>Other key Management personnel</i> | | | | | | | | |
| S Brodie | 283,829 | - | - | 17,775 | - | 6,489 | 308,093 | 2.1% |
| Totals | 1,112,485 | - | - | 57,329 | - | 6,489 | 1,176,303 | - |

| 2013 | Short term benefits | | Termination payments | Post-employment benefits | | Share-based Payments equity settled Options | Total | % paid as options |
|---------------------------------------|---------------------|-------------------|----------------------|--------------------------|---------------------|---|------------------|-------------------|
| | Salary and fees | Non-cash benefits | | Super-annuation | Retirement benefits | | | |
| Name | \$ | \$ | \$ | \$ | \$ | \$ | \$ | % |
| <i>Directors</i> | | | | | | | | |
| SJ Koroknay | 64,283 | - | - | 5,785 | - | - | 70,068 | - |
| R Camarri | 50,000 | - | - | - | - | - | 50,000 | - |
| LC Rathie | 119,505 | - | - | 4,264 | - | - | 123,769 | - |
| G Haworth | 410,389 | - | - | 16,470 | - | 20,776 | 447,635 | 4.6% |
| <i>Other key management personnel</i> | | | | | | | | |
| S Brodie | 281,562 | - | - | 16,470 | - | 13,850 | 311,882 | 4.4% |
| Totals | 925,739 | - | - | 42,989 | - | 34,626 | 1,003,354 | - |

The key management personnel of Galilee Energy Limited and of the Group includes the directors of the Company and Simon Brodie, Chief Financial Officer.

Remuneration Report (audited) (continued)**C Service agreements**

Remuneration and other terms of employment for key management personnel:

Peter Lansom, Managing Director

Term of agreement – open-ended agreement commencing 31 October 2013

- Base salary of \$325,000 including superannuation
- Salary rate is reviewed annually in line with a performance review
- Short Term Incentive (STI) up to a maximum of 30% of the base salary, which will be paid in cash.
- The required notice period on termination is three months by either party
- The agreement provides for six months payment for termination under certain conditions.

Paul Bilston, Executive Director

Term of agreement – open-ended agreement commencing 31 October 2013

- Base salary of \$300,000 including superannuation
- Salary rate is reviewed annually in line with a performance review
- Short Term Incentive (STI) up to a maximum of 25% of the base salary, which will be paid in cash.
- The required notice period on termination is three months by either party
- The agreement provides for six months payment for termination under certain conditions.

Glenn Haworth, Managing Director

Term of agreement – three years commencing 1 September 2010, resigned 24 September 2014

- Base salary of \$453,500 including superannuation
- Salary rate is reviewed annually in line with a performance review
- The required notice period on termination is three months by either party
- There are no termination benefits.

Simon Brodie, Chief Financial Officer

Term of agreement – open ended agreement commencing 17 January 2011, resigned 1 September 2014

- Base salary of \$300,300 including superannuation
- Salary rate is reviewed annually in line with a performance review
- The required notice period on termination is three months by either party
- The agreement provides for nine months payment for termination under certain conditions

D Share based compensation**Directors' share options**

No options were granted as remuneration during the year. Currently, there are no directors share options.

No rights were issued to executives of the Company during the year. Details of existing shared based remuneration rights are set out in the table below.

Rights are subject to vesting conditions, the employee must remain an employee of the Company from grant date to the relevant date and at the relevant date the share price must be equal or greater than the share price hurdle.

The Board's current policy does not allow directors and executives to limit their risk exposure in relation to equities or options without the approval of the Board.

KMP options and rights holdings

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

| 2014 | Balance at the start of the year | Granted as remuneration | Options / Rights Exercised | Other Changes * | Balance at the end of the year | Total vested | Vested and exercisable | Vested and unexercisable |
|---------------------|----------------------------------|-------------------------|----------------------------|-----------------|--------------------------------|--------------|------------------------|--------------------------|
| G Haworth (rights) | 3,000,000 | - | - | (3,000,000) | - | - | - | - |
| S C Brodie (rights) | 2,000,000 | - | - | (400,000) | 1,600,000 | 400,000 | - | 400,000 |

*Other changes are options/rights that have expired or lapsed due to vesting conditions not being satisfied. The value of the options/rights at the date they lapsed was nil.

Remuneration Report (audited) (continued)**D Share based compensation** (continued)

At 30 June 2014 the following options and performance rights were outstanding and have subsequently lapsed:

| Number | Grant date | Expiry date | Exercise price |
|---------|------------|-------------|--|
| 400,000 | 25/10/2011 | 01/03/2015 | Nil: Vests on share price of 61.25 cents |
| 400,000 | 15/05/2013 | 01/05/2015 | Nil: Vests on share price of 21 cents |
| 400,000 | 15/05/2013 | 01/05/2016 | Nil: Vests on share price of 28 cents |
| 400,000 | 15/05/2013 | 01/05/2017 | Nil: Vests on share price of 35 cents |

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 2014 | Balance at the start of the year | Shares acquired during the year | Other changes during the year | Balance at the end of the year |
|-------------------------|-------------------------------------|------------------------------------|----------------------------------|-----------------------------------|
| D King | - | 280,000 | | 280,000 |
| P Lansom | - | 4,588,498 | | 4,588,498 |
| P Bilston | - | 4,600,165 | | 4,600,165 |
| L Rathie | 180,000 | | (180,000) | - |
| R Camarri | 235,536 | | (234,536) | - |

End of audited remuneration report**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 are important.

Details of the amounts paid or payable to the auditor (BDO Audit 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.

Audit \$46,942

Tax services \$22,650

Auditor's independence declaration

The auditor's independence declaration is included on Page 13 of the financial report for the year.

Signed in accordance with a resolution made pursuant to s298(2) of the *Corporations Act 2001*.

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'D King', written in a cursive style.

David King
Chairman

Sydney
26 September 2014

DECLARATION OF INDEPENDENCE BY ANTHONY WHYTE TO DIRECTORS OF GALILEE ENERGY LIMITED

As lead auditor of Galilee Energy Limited for the year ended 30 June 2014, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

1. the auditor independence requirements of the Corporations Act 2001 in relation to the audit;
and
2. 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 year.



A J Whyte
Partner

BDO Audit Pty Ltd

Location, 26 September 2014

FINANCIAL REPORT **2014**

| | |
|--|----|
| Statement of profit or loss and other comprehensive income | 31 |
| Statement of financial position | 32 |
| Statement of changes in equity | 33 |
| Statement of cash flows | 34 |
| Notes to the financial statements | 36 |
| Directors' declaration | 60 |
| Independent auditor's report to the members | 61 |

Statement of profit or loss and other comprehensive income

for the year ended 30 June 2014

| | Note | Consolidated | |
|--|------|----------------|----------------|
| | | 2014 \$'000 | 2013 \$'000 |
| Revenue from continuing operations | 2 | 1,103 | 1,593 |
| Exploration and evaluation expenses | | | |
| Proportionate share of exploration and evaluation expenditure in joint operation | 3 | (1,487) | (4,598) |
| Consulting fees | | (413) | (307) |
| Contractors | | (3) | (2,669) |
| Depreciation | | (1) | (1) |
| Other | | (555) | (219) |
| | | (2,459) | (7,794) |
| Administration expenses | | | |
| Employee benefits expense | | (1,005) | (890) |
| Directors' remuneration | | (143) | (173) |
| Consulting fees | | (1,169) | (248) |
| Depreciation | 3 | (17) | (20) |
| General administration expenses | | (657) | (443) |
| | | (2,991) | (1,774) |
| Loss before income tax expense | | (4,347) | (7,975) |
| Income tax benefit/(expense) | 4 | 1,746 | 1,479 |
| Loss from continuing operations after tax | | (2,601) | (6,496) |
| Other comprehensive income | | - | - |
| Total comprehensive income for the year | | (2,601) | (6,496) |
| | | Cents | Cents |
| Earnings/(loss) per share from continuing operations attributable to the owners of Galilee Energy Limited | | | |
| Basic earnings per share | 7 | (1.7) | (4.3) |
| Diluted earnings per share | 7 | (1.7) | (4.3) |
| Earnings/(loss) per share for profit/(loss) attributable to the owners of Galilee Energy Limited | | | |
| Basic earnings per share | 7 | (1.7) | (4.3) |
| Diluted earnings per share | 7 | (1.7) | (4.3) |

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Statement of financial position

as at 30 June 2014

| | Note | Consolidated | |
|--------------------------------|------|---------------|---------------|
| | | 2014 | 2013 |
| | | \$'000 | \$'000 |
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 8 | 25,686 | 27,393 |
| Trade and other receivables | 9 | 338 | 1,405 |
| Total current assets | | <u>26,024</u> | <u>28,798</u> |
| Non-current assets | | | |
| Receivables | 9 | 713 | 713 |
| Property, plant and equipment | 12 | 110 | 118 |
| Total non-current assets | | <u>823</u> | <u>831</u> |
| Total assets | | <u>26,847</u> | <u>29,629</u> |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 13 | 609 | 777 |
| Total current liabilities | | <u>609</u> | <u>777</u> |
| Non-current liabilities | | | |
| Deferred income | 13 | - | 8 |
| Provisions | 14 | 431 | 442 |
| Total non-current liabilities | | <u>431</u> | <u>450</u> |
| Total liabilities | | <u>1,040</u> | <u>1,227</u> |
| Net assets | | <u>25,807</u> | <u>28,402</u> |
| EQUITY | | | |
| Issued capital | 15 | 60,228 | 60,228 |
| Reserves | 25 | (6,683) | (6,689) |
| Accumulated losses | | (27,738) | (25,137) |
| Total equity | | <u>25,807</u> | <u>28,402</u> |

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of changes in equity

for the year ended 30 June 2014

| | Issued capital | Accumulated losses | Non-controlling interest elimination reserve | Share-based payments reserve | Total |
|--------------------------------|-------------------|-----------------------|---|------------------------------------|---------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Balance at 1 July 2013 | 60,228 | (25,137) | (7,656) | 967 | 28,402 |
| Loss for the year | - | (2,601) | - | - | (2,601) |
| Other comprehensive income | - | - | - | - | - |
| Total comprehensive income | - | (2,601) | - | - | (2,601) |
| Share-based payments expense | - | - | - | 6 | 6 |
| Balance at 30 June 2014 | 60,228 | (27,738) | (7,656) | 973 | 25,807 |
| | - | - | - | - | - |
| Balance at 1 July 2012 | 60,228 | (18,642) | (7,656) | 932 | 34,862 |
| Profit for the year | - | (6,496) | - | - | (6,496) |
| Other comprehensive income | - | - | - | - | - |
| Total comprehensive income | - | (6,496) | - | - | (6,496) |
| Share-based payments expense | - | - | - | 35 | 35 |
| Balance at 30 June 2013 | 60,228 | (25,137) | (7,656) | 967 | 28,402 |

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of cash flows

for the year ended 30 June 2014

| | Note | Consolidated | |
|---|-----------|----------------|----------------|
| | | 2014 \$'000 | 2013 \$'000 |
| Cash flows from operating activities | | | |
| Receipts from customers | | - | - |
| Payments to suppliers and employees | | (5,624) | (9,085) |
| Other revenue | | 1,190 | 801 |
| Interest received | | 994 | 1,596 |
| Tax benefit received | | 1,743 | 289 |
| Net cash outflow from operating activities | 21 | (1,697) | (6,399) |
| Cash flows from investing activities | | | |
| Payments for property, plant and equipment | 12 | (10) | (9) |
| Net cash (outflow) inflow from investing activities | | (10) | (9) |
| Net increase (decrease) in cash and cash equivalents | | (1,707) | (6,408) |
| Cash and cash equivalents at the beginning of the financial year | | 27,393 | 33,801 |
| Cash and cash equivalents at the end of the financial year | 8 | 25,686 | 27,393 |

The above statement of cash flows should be read in conjunction with the accompanying notes.

Index to notes

| Note | | Page |
|------|---|------|
| 1 | Summary of significant accounting policies | 36 |
| 2 | Revenue from continuing operations | 47 |
| 3 | Expenses of continuing operations | 47 |
| 4 | Income tax | 47 |
| 5 | Interests of Key Management Personnel (KMP) | 49 |
| 6 | Auditors' remuneration | 49 |
| 7 | Earnings per share (EPS) | 49 |
| 8 | Cash and cash equivalents | 50 |
| 9 | Trade and other receivables | 50 |
| 10 | Interest in joint operation | 50 |
| 11 | Subsidiaries | 51 |
| 12 | Property, plant and equipment | 51 |
| 13 | Trade and other payables | 52 |
| 14 | Provisions | 53 |
| 15 | Issued capital | 53 |
| 16 | Share-based payments | 54 |
| 17 | Parent Company Information | 55 |
| 18 | Commitments | 56 |
| 19 | Contingent liabilities | 56 |
| 20 | Operating Segments | 57 |
| 21 | Notes to the Statement of Cash Flows | 57 |
| 22 | Events occurring after the balance sheet date | 57 |
| 23 | Related party transactions | 57 |
| 24 | Financial instruments | 58 |
| 25 | Reserves | 59 |

Notes to the financial statements

1 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.

New, revised or amending Accounting Standards and Interpretations adopted

The group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current reporting period. These standards are as follows:

- *AASB 10 Consolidated Financial Statements*
- *AASB 11 Joint Arrangements*
- *AASB 12 Disclosure of Interests in Other Entities*
- *AASB 2011-7 Amendments to Australian Accounting Standards arising from Consolidation and Joint Arrangements Standards*
- *AASB 13 Fair value measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13*
- *AASB 119 Employee benefits and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119*
- *AASB 128 Investments in Associates and Joint Ventures*
- *AASB 2011-4 Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements*
- *AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Liabilities*

The adoption of the new and revised standards had no effect on the amounts reported in the current and prior periods.

(a) Basis of preparation

Compliance with accounting standards

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting standards Board (“AASB”) and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IASB”). The Group is a for-profit entity for financial reporting purposes.

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Going concern & judgements

The consolidated financial statements have been prepared on a going concern basis which contemplates that the group will continue to meet its commitments and can therefore continue normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

The company is of a kind referred to in class order 98/100, issued by the Australian Securities and Investments Commission, relating to rounding off. Amounts in this report have been rounded off in accordance with that class order to the nearest thousand dollars, or in certain cases, nearest dollar.

(b) Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 17.

Notes to the financial statements

1 Significant accounting policies (continued)

(c) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Galilee Energy Limited (“company” or “parent entity”) as at 30 June 2014 and the results of all subsidiaries for the year then ended. Galilee Energy Limited and its subsidiaries together are referred to in these financial statements as the “consolidated entity”.

Subsidiaries

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the group.

Subsidiaries are all those entities over which the consolidated entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The effects of potential exercisable voting rights are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transaction between entities in the consolidated entity 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 consolidated entity. Investments in subsidiaries are accounted for at cost in the individual financial statements of Galilee Energy Limited.

Joint arrangements

Joint arrangements are arrangements in which one or more parties have joint control. Joint arrangements are classified as either joint operations or joint ventures.

Joint operations

The Group has entered into joint arrangements which are classified as joint operations because the parties to the joint arrangements have rights to the assets and obligations for the liabilities, rather than to the net assets, of the joint arrangements. The Group has recognised its direct right to, as well as its share of jointly held, assets, liabilities, revenues and expenses of joint operations which have been included in the financial statements under the appropriate headings.

Joint Ventures

Interests in joint ventures are accounted for in the consolidated financial statements using the equity method. Under the equity method of accounting, the group’s share of the movements in other comprehensive income of joint ventures are recognised in consolidated other comprehensive income. The cumulative movements are adjusted against the carrying amount of the investment.

When the group’s share of post-acquisition losses in a joint venture exceeds its interest in the joint venture (including any long term interests that form part of the group’s net investment in the joint venture), the group does not recognise further losses unless it has obligations to, or has made payments, on behalf of the associate.

(d) Foreign currency translation

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”). The consolidated financial statements are presented in Australian dollars, which is Galilee Energy Limited’s functional and presentation currency.

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 profit or loss, 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.

Notes to the financial statements

1 Significant accounting policies (continued)

(d) Foreign currency translation (continued)

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 recognised in other comprehensive income.

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.

(e) 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:

Sale of goods

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

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.

(f) Income tax

The income tax expense or revenue for the year 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.

Notes to the financial statements

1 Significant accounting policies (continued)

(f) Income tax (continued)

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.

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 for the purposes of tax consolidation, where considered recoverable.

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

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.

(g) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 18). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight line basis over the period of the lease.

(h) Business combinations

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred, and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit and loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date.

Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability are recognised in accordance with AASB 139 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured.

Notes to the financial statements

1 Significant accounting policies (continued)

(i) Impairment of assets

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.

(j) 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 or that are otherwise 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.

(k) Trade and other 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.

Collectability 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 profit or loss.

(l) 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 Group 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.

Notes to the financial statements

1 Significant accounting policies (continued)

(l) Financial Instruments (continued)

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.

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.

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.

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.

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. They are subsequently measured at fair value.

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 significant or prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in profit or loss.

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.

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.

Notes to the financial statements

1 Significant accounting policies (continued)

(l) Financial Instruments (continued)

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 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.

(m) 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.

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 profit or loss during the financial period in which they are 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% - 30% |
| Motor vehicles | 15% - 30% |
| Plant and equipment | 4% - 50% |
| Leased plant and equipment | Units of use |

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 (i)). Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in profit or loss.

(n) Exploration and evaluation expenditure

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement in determining whether it is likely that future economic benefits are likely either from future exploitation or sale or where activities have not reached a stage which permits a reasonable assessment of the existence of resource. The determination of a mineral resource is itself an estimation process that requires varying degrees of uncertainty, and this directly impacts on the application of full cost for areas of interest. All costs are expensed in the period it is incurred until such time as an economically recoverable resource has been identified.

(o) 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.

(p) 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 development assets, to the extent that the development relates to future production activities, which is offset by a provision for rehabilitation.

Notes to the financial statements

1 Significant accounting policies (continued)

(p) Provisions (continued)

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 reporting 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.

(q) Employee benefits

Employee benefits

Provision is made for the Group'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.

Retirement benefit obligations

Contributions to defined contribution superannuation plans are expensed when incurred.

Share-based equity settled benefits

The Group provides benefits to employees 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 Monte Carlo 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 Group 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 profit or loss. 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.

(r) 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.

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.

Notes to the financial statements

1 Significant accounting policies (continued)

(r) Issued capital (continued)

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.

(s) Earnings per share

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.

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.

(t) 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 also presented on a gross GST 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 in the receipts from customers or payments to suppliers.

(u) 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. There were no critical estimates in judgements applied in the preparation of this financial report other than those disclosed in this financial report.

(v) 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 rehabilitation agreement for each area of interest. The rehabilitation provision has been calculated by the JV operator AGL Energy limited. The calculation assumes that rehabilitation will occur in one years time. Costs have been discounted at the appropriate bond rate. The carrying amount of the rehabilitation provision at balance date is \$421,133 (2013: \$432,442).

(w) New accounting standards and interpretations for application in future periods

A number of Australian Accounting Standards and Interpretations have been issued or amended but are not yet mandatory for the 30 June 2014 annual reporting period and have not been early adopted by the group for the preparation of these financial statements. The group's assessment of the impact of these new or amended Standards and Interpretations, most relevant to the group, are set out below:

Notes to the financial statements

1 Significant accounting policies (continued)

(w) New accounting standards and interpretations for application in future periods (continued)

AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities (effective from 1 January 2014)

The amendments to AASB132 Financial Instruments: Presentation clarifies when an entity has a legally enforceable right to set-off financial assets and financial liabilities permitting entities to present balances net on the balance sheet. There will be no impact on the group as there are no offsetting financial assets and financial liabilities.

AASB 2013-3 Amendments to Australian Accounting Standards AASB136 – Recoverable Amount Disclosures for Non-Financial Assets (effective from 1 January 2014)

These amendments introduce additional disclosure requirements where the recoverable amount of impaired assets is based on fair value less cost of disposal. There will be no impact on the group's disclosures as the group does not determine the recoverable amounts of impaired asset using fair value less cost of disposal.

AASB 2013-4 Amendments to Australian Accounting Standards – Novation of Derivative and Continuation of Hedge Accounting (effective from 1 January 2014)

These amendments to AASB139 Financial Instruments: Recognition and Measurement permit the continuation of hedge accounting in circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations. There will be no impact on the group as it does not hold hedging instruments.

AASB2013-5 Amendments to Australian Accounting Standards AASB10 – Investment Entities (effective from 1 January 2014)

These amendments to AASB10 (and others) define an investment entity and require that, with limited exceptions, an investment entity not consolidate its subsidiaries or apply AASB 3 Business Combinations when it obtains control of another entity. Instead, an investment entity is to measure unconsolidated subsidiaries at fair value through profit or loss in accordance with AASB 9. There will be no impact on the group as it does not meet the definition of an investment entity.

AASB 2013-9 Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (effective 1 January 2014) – Part B – Materiality and AASB 2014-1 Amendments to Australian Accounting Standards – Part C: Materiality (effective from 1 July 2014)

Removes the guidance on materiality from AASB 1031 Materiality and inserts cross references to other standards and the Framework for the Preparation and Presentation of Financial Statements where guidance on materiality is located. AASB 2014-1 makes amendments to particular Australian Accounting Standards to delete their references AASB 1031 Materiality. These changes will not have any impact on the group.

Interpretation 21 – Levies (effective from 1 January 2014)

This interpretation clarifies the circumstances which a liability to pay a levy imposed by a government, other than for income taxes and fines/breaches imposed for breaches of legislation, should be recognised, and whether that liability should be recognised in full at a specific date or progressively over a period of time. These changes will not have any impact on the group.

AASB 2014-1 Amendments to Australian Accounting Standards – Part A: Annual Improvements 2010-2012 and 2012-2013 Cycles (effective from 1 July 2014)

Amendments to existing accounting standards providing clarification in relation to share based payment vesting and non-vesting conditions, operating segment asset disclosures, current/non-current debt classification, exemptions for joint ventures from business combination requirements and a number of other standards. These changes will not have any impact on the group.

AASB 2014-1 Amendments to Australian Accounting Standards – Part B: Defined Benefits Plans: Employee Contributions (Amendments to AASB 119 Employee Benefits (effective from 1 July 2014)

Allows employee and third party contributions that meet certain criteria to be recognised as a reduction of the service cost in the period in which the related service is rendered. These changes will not have any material impact on the group.

Notes to the financial statements

1 Significant accounting policies (continued)

(w) New accounting standards and interpretations for application in future periods (continued)

AASB 2014-3 Amendments to Australian Accounting Standard AASB 11 Joint Operations - Accounting for Acquisitions of Interests in Joint Operations (effective from 1 January 2016)

The amendments to IFRS 11 deal with accounting for acquisitions of interests in joint operations. Prior to these amendments, a joint operator was required to account for what belongs to them i.e. its share of assets, liabilities, revenue and expenditure shared or incurred jointly. The effect of the amendments is to require an entity that acquires an interest or increases its interest in a joint operation to consider the principles of AASB 3 Business Combinations and determine whether the interest acquired constitutes a “business”. If the activities and assets acquired constitute a business, the acquisition will then be accounted for in accordance with AASB 3.

AASB 2014-4 Amendments to Australian Accounting Standards AASB 16 Property, Plant & Equipment and AASB 38 Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortisation (effective from 1 January 2016)

The amendments clarify that (other than in limited circumstances for intangible assets) the use of revenue-based methods for calculating depreciation and amortisation is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of economic benefits embodied in the asset. There will be no impact from the application of these amendments as the group does not use this method of calculating depreciation.

AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9, AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010), AASB 2013-9 Part C Amendments to Australian Accounting Standards Conceptual Framework, Materiality and Financial Instruments and AASB 2014-1 Amendments to Australian Accounting Standards Part E consequential to hedge accounting requirements and further amends application date (effective from 1 January 2017)

This standard provides guidance on the classification and measurement of financial assets and financial liabilities. The standard is not applicable until 1 January 2017 but is available for early adoption. AASB 9 permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Upon realisation the accumulated changes in fair value are not recycled to profit or loss. Currently, in accordance with AASB 139 Financial Instruments: Recognition and Measurement, a gain or loss on an available-for-sale financial asset is recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses until the financial asset is derecognised. At that time, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.

Changes in the fair value of other financial assets carried at fair value are reported in profit or loss. The de-recognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed.

Changes in the fair value of all other financial assets carried at fair value are reported in the profit or loss. There will be no impact on the group’s accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities.

The de-recognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed. The full impact of this standard is yet to be fully assessed, but the adoption of this standard from 1 January 2017 is not expected to have a material impact on the group. The group has not yet decided when to adopt AASB 9.

Notes to the financial statements

| | | | |
|----------|---|---------------------|---------------|
| 2 | Revenue from continuing operations | Consolidated | |
| | | 2014 | 2013 |
| | | \$'000 | \$'000 |
| | Interest received or receivable | 1,095 | 1,576 |
| | Sundry income | 8 | 17 |
| | Total revenue from continuing operations | 1,103 | 1,593 |
| 3 | Expenses of continuing operations | Consolidated | |
| | | 2014 | 2013 |
| | | \$'000 | \$'000 |
| | Includes the following specific expenses: | | |
| | Exploration and evaluation | | |
| | Proportionate share of exploration and evaluation expenditure in joint operation (note 1) | 1,487 | 4,598 |
| | Depreciation of plant and equipment | 1 | 1 |
| | Administration | | |
| | Depreciation | | |
| | Buildings and leasehold improvements | 4 | 5 |
| | Plant and equipment | 13 | 15 |
| | | 17 | 20 |
| | Net Loss/(Gain) on disposals of property, plant and equipment | - | - |
| | Share based payments expense | 6 | 35 |
| | Rental expense relating to operating leases - minimum lease payments | 168 | 168 |
| | Defined contribution superannuation expense | 58 | 42 |
| 4 | Income tax | Consolidated | |
| | | 2014 | 2013 |
| | | \$'000 | \$'000 |
| | Income tax benefit/(expense) | | |
| | Current Tax benefit/(expense) | 1,270 | 2,414 |
| | Derecognition of deferred tax losses | (1,270) | (2,414) |
| | Research & Development tax offset | 1,746 | 1,749 |
| | Income Tax benefit/(expense) | 1,746 | 1,749 |

Notes to the financial statements

4 Income tax (continued)

| | Consolidated | |
|---|--------------|---------|
| | 2014 | 2013 |
| | \$'000 | \$'000 |
| Tax benefit at the Australian tax rate of 30% (2013: 30%) | | |
| Loss before income tax | 4,348 | 7,975 |
| Tax at the Australian tax rate of 30% (2013:30%) | 1,304 | 2,393 |
| Tax effect of amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Share-based payments expensed | - | (9) |
| R & D tax offset received | 1,746 | 1,479 |
| Other non-deductible items | (34) | - |
| Recognised directly in equity | - | 26 |
| Current year tax losses not recognised | (1,270) | (2,410) |
| Income tax expense/(revenue) | 1,746 | 1,479 |
| Deferred tax assets | | |
| Amounts recognised in profit or loss | | |
| Accrued expenses | 10 | 8 |
| Employee benefits | 13 | 15 |
| Other provisions | 129 | 133 |
| Capital costs deductible over 5 years | 163 | 129 |
| Receivables | (77) | (47) |
| Buildings & improvements | 16 | 21 |
| | 254 | 259 |
| Amounts recognised directly in equity | | |
| Share issue expenses less amortisation | - | 26 |
| Net deferred tax asset/(liability) | 254 | 285 |
| De-recognition of net deferred tax assets through profit or loss | (254) | (259) |
| De-recognition of deferred tax assets from equity | - | (26) |
| Net deferred tax asset/(liability) recognised in accounts | - | - |
| Movement in deferred tax assets/(liabilities) | | |
| Balance at the beginning of the year | - | - |
| (Charged)/credited to profit or loss | (254) | (259) |
| De-recognition of deferred tax assets through profit or loss | 254 | 259 |
| De-recognition of deferred tax assets from equity | - | 26 |
| Deferred tax credit directly to equity | - | (26) |
| Closing balance at 30 June | - | - |
| Tax losses not recognised | 40,544 | 39,344 |
| Potential tax benefit | 12,163 | 11,803 |

Notes to the financial statements

5 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 2014.

| | Consolidated | |
|---|----------------|----------------|
| | 2014 \$'000 | 2013 \$'000 |
| The totals of remuneration paid to KMP of the Group during the year are as follows: | | |
| Short-term employee benefits | 1,112 | 926 |
| Post-employment benefits | 57 | 43 |
| Share-based equity settled payments | 6 | 35 |
| Termination benefits | - | - |
| | 1,175 | 1,004 |

There are no other long-term benefits.

6 Auditors' remuneration

| | Consolidated | |
|--|---------------|---------------|
| | 2014 | 2013 |
| Remuneration of the auditor of the parent company for: | | |
| Auditing or reviewing the financial reports | 46,942 | 46,500 |
| Taxation services | 22,650 | 16,200 |
| | 69,592 | 62,700 |

7 Earnings per share (EPS)

| | Consolidated | |
|--|--------------------|--------------------|
| | 2014 \$'000 | 2013 \$'000 |
| (a) Earnings used in calculating earnings per share | | |
| <i>Basic and diluted earnings</i> | | |
| Profit/(Loss) for the year from continuing operations | (2,601) | (6,496) |
| Profit/(Loss) for the year | (2,601) | (6,496) |
| (b) Weighted average number of ordinary shares | | |
| | 2014 | 2013 |
| | Number | Number |
| Weighted average number of ordinary shares outstanding during the year used in calculating basic | 152,140,466 | 152,140,466 |
| 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 | 152,140,466 | 152,140,466 |

* Options/rights were not included in the current year because the Group had a loss and options were, therefore, considered anti-dilutive. Options were not included as they are not considered dilutive. At 30 June there was a total of 1,600,000 (2013: 5,000,000) KMP options/rights outstanding which have since lapsed.

| | Consolidated | |
|-----------------------------------|----------------|----------------|
| | 2014 \$'000 | 2013 \$'000 |
| (c) Earnings per share | | |
| From continuing operations | | |
| Basic earnings per share | (1.7) | (4.3) |
| Diluted earnings per share | (1.7) | (4.3) |
| From profit for the year | | |
| Basic earnings per share | (1.7) | (4.3) |

Notes to the financial statements

8 Cash and cash equivalents

| | Consolidated | |
|--------------------------|---------------|---------------|
| | 2014 | 2013 |
| | \$'000 | \$'000 |
| Cash at bank and in hand | 561 | 993 |
| Deposits at call | 25,125 | 26,400 |
| | <u>25,686</u> | <u>27,393</u> |

The carrying amount of financial assets represents the maximum exposure to credit risk. The Group has no significant credit risk as funds are invested only with financial institutions with very high credit ratings.

9 Trade and other receivables

| | Consolidated | |
|----------------------------------|--------------|--------------|
| | 2014 | 2013 |
| | \$'000 | \$'000 |
| CURRENT | | |
| Trade receivables | 9 | 1,199 |
| Other receivables | 269 | 175 |
| Prepayments | 60 | 31 |
| | <u>338</u> | <u>1,405</u> |
| NON-CURRENT | | |
| Environmental bonds and deposits | 641 | 641 |
| Rental bond | 72 | 72 |
| | <u>713</u> | <u>713</u> |

Other receivables:

Included in Other Receivables – Current of \$0.269m (2013: \$0.175m) is an amount of \$0.157m receivable from NAB and Westpac for interest on interest bearing deposits.

As of 30 June 2014, there were \$nil (2013: \$nil) overdue or impaired trade receivables. Refer to Note 24 for further description of the Group's credit risk exposures.

10 Interest in joint operation

The group through its subsidiary Galilee Resources Pty Ltd has a joint operation in place for the development of its tenement ATP 529P in the Galilee Basin with AGL Energy Ltd. Under the Joint Operating Agreement, AGL is the operator for exploration and development programs. The group holds a 50% interest. The Group's interest in the joint operation is expensed until such time an economically recoverable resource has been identified.

Notes to the financial statements

11 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(c):

| Name of entity | Country of Incorporation | Class of equity | Equity Holding | |
|---|--------------------------|-----------------|----------------|------|
| | | | 2014 | 2013 |
| Galilee Resources Pty Ltd | Australia | Ordinary | 100% | 100% |
| Beaconsfield Energy Development Pty Ltd | Australia | Ordinary | 100% | 100% |
| Capricorn Energy Pty Ltd | Australia | Ordinary | 100% | 100% |
| Galilee Energy US LLC | United States | Ordinary | 100% | - |
| Galilee Energy Texas LLC | United States | Ordinary | 100% | - |
| Galilee Energy Illinois LLC | United States | Ordinary | 100% | - |
| Galilee Energy Chile SpA | Chile | Ordinary | 100% | - |

All Australian subsidiaries have the same reporting date as the parent, Galilee Energy Limited. USA and Chile subsidiaries report on 31 December.

12 Property, plant and equipment

| | Freehold land | Buildings & leasehold improvements | Plant and equipment | Total |
|--------------------------------|---------------|------------------------------------|---------------------|--------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| At 30 June 2014 | | | | |
| Cost | 8 | 140 | 129 | 277 |
| Accumulated depreciation | - | (74) | (93) | (167) |
| Net book amount | 8 | 66 | 36 | 110 |
| Year ended 30 June 2014 | | | | |
| Balance, 1 July 2013 | 8 | 72 | 38 | 118 |
| Additions | - | 5 | 13 | 18 |
| Disposals | - | (7) | (2) | (9) |
| Depreciation charge | - | (4) | (13) | (17) |
| Balance, 30 June 2014 | 8 | 66 | 36 | 110 |

Notes to the financial statements

12 Property, plant and equipment (continued)

| | Freehold land \$'000 | Buildings & leasehold improvements \$'000 | Plant and equipment \$'000 | Total \$'000 |
|--------------------------------|----------------------------|--|----------------------------------|-----------------|
| At 30 June 2013 | | | | |
| Cost | 8 | 140 | 129 | 277 |
| Accumulated depreciation | - | (68) | (91) | (159) |
| Net book amount | <u>8</u> | <u>72</u> | <u>38</u> | <u>118</u> |
| Year ended 30 June 2013 | | | | |
| Balance, 1 July 2012 | 8 | 77 | 45 | 130 |
| Additions | - | 2 | 13 | 15 |
| Disposals | - | (2) | (5) | (7) |
| Depreciation charge | - | (5) | (15) | (20) |
| Balance, 30 June 2013 | <u>8</u> | <u>72</u> | <u>38</u> | <u>118</u> |

(a) Non-current assets pledged as security

Refer to note 17 for information on non-current assets pledged as security by the parent company and its subsidiaries.

13 Trade and other payables

| | Consolidated | |
|---------------------------|----------------|----------------|
| | 2014 \$'000 | 2013 \$'000 |
| CURRENT | | |
| Trade payables | 323 | 185 |
| Other payables | 244 | 541 |
| Employee benefits payable | 42 | 51 |
| | <u>609</u> | <u>777</u> |
| NON-CURRENT | | |
| Other payables | - | 8 |
| | <u>609</u> | <u>785</u> |

Notes to the financial statements

14 Provisions

| | Consolidated | |
|--|--------------|------------|
| | 2014 | 2013 |
| | \$'000 | \$'000 |
| Rehabilitation | 421 | 432 |
| Make-good obligation under lease agreement | 10 | 10 |
| | <u>431</u> | <u>442</u> |

(a) Movement in provision for rehabilitation

| | Consolidated | |
|----------------------------------|--------------|------------|
| | 2014 | 2013 |
| | \$'000 | \$'000 |
| Opening balance 1 July | 432 | 411 |
| Additional provisions recognised | - | 142 |
| Amounts used | (11) | (121) |
| | <u>421</u> | <u>432</u> |
| Closing balance 30 June | 421 | 432 |

The amount represents the obligation to restore land disturbed during development activities to the conditions specified in the rehabilitation agreement. Rehabilitation is expected to be undertaken after the 2015 financial year.

(b) Movement in provision for make-good under lease agreement

| | Consolidated | |
|-------------------------|--------------|-----------|
| | 2014 | 2013 |
| | \$'000 | \$'000 |
| Opening balance 1 July | 10 | 10 |
| | <u>10</u> | <u>10</u> |
| Closing balance 30 June | 10 | 10 |

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

15 Issued capital

(a) Share capital

| | Consolidated | |
|--|---------------|---------------|
| | 2014 | 2013 |
| | \$'000 | \$'000 |
| 152,140,466 (2013: 152,140,466) fully paid ordinary shares | 61,518 | 61,518 |
| Transaction costs relating to share issues (net of tax) | (1,290) | (1,290) |
| | <u>60,228</u> | <u>60,228</u> |

(b) Movements in ordinary share capital:

| Date | Number of shares | Issue price | \$'000 |
|--------------|------------------|-------------|--------|
| 30 June 2013 | 152,140,466 | | 60,228 |
| 30 June 2014 | 152,140,466 | - | 60,228 |

(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.

Ordinary shares have no par value and the company does not have a limited amount of authorised capital.

Notes to the financial statements

15 Issued capital (continued)

(d) Options over shares

Refer to Note 16 for details of share options.

(e) Capital Management

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

The Group's capital comprises equity as described in the statement of financial position 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.

16 Share-based payments

No share based payments were made during the year ended 30 June 2014.

On 15th May 2013, two employees were issued with performance rights to take up ordinary shares in 3 tranches. Under the terms of the rights the employees are entitled to shares in the company at no cost subject to vesting conditions. Details are as follows:

| | Employee 1 | Employee 2 |
|---|-------------------|-------------------|
| Total number of rights issued | 1,800,000 | 1,200,000 |
| Tranche #1 | | |
| Number of rights | 600,000 | 400,000 |
| Exercise date | 1 Mar 2015 | 1 Mar 2015 |
| Vesting condition: a share price equal to or greater than | \$0.2100 | \$0.2100 |
| Tranche #2 | | |
| Number of rights | 600,000 | 400,000 |
| Exercise date | 1 Mar 2016 | 1 Mar 2016 |
| Vesting condition: a share price equal to or greater than | \$0.2800 | \$0.2800 |
| Tranche #3 | | |
| Number of rights | 600,000 | 400,000 |
| Exercise date | 1 Mar 2017 | 1 Mar 2017 |
| Vesting condition: a share price equal to or greater than | \$0.3500 | \$0.3500 |

The weighted average remaining life of options/rights outstanding at the year end was 1.75 years (2013: 2.070 years). The options/rights outstanding at the end of the year have exercise prices ranging from \$0.21 to \$0.6125 (2013: \$0.21 to \$0.6125).

| | | | | |
|--|-------|-------|-------|-------|
| Exercise price: | \$ | 0.210 | 0.280 | 0.350 |
| Weighted average life of the option/right: | years | 1.668 | 2.671 | 3.671 |
| Underlying share price: | \$ | 0.140 | 0.140 | 0.140 |
| Expected share price volatility: | % | 0.500 | 0.500 | 0.500 |
| Risk-free interest rate: | % | 2.63% | 2.68% | 2.78% |
| Fair value | \$ | 0.040 | 0.044 | 0.045 |

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

Notes to the financial statements

16 Share-based payments (continued)

The options/rights issued to directors and employees hold no voting or dividend rights and are not transferable, other than to related parties of the employees involved. The fair value of the options/rights granted is deemed to represent the value of the directors' and employees' services received over the vesting period. Employee options/rights are forfeited if the employee ceases to be employed by the group. Directors' options have no service conditions and are not forfeited upon exit from the group. The options are not exercisable if the share price is less than the exercise price on the exercise date. The share rights expire if the relevant vesting condition is not met by the exercise date.

| | 2014 No. of Options / Rights | Weighted average exercise price | 2013 No. of Options / Rights | Weighted average exercise price |
|--------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| Outstanding at beginning of the year | 5,000,000 | \$0.631 | 8,000,000 | \$0.716 |
| Granted (rights) | - | \$0.280 | 3,000,000 | \$0.490 |
| Forfeited (options) | (3,400,000) | \$0.658 | (6,000,000) | \$0.325 |
| Exercised | - | - | - | - |
| Expired | - | - | - | - |
| Outstanding at end of year | 1,600,000 | \$0.389 | 5,000,000 | \$0.631 |
| Exercisable at end of year | - | - | 1,600,000 | \$0.716 |

Equity-settled share-based payment transactions relating to employees totalled \$6,489 (2013: \$34,626) and this amount is included under Administration expense in profit or loss. There were no equity-settled share-based transactions relating to directors during the year or the previous year.

17 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.

| Galilee Energy Limited | 2014 \$'000 | 2013 \$'000 |
|--|----------------|----------------|
| Current assets | 26,024 | 28,798 |
| Non-current assets | 823 | 3,699 |
| Total assets | 26,847 | 32,497 |
| Current liabilities | 609 | 777 |
| Non-current liabilities | 431 | 19 |
| Total liabilities | 1,040 | 796 |
| Net assets | 25,807 | 31,701 |
| Issued capital | 60,228 | 60,228 |
| Share-based payments reserve | (6,683) | 967 |
| Retained earnings/(accumulated losses) | (27,738) | (29,494) |
| Total shareholders' equity | 25,807 | 31,701 |
| Profit/(Loss) for the year | (2,601) | (6,527) |
| Total comprehensive income/(loss) for the year | (2,601) | (6,527) |

Notes to the financial statements

17 Parent Company Information (continued)

Contractual commitments

The parent company had no contractual commitments for the acquisition of property, plant and equipment at 30 June 2014 (2013: \$Nil). The parent company has not guaranteed the debts of any subsidiary company (2013: \$Nil), other than through its tax sharing and tax funding agreements.

Contingent Liabilities

The parent company has no contingent liabilities (2013: \$Nil).

18 Commitments

(a) Lease commitments : Group as lessee

Operating leases

The Group leases its office premises under a non-cancellable operating lease expiring within one year. The lease has an escalation clause and renewal rights. commitments for minimum lease payments are payable as follows:

| | 2014 \$'000 | 2013 \$'000 |
|---|----------------|----------------|
| Within one year | 13 | 155 |
| Later than one year but not later than five years | - | - |
| Later than five years | - | - |
| | <hr/> | <hr/> |
| | 13 | 155 |
| | <hr/> | <hr/> |

(b) Exploration commitments

Galilee Resources Pty Ltd

In order to maintain current rights to tenure to exploration tenements, the consolidated entity has exploration expenditure obligations until expiry of the tenement holdings. The sale, transfer or farm-out of exploration rights to third parties reduces or extinguishes these obligations.

ATP 799P was relinquished in December 2013, there is no further obligation for expenditure.

In the case of ATP 529P, 50% of the exploration rights were transferred to AGL Energy Ltd under a farm-in agreement entered into in July 2008. The Group's exploration commitments to 30 November 2013 have been met. The Group's later work program commits new expenditure of \$15 million to 30 November 2016. Actual expenditure will be dependent on the outcomes of the Galilee Gas Project currently in operation.

Commitments in the United States of America and South America in the next 12 months are \$1.882m, there are no commitments beyond 30 June 2015.

19 Contingent liabilities

The Group has no contingent assets or liabilities.

Notes to the financial statements

20 Operating Segments

Identification of reportable operating segments

The consolidation entity has identified its operation segments based on the internal reports that are reviewed and used by the board of directors (Chief Operation Decision Makers) in assessing performance and determining the allocation of resources. The consolidated entity is managed primarily on a geographic basis being tenements in Australia. Operating segments are determined on the basis of financial information reported to the board, which is at the consolidated entity level. The consolidated entity does not have any products/services from which it derives revenue.

Management currently identifies the consolidated entity as having only one reportable segment, being exploration for hydrocarbons. There have been no changes in the operating segments during the year. Accordingly, all significant operating decisions are based upon analysis of the consolidated entity as one segment. The financial results from this segment are equivalent to the financial statements of the consolidated entity as a whole.

21 Notes to the Statement of Cash Flows

| | Consolidated | |
|---|----------------|----------------|
| | 2014 | 2013 |
| | \$'000 | \$'000 |
| Reconciliation of loss for the year to net cash flows from operating activities: | | |
| Loss for the year | (2,601) | (6,496) |
| Depreciation | 18 | 21 |
| Losses on disposal of property, plant and equipment | - | - |
| Share-based payments | 6 | 35 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in trade and other receivables | 1,067 | (372) |
| Increase (decrease) in trade and other payables | (176) | 392 |
| Increase (decrease) in provisions | (11) | 21 |
| Net cash outflow from operating activities | (1,697) | (6,399) |

22 Events occurring after the balance sheet date

Under the terms of an employee service agreement a payment of \$268,447 was made on termination.

In addition the Company signed an agreement to progressively earn an interest in selected parts of an existing 110,000 acre lease block in southern Kansas targeting shallow oil and gas plays.

23 Related party transactions

(a) Parent entity

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 11.

(c) Key management personnel

Disclosures relating to key management personnel are set out in the remuneration report.

(e) Terms and conditions

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.

Notes to the financial statements

24 Financial instruments

The Group's financial instruments consist of deposits with banks, short-term investments, accounts receivable and payable. The totals for each category of financial instruments are as follows:

| | Consolidated | |
|------------------------------|--------------|--------|
| | 2014 | 2013 |
| | \$'000 | \$'000 |
| Financial assets | | |
| Cash and cash equivalents | 25,686 | 27,393 |
| Trade and other receivables | 1,051 | 2,118 |
| | <hr/> | <hr/> |
| | 26,737 | 29,511 |
| | <hr/> | <hr/> |
| Financial liabilities | | |
| Trade and other payables | 609 | 785 |
| | <hr/> | <hr/> |
| | 609 | 785 |
| | <hr/> | <hr/> |

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

(a) Credit risk

The Group is exposed to credit risk through its cash and cash equivalents. At 30 June 2014, the group had \$25,686,966 (2013: \$27,372,301) in accounts with the Westpac Banking Corporation and National Australia Bank.

(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 \$25,686,966 (2013: \$27,372,301).

All financial liabilities of the continuing business totalling \$609,956 (2013: \$784,414) are due and payable within six months of the reporting date.

Notes to the financial statements

24 Financial instruments (continued)

(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 of variable rate financial instruments.

(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). At the reporting date, the Group held no financial assets or liabilities in any other currency (2013: \$Nil).

Sensitivity Analysis

The following table illustrates sensitivities to the Group's exposures to changes in interest 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.

| | Profit \$ | Equity \$ |
|--------------------------------|----------------|----------------|
| <i>Year ended 30 June 2014</i> | | |
| +/- 2% in interest rates | +/- 514 | +/- 514 |
| <i>Year ended 30 June 2013</i> | | |
| +/- 2% in interest rates | +/- 548 | +/- 548 |

(d) Fair value estimation

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

25 Reserves

| | Consolidated | |
|---|----------------|---------|
| | 2014 | 2013 |
| | \$'000 | \$'000 |
| Share based payments reserve | 973 | 967 |
| Non-controlling interests elimination reserve | (7,656) | (7,656) |
| | (6,683) | (6,689) |

(i) Share based payments reserve

This reserve reflects the fair value of equity instruments granted under share-based payment arrangements.

(ii) Non-controlling interests elimination reserve

This reserve has arisen as a result of the acquisition of the non-controlling interests in subsidiary company Galilee Resources Pty Ltd. The value of consideration paid for the non-controlling interests was greater than the carrying value of the non-controlling interests acquired.

Directors' declaration

The directors of the Company declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and accompanying notes are in accordance with the Corporations Act 2001 and:
 - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (b) Give a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date.
2. The Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
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 directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

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

A handwritten signature in black ink, appearing to read 'D King', written in a cursive style.

David King
Chairman

Sydney
26 September 2014

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 consolidated statement of financial position as at 30 June 2014, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 control relevant to the company's preparation of the financial report that gives a true and fair view 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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*, which has been given to the directors of Galilee Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

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 2014 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b) 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 pages 7 to 11 of the directors' report for the year ended 30 June 2014. 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.

Opinion

In our opinion, the Remuneration Report of Galilee Energy Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

BDO Audit Pty Ltd

BDO



A J Whyte

Director

Brisbane, 26 September 2014

Shareholder Information

Securities on issue

The Company has the following securities on issue:

ASX quoted: 152,140,466 ordinary shares, each fully paid.

(a) Distribution of ordinary shares, analysis of shareholders by size of holding:

As at 30 September 2014

| Range | Total holders | Units | % of Issued Capital |
|-------------------------|---------------|--------------------|---------------------|
| 1 - 1,000 | 107 | 41,701 | 0.03 |
| 1,001 - 5,000 | 431 | 1,494,038 | 0.98 |
| 5,001 - 10,000 | 312 | 2,590,579 | 1.70 |
| 10,001 - 100,000 | 485 | 15,850,983 | 10.42 |
| 100,001 - 9,999,999,999 | 153 | 132,163,165 | 86.87 |
| Total | 1,488 | 152,140,466 | 100.00 |

The number of shareholders holding less than a marketable parcel (minimum \$500.00 at 16c per share) is 288.

(b) 20 largest shareholders as of 8 October 2014.

| Rank | Name | Units | % of Units |
|---|--|-------------------|--------------|
| 1. | ECARLATE PTY LTD | 18,342,608 | 12.06 |
| 2. | EKCO INVESTMENTS PTY LTD | 8,481,011 | 5.57 |
| 3. | AMP LIFE LIMITED | 8,419,967 | 5.53 |
| 4. | NERO RESOURCE FUND PTY LTD <NERO RESOURCE FUND A/C> | 5,759,018 | 3.79 |
| 5. | BECAMAL PTY LTD <GORDON SMITH FAMILY A/C> | 5,520,945 | 3.63 |
| 6. | MR A EDGAR + MS T BAINBRIDGE <EDGAR FAMILY SUPER FUND A/C> | 4,630,165 | 3.04 |
| 7. | MR P BILSTON + MRS S BILSTON <BILSTON FAMILY S/F A/C> | 4,380,165 | 2.88 |
| 8. | JADE SECURITIES PTY LTD <BEK UNIT A/C> | 3,000,000 | 1.97 |
| 9. | MACLANS SUPERANNUATION HOLDCO PTY LTD | 3,000,000 | 1.97 |
| 10. | SCINTILLA STRATEGIC INVESTMENTS LIMITED | 3,000,000 | 1.97 |
| 11. | VENTURIN NOMINEES PTY LIMITED | 2,996,337 | 1.97 |
| 12. | INVIA CUSTODIAN PTY LIMITED <PACIFIC ROAD PROVIDENT A/C> | 2,451,083 | 1.61 |
| 13. | PACIFIC TUG PTY LTD <THE KYTHERA UNIT A/C> | 1,698,984 | 1.12 |
| 14. | MR P COOPER | 1,691,353 | 1.11 |
| 15. | PIAT CORP PTY LTD | 1,600,000 | 1.05 |
| 16. | MACLANS SERVICES PTY LTD <MACLANS SUPER FUND A/C> | 1,588,498 | 1.04 |
| 17. | EDWARDS INVESTMENTS AUSTRALIA PTY LTD | 1,401,975 | 0.92 |
| 18. | KIRKHAM INVESTMENTS AUSTRALIA PTY LTD | 1,401,975 | 0.92 |
| 19. | MR R WILSON + MRS S WILSON <THE WILSON S/F A/C> | 1,362,582 | 0.90 |
| 20. | ARLES INTERNATIONAL LTD | 1,314,286 | 0.86 |
| Totals: Top 20 holders of FULLY PAID ORDINARY SHARES (TOTAL) | | 82,040,952 | 53.92 |

Shareholder Information

Securities on issue (continued)

(c) Substantial shareholders

The following have disclosed substantial shareholder notices to the Company.

| Name | Units | % of Units |
|--------------------------|------------|------------|
| ECARLATE PTY LTD | 18,342,608 | 12.06 |
| EKCO INVESTMENTS PTY LTD | 8,481,011 | 5.57 |
| AMP LIFE LIMITED | 8,419,967 | 5.53 |

(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) Options/Performance Rights details

There are no options/performance rights on issue.

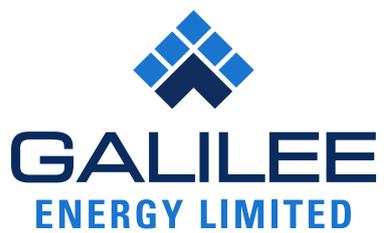
Tenement Interests

| | | | | |
|-----------|------------------------|------------|----------|--|
| Australia | Galilee Energy Limited | Queensland | ATP 529P | 50% Galilee Energy Limited 50% AGL Energy Limited |
|-----------|------------------------|------------|----------|--|



... a three part strategy for the company to deliver value for shareholders.

- maximising the value of ATP529 by demonstrating our ability to produce gas from the coals;*
- developing a sustainable foundation by building a solid production base*
- build our exploration portfolio by acquiring large low cost positions in underexplored areas.*



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