



ANNUAL REPORT 2018



CORPORATE DIRECTORY

Directors & Management

Ray Shorrocks - Non-executive Chairman
Peter Lansom - Managing Director
Dr David King - Non-executive Director
Stephen Kelemen - Non-executive Director

Chief Financial Officer
Don Langdon

Company Secretary
Stephen Rodgers

ASX Code

GLL

Principal Registered Office

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Share and Options Registry

Computershare Investor Services Pty Limited
Level 1
200 Mary Street
Brisbane QLD 4000
Phone: 1300 552 270

Stock Exchange

Australian Securities Exchange
Home Branch: Brisbane

Auditors

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

Solicitors

Piper Alderman
Level 26, Riparian Plaza
71 Eagle Street
Brisbane QLD 4000

Bankers

National Australia Bank
308 - 322 Queen St
Brisbane QLD 4000

www.galilee-energy.com.au



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Dear Fellow Shareholders

I am particularly pleased to be able to report that 2017/2018 has been another successful year for your Company during which the Management team has delivered considerable value to shareholders. The Company has also made excellent progress with its flagship asset, the Glenaras Gas Project. During the year Galilee Energy completed a complex three well lateral program. The achievements in drilling these wells should not be understated, the first time such coals had been drilled horizontally to this length, the depth of the coals, staying within the coal window and not breaching the critical upper and lower shale barriers. The productivity of the Glenaras pilot has been excellent as it approaches critical desorption pressure. Already small gas flow has been recorded from both wells. This represents a major milestone for the Company and the next six months will prove to be critical in the Company's history.

Our People

I cannot overstate the importance that the management team has had in the success of the Company. The business would not be in the strong position it is today were it not for its people.

One of our core strengths is the capability and experience of our small but talented team of people. This is a result of a culture which aims to empower and develop our staff to succeed at almost every level. We encourage innovation, accountability and excellence.

I would like to express the Board's thanks and indeed admiration for the outstanding contribution of the Company's staff and consultants during the year.

Capital Management

Over the past year the Company has embarked on two capital raisings which have greatly advanced the success of the Glenaras project and the pilot. In October 2017 we raised circa \$5.1m from shareholders and welcomed new institutional shareholders on to our register. In July 2018, we raised a further \$5.6m from existing and new institutional shareholders which has greatly enhanced the quality of our register as well as our balance sheet.

Safety First

At Board and management level and across the Company, safety remains a major priority. We are therefore pleased to inform shareholders that we have not needed to report any safety breaches over the past 12 months. Operations were also undertaken without any notable environmental incidents and also in line with the terms and conditions agreed with the landowners on whose properties we operate. We continue to maintain a good relationship with the landowners and the community. The Board's Risk Committee meets to reinforce and maintain this excellent record.

Financial Management

The Board and senior management are very conscious of maintaining tight financial control. I am happy to report that the vast majority of the Company's capital has been directly spent 'in the ground'. The board commits to maintaining this strong hand of all things financial.

Corporate Responsibility

In 2018, Galilee Energy once again revised and updated its Corporate Governance Statement to more clearly articulate its commitment and aspirations to Corporate Governance and leadership.

As set out in the Corporate Governance Statement, we aim to:

- Maintain the highest standards of ethics and governance;
- Continue to develop our people and remunerate them fairly;
- Promote a diverse and inclusive workplace;
- Make a positive impact in the communities in which we operate;
- Not be complicit or engage in activities that solicit human rights abuse;

- Seek to keep shareholders updated on the progress of operations and other matters of material importance
- Identify opportunities to improve our environmental performance; and
- Monitor and report our corporate responsibility performance on a regular basis.

Board Enhancement

During the year we welcomed Mr Stephen Kelemen to the Board. Stephen's experience and expertise in unconventional gas projects across Australia have been invaluable to the Board and the Company as well as being welcomed by the investment community.

Overall, the financial year 2017/2018 has been a strong one. As a shareholder, your continued support and confidence in our direction will ensure that the year ahead is as exciting as the one passed and the Company's potential can be realised. The Board believes the Company is in an extraordinary position and we are all excited at what the future holds for us.

Yours sincerely



Ray Shorrocks
Chairman

Glenaras Gas Project (ATP 2019) – GLL 100%

The Company's flagship Glenaras Gas Project ("Project") (Figure 1) is located in Central Queensland in the coal-rich Galilee Basin. The project represents the sweet spot for coal seam gas within the Basin and has one of the largest remaining uncontracted gas resources on the east coast of Australia with an independently derived and certified Contingent Resource within the Betts Creek coals with a 1C of 308 PJ, a 2C of 2508 PJ and a 3C of 5314 PJ. The Company's primary focus over the past twelve months has been on converting these vast Contingent Resources to Reserves. The potential commercialisation of the project will represent a significant valuation change for our shareholders.

During 2017/2018 we have achieved a step-change in the business and made large inroads on our corporate growth strategy. A strong investor communication programme, along with two important capital raisings, has given the Company significant new exposure to the investment community and has educated the market on our potential to be a major new supply source into the East Coast gas market. Following on from the first capital raising, the Company was successful in executing a challenging new exploration pilot with the drilling of the Glenaras multilateral well programme (Figure 2). This three-well lateral pilot in the R3 coal seam has been highly successful and was achieved safely and without any environmental incidents and maintained our strong relationships with our local communities and all other stakeholders.

Multi-Lateral Pilot

In early 2018, the Company executed the drilling of the three lateral wells in the R3 coal seam (Figure 2). The location of the pilot is approximately halfway between the two vertical pilots in the permit, the Rodney Creek and Glenaras 5-spot pilots. This location (Figure 3) enabled all produced water from the pilot to be directed to the Glenaras holding pond.

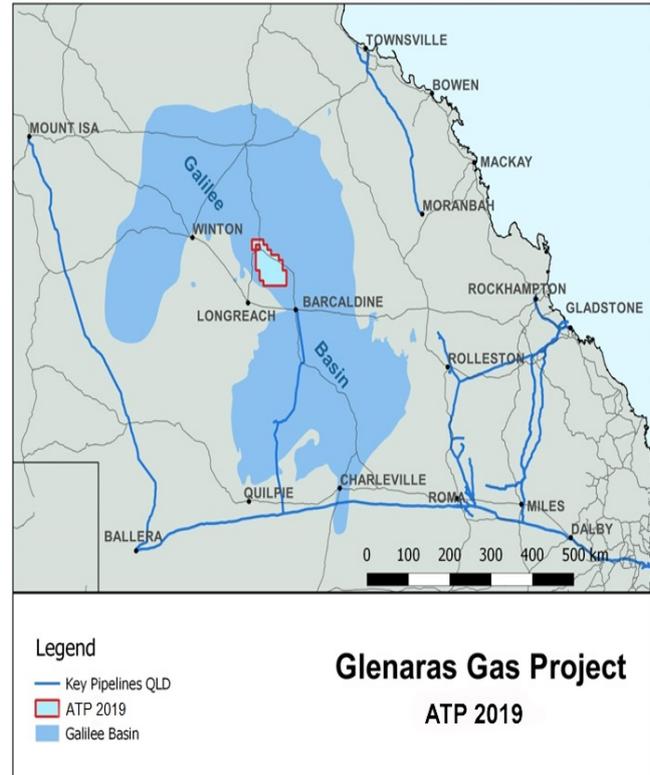


Figure 1

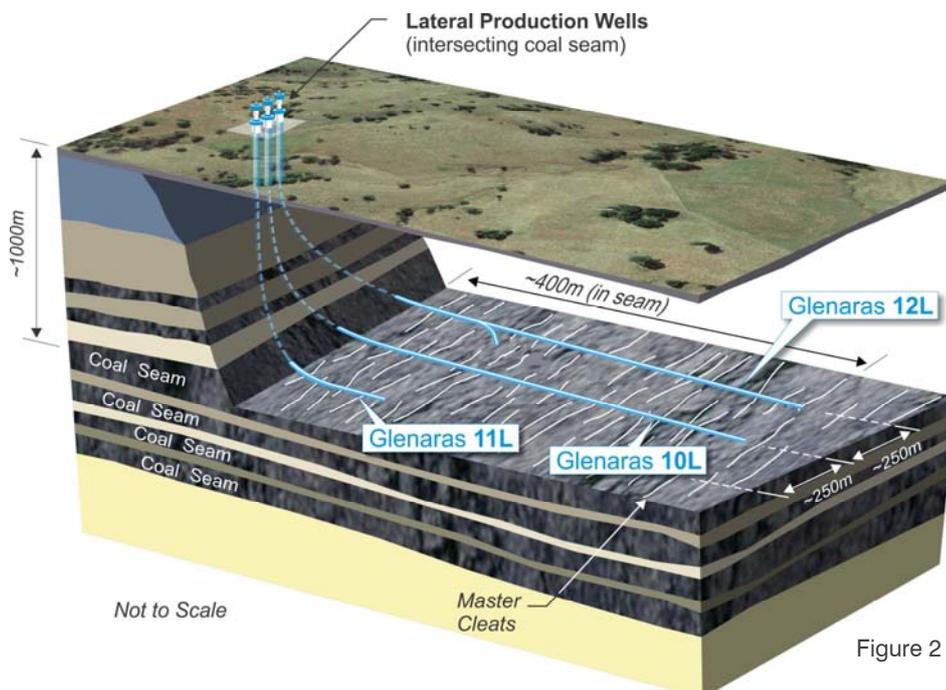


Figure 2 - Glenaras multi-lateral pilot

The pilot consists of two evenly spaced parallel laterals shielding the central coal area between the two wells. This configuration allows the central reservoir area to be drawn down below critical desorption pressure and achieve commercial gas rates more rapidly.

Easternwell Rig 101 commenced drilling operations with the Glenaras 10 well on 23 March. On 9 April, the Company reported that the lateral section of Glenaras 10L, the central well in the pilot, had been successfully drilled as planned with approximately 520m of net coal intersected in the well through the R3 coal seam primary target. On 6 May, Galilee announced that Glenaras 12L was successfully drilled with approximately 480m of net coal intersected through the R3 coal seam. Due to drilling issues, the third lateral well, Glenaras 11, is being utilised as an observation well to determine reservoir pressure drawdown.

The Glenaras multi-lateral pilot is on continuous production and demonstrating excellent water rates with both wells flowing water rates of approximately 3,900 BWPD in aggregate. Both wells are now flowing below the critical desorption pressure and the water flow rates are starting to level off as gas desorption begins. The casing pressure has built up in both wells indicating gas is now being produced from the coal. Glenaras 10L and Glenaras 12L are now both being redirected through a separator. Gas rates will continue to increase as fluid levels in the wells are reduced further and more coal area is drawn down below the critical desorption pressure.

There is strong evidence of direct communication between each of the lateral wells which is enhancing pressure drawdown in the pilot area. The pilot will be on production for an extended period to de-water and lower the pressure in the surrounding coal to achieve gas flow.

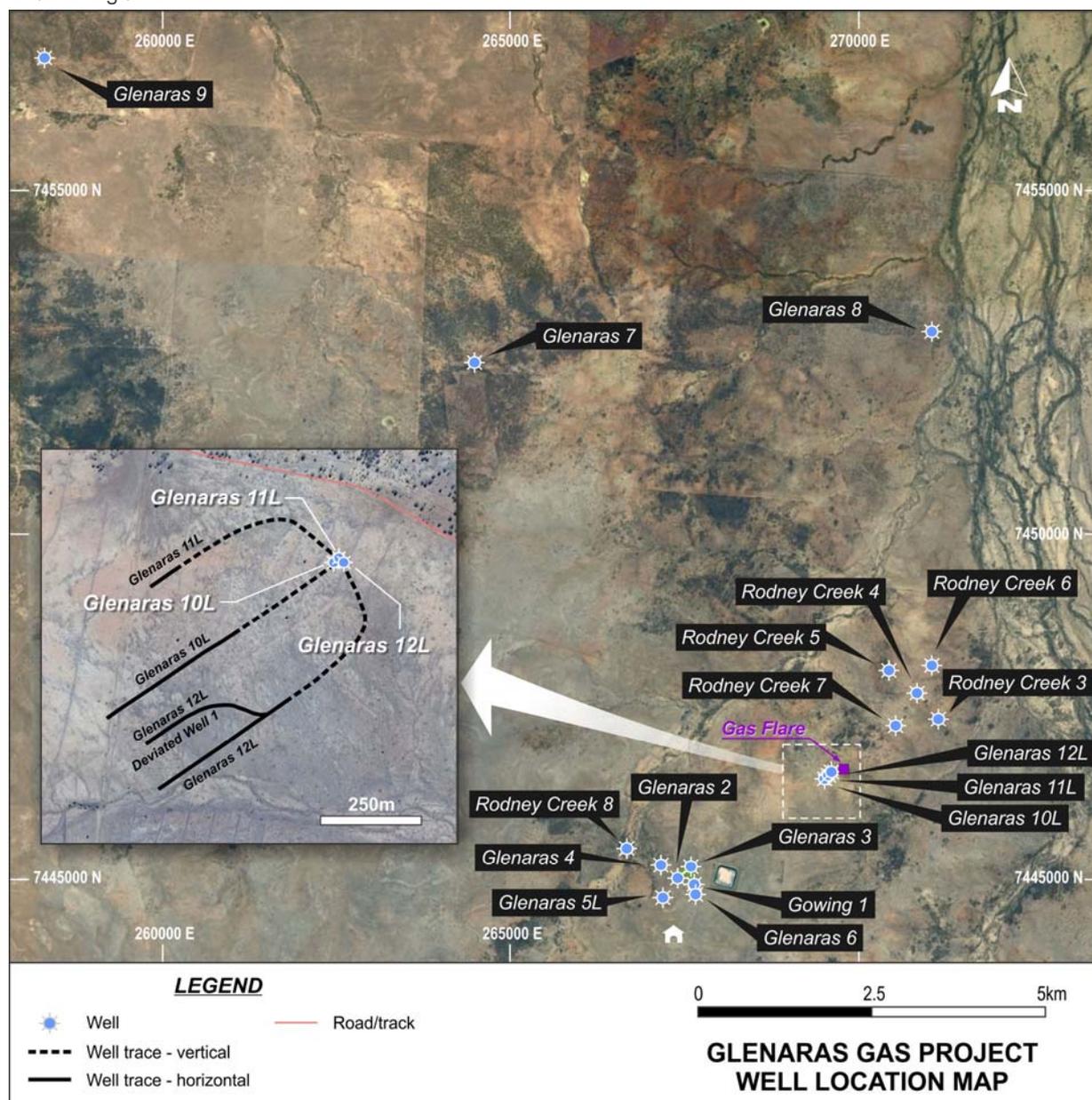


Figure 3 - Glenaras pilot location

Jemena Memorandum of Understanding

Substantial progress has been made by Jemena on its pre-FEED planning for the Galilee Gas Pipeline (Figure 4), including approval received in July from the Queensland government for a Petroleum Survey Licence to allow for on-the-ground surveying of the pipeline investigation corridor from the Glenaras Gas Project to a tie-in to the Queensland gas transmission network north of Wallumbilla.

Jemena has received a Standard Condition Environmental Authority (EA1302) for the Galilee Gas Pipeline and undertaken aerial surveys of the proposed pipeline investigation corridors as part of their application for the Petroleum Survey License.

Jemena has undertaken key stakeholder engagements on the proposed pipeline with local landholders, local government area mayors and councils, state government departments and key industry bodies and groups.

The ecological surveys and constructability surveys which are important elements of the Environmental Impact Statement have also commenced during 2018.

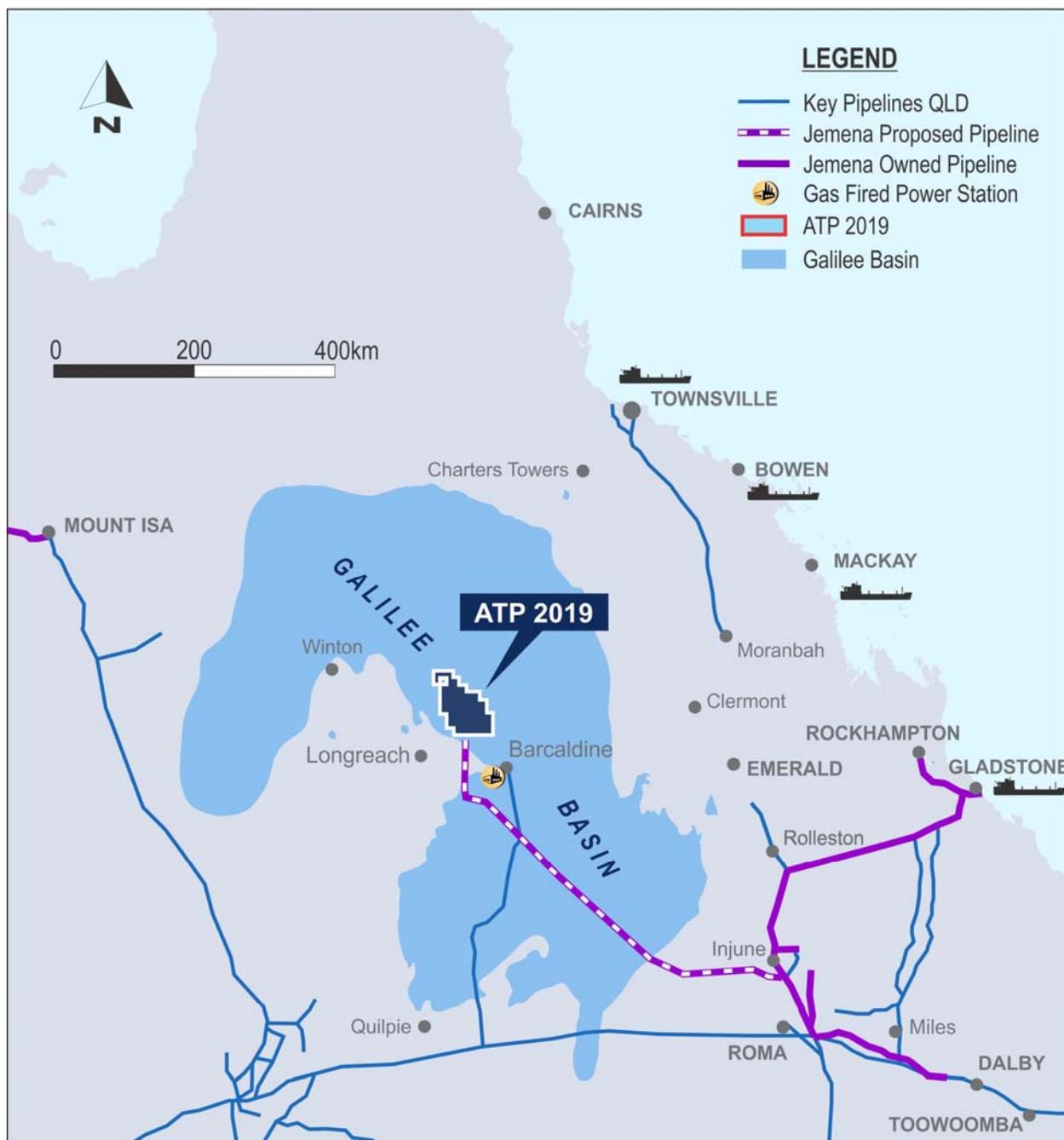


Figure 4 – Proposed Jemena pipeline

Commercial and Market

The east coast gas thematic continues to be a powerful one for Galilee Energy. Most of the gas production supplying the east coast gas market has typically been sourced from the Cooper Basin and offshore Victoria and gas prices were relatively low. The east coast market was then transformed with the advent of the three LNG projects in Queensland which altered the supply and pricing dynamics as well as the role of the transmission network. The conventional gas sources in the Cooper Basin and offshore Victoria are mature and nearing depletion. Since mid-2017 there has been a convergence between domestic gas prices in the east coast market and LNG export parity prices which are significantly higher than historical domestic gas prices. The long-term supply outlook for the east coast gas market remains uncertain. Even in a scenario whereby proposed LNG import terminals proceed the current gas supply balance is under extreme pressure. Over the medium to long-term, it is highly unlikely that existing supply will meet total demand on the east coast, with resultant import parity pricing for both domestic and export gas sales.

Prices have increased over the last 10 years from as low as \$3/GJ to current levels of \$8 to \$11/GJ, with the production of new onshore gas volumes challenged by regulatory restrictions currently still in place in Victoria and New South Wales. The structurally short, east coast gas market presents an enormous opportunity for the Company's gas assets. With very few other projects in the appraisal or development stage currently capable of meeting this shortfall, Galilee Energy is well placed to capitalise on this large potential given the size of our Resource. With CSG production in Queensland quadrupling over the past few years in response to LNG export, this demonstrates the world class quality of CSG in Australia and underpins Galilee's focus on CSG.

Concluding Comments

Your company has transformed in 2018 with the successful execution of the Glenaras multi-lateral pilot with first gas flow and promising signs for future deliverability. This has been achieved whilst maintaining our 100% equity position in ATP 2019 and at the same time strengthening our balance sheet to ensure we are fully funded to meet all future commitments.

I would like to take this opportunity to acknowledge the staff and contractors who have made the results of 2018 possible and look forward to the company delivering further transformational growth in 2019.

Peter Lansom
Managing Director



Figure 5 – Glenaras 10L wellsite photo

Board of Directors



Ray Shorrocks
Non-executive Chairman



Peter Lansom
Managing Director



Dr David King
Non-executive Director



Stephen Kelemen
Non-executive Director

Don Langdon B.Com, FICA, FAICD.

Chief Financial Officer - Part Time

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) at Comet Ridge Limited for nine years 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 - Part Time

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.

Gerard Ryan B.E. (Mech) M.Sc (Petroleum)

Chief Operating Officer

Appointed: Chief Operating Officer on 1 August 2018

Appointed: General Manager - Operations on 1 November 2014.

Mr Ryan has over 20 years experience in petroleum engineering, drilling, production operations, energy transmission and distribution, power generation and coal mining sectors in Australia and Ireland. Gerard 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. Gerard has experience in all aspects of oil and gas exploration with particular emphasis in operations and production optimisation.

Milton Cooper B.A. Accountancy CPA

Commercial & Business Development – Part Time

Mr Cooper has over 25 years commercial experience in the petroleum sector including 14 years in the UK, Vietnam and Indonesia, primarily responsible for commercialising conventional and unconventional gas, strategy and business development. He has held several senior positions with Santos, Premier Oil, Hess Corporation and Burlington Resources within finance, commercial, business development and new ventures as well as asset management roles. Milton has deep experience in joint venture management, strategic planning and commercial operations.

Brod Wray

Commercial & Business Development – Part Time

Mr Wray joined Santos as a reservoir engineer in 1985 after graduating from Adelaide University and has worked for more than 28 years in engineering, commercial, executive management and consulting roles in the Energy Industry. After ten years in petroleum and reservoir engineering at Santos, Brod spent 5 years in a variety of commercial management roles in the electricity industry during the privatisation of the South Australian Electricity business before re-joining Santos in 2001 in gas marketing and undertook a number of different commercial roles, including Manager of LNG marketing during the evolution of Santos substantial LNG business.

In 2008 Brod joined AWE Ltd as General Manager Commercial and Business Development. In 2012 he became an independent consultant to the oil and gas industry. He is a non-executive director of ASX listed IPB Petroleum Limited.

Ashley Edgar B.App.Sc. (Applied Geology), Grad Dip (Env)

Consulting Geoscientist

Mr Edgar worked under contract with Galilee Energy supporting exploration activities, including the Glenaras multi-lateral pilot project and the exploration portfolio in Chile.

Ashley is a geologist with 30 years' experience in conventional and unconventional oil and gas. He has held several senior positions in exploration, development and new ventures.

Jenny Langdon

Administration Manager

Appointed: Administration Manager on 30 August 2010.

Ms Langdon has over 30 years management experience, having owned and operated a number of successful automotive and commercial property operations. Jenny has served on state and national industry committees, convened national conferences and co-wrote the industry's environmental management handbook. She has also advocated 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.

Corporate Governance Overview Statement

The Directors and management of Galilee Energy Limited ("Galilee Energy" or the "Company") are committed to the creation of shareholder value and recognise the need for high standards of corporate governance as integral to that objective.

The Board is pleased to report that during the year ending 30 June 2018 the Company's corporate governance practices and policies have substantially accorded with those outlined in the ASX Corporate Governance Council's Principles and Recommendations (3rd Edition) ("ASX Recommendations" or "ASX Guidelines"), except as outlined in the Company's annual Corporate Governance Statement. Even where there is a deviation from the recommendations 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 practice.

The ASX Corporate Governance Council's (The Council) recommendations are not prescriptive but rather they are guidelines. If certain recommendations are not appropriate for the Company given its circumstances, it may elect not to adopt that particular practice in limited circumstances.

Where the Company's Corporate Governance practices do not correlate with the practices recommended by the Council, the Company does not consider that the recommended practices are appropriate due to either the size of the Board or the management team or due to the current activities and operations being carried on by and within the Company.

A copy of Galilee Energy's 2018 Corporate Governance Statement, which provides detailed information about governance and a copy of Galilee Energy's Appendix 4G which sets out the Company's compliance with the recommendations in the 3rd Edition of the ASX Recommendations is available on the corporate governance section of the Company's website at:

<http://galilee-energy.com.au/corporate-governance>

Directors' Report

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 2018. The financial statements have been reviewed and approved by the directors based on the recommendation of the Audit Committee.

1. Directors

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

Dr David King	Appointed Director 24/09/2013, <i>Non-executive Director since 31/3/18</i> <i>Non-executive Chairman 31/10/2013- 31/3/18</i>
Peter Lansom	Appointed Director 24/09/2013, <i>Managing Director since 31/10/2013</i>
Ray Shorrocks	Appointed Director 02/12/13, <i>Non-executive Chairman since 31/3/18</i> <i>Non-executive Director 02/12/13 – 31/3/18</i>
Stephen Kelemen	Appointed Director 31/3/2018

2. Principal activities

Galilee Energy Limited (Galilee) is a Brisbane based energy company with a portfolio spanning Australia, Chile and North America.

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. The Company also holds prospects in the USA and is progressing an application in South America.

3. Strategy

The Company's strategy is to build a balanced portfolio of short and long term growth opportunities in the conventional and unconventional hydrocarbon sector while continuing to focus on commercialising its core coal seam gas asset.

4. Results from operations

The loss for the year was \$10.316 million (2017: \$3.830 million).

The loss for the year reflects the exploration and evaluation expenditure incurred on the Galilee Basin permit of \$10.495 million. The major component of the prior year loss was the exploration expenditure on the Galilee Basin permit of \$3.817 million.

5. 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.

Directors' Report (continued)

6. Review of operations

Glenaras Gas Project (ATP 2019) – GLL 100%

The Company's flagship Glenaras Gas Project lies within the highly prospective ATP2019 permit, in Queensland's Galilee Basin. The permit covers an area of approximately 4000 km² and is 100% owned and operated by Galilee Energy.

The project contains a significant coal seam gas Contingent Resource position in the Betts Creek and Aramac coals with a 1C of 308 PJ, a 2C of 2508 PJ and a 3C of 5314 PJ, as a result of the extensive historical exploration activity within the permit.

Significant activity was undertaken on the ATP2019 permit during the year with the successful completion of the multi-lateral pilot. The lateral pilot is now on continuous production with both wells flowing below the critical desorption pressure, with the water flow rates having levelled off following the commencement of desorption. Glenaras 10L commenced gas production in mid- August with the early gas being redirected through a separator.

The pilot will be on production for an extended period to de-water and lower the pressure in the surrounding coal to achieve a commercial gas flow.

Excellent progress has been made by Jemena on stakeholder engagements, government approvals and aerial surveys for the proposed Galilee gas pipeline which will deliver gas produced by Galilee to the east coast domestic market.

US Assets

There was no activity for the period and no significant expenditure plans within the US portfolio.

Chile

The Company is progressing with the next phase of the exploration contract application (CEOP) over an area of almost 6,000 km² in the Southern Magallanes Basin by incorporating Chilean Government feedback on environmental and stakeholder aspects. This review is being undertaken using local Chilean consultants with significant expertise in mining concession applications. This exciting opportunity will continue to be nurtured at minimal cost in order to maintain momentum on this highly prospective acreage in the wealthiest country in South America, with clear channels to market and where they are currently importing gas.

Corporate

On 6 July 2018, the Company relocated to L26, 71 Eagle Street Brisbane.

7. Significant changes in state of affairs

During the year, the Company successfully completed a share placement and a share rights issue raising \$5.12 million to fund its ongoing exploration activities in the Galilee Basin. There were no other significant changes in the Company's activities.

8. Matters subsequent to the end of financial year

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years. In July 2018 the Company entered into placement subscription agreements with a number of sophisticated investors raising approximately \$5.66 million before costs.

Directors' Report (continued)

9. Environmental regulation

The Company conducts its operations in compliance with the Queensland Petroleum & Gas Act. Environmental considerations are reviewed with and approved by the Queensland Department of Environment and Science 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.

10. Options

During the year 2,500,000 share options were issued to a consultant as a bonus payment forming part of its remuneration for services provided in relation to the share placement and share rights issue undertaken during the year. The expense for these options is included in share issue costs in equity. Further information is included in Note 16 Share Based Payments.

11. 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.

12. Proceedings on behalf of the Company

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

13. 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 2018, and the numbers of meetings attended by each director were:

Name	Meetings of Directors		Meetings of Audit Committee		Meetings of Risk Committee	
	A	B	A	B	A	B
Dr David King	7	6	2	2	1	1
Peter Lansom	7	7	*	*	*	*
Ray Shorrocks	7	7	2	2	1	1
Stephen Kelemen	2	2	*	*	*	*

A = Number of meetings eligible to attend

B = Number of meetings attended

* = Not member of committee

Directors' Report (continued)

14. Information on Directors and Company Secretary

Ray Shorrocks

Non-executive Chairman

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

Indago Energy Limited	Appointed 12/01/16
Bellevue Gold Limited (formally Draig Resources Limited)	Appointed 31/12/15
Estrella Resources Limited	Appointed 24/06/15
International Goldfields Limited	Appointed 8/9/16 - Resigned 02/18

Special responsibilities

Chairman

Interest in Galilee Energy Limited shares and options
1,227,886 shares and 800,000 options

Dr David King

Director – 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

Cellmid Ltd	Appointed 18/01/08
African Petroleum Corporation Ltd	Appointed 01/07/13
Litigation Capital Management Ltd	Appointed 09/10/15
Tap Oil Ltd	Appointed 18/10/18

Special responsibilities

Chairman Audit Committee and member Risk Committee

Interest in Galilee Energy Limited shares and options
641,434 shares and 800,000 options

Stephen Kelemen

Director – Independent Non-executive

Stephen has a diverse petroleum industry experience across reservoir, development, operations and exploration activities in CSG on other unconventional gas projects from his 38 year career with Santos Ltd. Notably he led the company in gaining a foothold in CSG and other unconventional gas opportunities, including the 2005 acquisition of Tipperay Oil & Gas, developing the concept of CSG to LNG and evaluating plays and acreage with the potential to deliver reserves. Stephen is an Adjunct Professor for CCSG (Centre for Coal Seam Gas) at UQ and is the Deputy Chair – Petroleum for Queensland Exploration Council and a member of Core Energy Group Advisory Council and a Non-Executive Director of Advent Energy Limited (unlisted).

Other directorships in listed companies – current

Nil

Special responsibilities

Chairman Risk Committee

Interest in Galilee Energy Limited shares and options
120,000 shares

Directors' Report (continued)

14. Information on Directors and Company Secretary (continued)

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 Galilee Energy Limited shares and options

5,212,601 shares, 3,500,000 options and 600,000 performance rights

Stephen Rodgers

Company Secretary

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 on a part-time basis as Company Secretary and Legal Counsel to Comet Ridge Limited, a position he still holds. Stephen is also, on a part-time basis the Company Secretary for Galilee Energy Limited and Blue Energy Limited. Stephen has extensive experience in the operation and running of an ASX listed oil and gas company.

15. 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
- E Key management personnel shareholdings

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. It was not necessary to engage external remuneration consultants during the year.

Directors' Report (continued)

15. Remuneration Report (audited) (continued)

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

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

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 director remuneration is \$175,000.

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 objectives aligned with the company's 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.

Directors' Report (continued)

14. Remuneration Report (audited) (continued)

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

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 2018:

Item	Unit	2018	2017	2016	2015	2014
Revenue – continuing operations	\$'000s	180	194	379	799	1,103
Net profit/(loss) before tax	\$'000s	(10,316)	(3,830)	(6,039)	(9,810)	(2,601)
Net profit/(loss) after tax	\$'000s	(10,316)	(3,830)	(6,039)	(9,810)	(2,601)
Basic loss per share	cents	(5.9)	(2.5)	(4.1)	(6.4)	(1.7)
Last traded share price	cents	71.0	11.0	7.0	11.0	13.0
Remuneration -salary and fees	\$'000s	519	552	607	800	1,112

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

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:

	Short-term benefits & fees			Post Employment		Share-based Payments	Total	% Performance Based
	Salary & fees	Non-cash benefits	Termination payments	Super-annuation	Retirement benefits	Options Performance Rights		
30 June 2018								
Directors	\$	\$	\$	\$	\$	\$	\$	
Dr D King	62,785	-	-	5,965	-	-	68,750	0.00%
P Lansom	334,117	-	-	20,049	7,468	-	361,634	0.00%
R Shorrocks	71,370	-	-	4,880	-	-	76,250	0.00%
S Kelemen	12,500	-	-	-	-	-	12,500	0.00%
Total	480,772	-	-	30,894	7,468	-	519,134	
30 June 2017								
Directors	\$	\$	\$	\$	\$	\$	\$	
Dr D King	42,808	-	-	4,067	-	23,371	70,246	33.27%
P Lansom	290,202	-	-	19,615	1,512	115,317	426,646	27.03%
R Shorrocks	28,538	-	-	2,711	-	23,371	54,620	42.79%
Total	361,548	-	-	26,393	1,512	162,059	551,512	

Directors' Report (continued)

15. 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:

- Contract provides for salary review conducted December 2017 base salary amended to \$375,000 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

D Share based compensation

Directors' share options

No share options were granted to the Directors in the current financial year: The options currently on issue to Directors were granted in the prior financial year and which were part of their remuneration are as follows.

	Grant date	Opening balance	Granted as remuneration	Exercised	Expired	Closing balance	% Vested & Exercisable
Dr D King	18-Nov-16	800,000	-	-	-	800,000	100%
P Lansom	18-Nov-16	3,500,000	-	-	-	3,500,000	100%
R Shorrocks	18-Nov-16	800,000	-	-	-	800,000	100%
		<u>5,100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,100,000</u>	

Details of the terms and conditions for the share options granted during the prior year are as follows:

Name	Grant date	No. of Options	Fair value (cents)	Exercise price (cents)	Expiry date	Vesting date
Dr D King	18-Nov-16	800,000	2.9	12.5	18-Nov-19	18-Nov-16
P Lansom	18-Nov-16	3,500,000	2.9	12.5	18-Nov-19	18-Nov-16
R Shorrocks	18-Nov-16	800,000	2.9	12.5	18-Nov-19	18-Nov-16
		<u>5,100,000</u>				

Performance rights

No performance rights were granted during the year. The balance of performance rights on issue at year end and the movements during the year are as follows:

Name	Balance at start	Granted as remuneration	Exercised	Expired	Forfeited	Balance at end
P Lansom	600,000	-	-	(600,000)	-	-
	<u>600,000</u>	<u>-</u>	<u>-</u>	<u>(600,000)</u>	<u>-</u>	<u>-</u>

The balance of performance rights on issue at 30 June 2017 and the movements during the year are as follows:

Name	Balance at start	Granted as remuneration	Exercised	Expired	Forfeited	Balance at end
P Lansom	1,200,000	-	-	(600,000)	-	600,000
	<u>1,200,000</u>	<u>-</u>	<u>-</u>	<u>(600,000)</u>	<u>-</u>	<u>600,000</u>

Refer to Note 16 for further information regarding performance rights.

Directors' Report (continued)

15. Remuneration Report (audited) (continued)

E Key Management Personnel shareholdings

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

30 June 2018	Balance at beginning of year	Granted as remuneration during the year	Shares acquired	Other changes	Balance at end of year
Directors					
Dr David King	583,121	-	58,313	-	641,434
Peter Lansom	4,738,728	-	473,873	-	5,212,601
Ray Shorrocks	685,363	-	542,523	-	1,227,886
Stephen Kelemen	-	-	120,000	-	120,000
Total Directors	6,007,212	-	1,194,709	-	7,201,921

End of audited remuneration report

16. 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 non-audit services provided by the auditor of the parent Company, its related practices and non-related audit firms.

	30 Jun 18	30 Jun 17
	\$	\$
Non-audit services		
- Tax consulting and compliance services	11,011	13,200

17. Auditor's independence declaration

The auditor's independence declaration is included on Page 10 of the financial report for the year.

Signed in accordance with a resolution made pursuant to s306(3) of the Corporations Act 2001.

On behalf of the Directors



Raymond Shorrocks
Chairman
Brisbane, 24 September 2018

Audit Independence Declaration



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Australia

DECLARATION OF INDEPENDENCE BY A J WHYTE TO THE DIRECTORS OF GALILEE ENERGY LIMITED

As lead auditor of Galilee Energy Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of 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 handwritten signature in black ink, appearing to be 'A J Whyte', written over a circular scribble.

A J Whyte
Director

BDO Audit Pty Ltd

Brisbane, 24 September 2018

Consolidated Statement of Profit or Loss & Other Comprehensive Income

for the year ended 30 June 2018

	Note	Consolidated	
		30 Jun 18	30 Jun 17
		\$	\$
Revenue and other income			
Interest received		179,814	193,943
Research and Development tax offset received		1,578,045	1,404,773
		1,757,859	1,598,716
Expenses			
Exploration and evaluation costs	2 (a)	(10,495,172)	(3,836,032)
Employee benefits expense	2 (b)	(646,259)	(754,063)
Consulting fees	3 (c)	(275,052)	(103,065)
New project evaluation and analysis		(267,511)	(199,541)
Administration expenses	2 (d)	(390,314)	(536,111)
Total expenses		(12,074,308)	(5,428,812)
Loss before income tax		(10,316,449)	(3,830,096)
Income tax benefit/(expense)	3	-	-
Loss for the year		(10,316,449)	(3,830,096)
Other comprehensive (loss)/income, net of income tax			
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations		291	2,170
Total other comprehensive income, net of income tax		291	2,170
TOTAL COMPREHENSIVE LOSS		(10,316,158)	(3,827,926)
LOSS PER SHARE			
		Cents	Cents
Basic loss per share		5.9	2.5
Diluted loss per share		5.9	2.5

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

Consolidated Statement of Financial Position as at 30 June 2018

	Note	Consolidated	
		30 Jun 18	30 Jun 17
		\$	\$
ASSETS			
Current assets			
Cash and cash equivalents	7	4,916,260	6,087,157
Trade and other receivables	8	133,022	88,068
Total current assets		<u>5,049,282</u>	<u>6,175,225</u>
Non-current assets			
Trade and other receivables	8	1,414,964	1,544,902
Property, plant and equipment	9	79,176	117,498
Total non-current assets		<u>1,494,140</u>	<u>1,662,400</u>
Total assets		<u>6,543,422</u>	<u>7,837,625</u>
LIABILITIES			
Current liabilities			
Trade and other payables	10	3,837,755	319,309
Provisions		38,307	36,834
Total current liabilities		<u>3,876,062</u>	<u>356,143</u>
Non-current liabilities			
Trade and other payables	10	63,060	59,788
Provisions	11	1,561,178	1,195,655
Total non-current liabilities		<u>1,624,238</u>	<u>1,255,443</u>
Total liabilities		<u>5,500,300</u>	<u>1,611,586</u>
NET ASSETS		<u>1,043,122</u>	<u>6,226,039</u>
EQUITY			
Issued capital	12	65,346,715	60,227,574
Reserves	13	(7,446,303)	(7,460,694)
Accumulated losses		(56,857,290)	(46,540,841)
TOTAL EQUITY		<u>1,043,122</u>	<u>6,226,039</u>

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

Consolidated Statement of Changes in Equity

for the year ended 30 June 2018

	Issued Capital	Accumulated Losses	Non-controlling Interests Elimination Reserve	Foreign Currency Translation Reserve	Share-based Payments Reserve	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2017	60,227,574	(46,540,841)	(7,656,400)	(48,162)	243,868	6,226,039
Loss for the period	-	(10,316,449)	-	-	-	(10,316,449)
Other comprehensive loss	-	-	-	291	-	291
Total comprehensive loss	-	(10,316,449)	-	291	-	(10,316,158)
Contributions of equity net of transaction costs	5,119,141	-	-	-	-	5,119,141
Share-based payments expense	-	-	-	-	14,100	14,100
Transfers	-	-	-	-	-	-
	5,119,141	-	-	-	14,100	5,133,241
Balance at 30 June 2018	65,346,715	(56,857,290)	(7,656,400)	(47,871)	257,968	1,043,122
Balance at 1 July 2016	60,227,574	(42,732,862)	(7,656,400)	(50,332)	30,894	9,818,874
Loss for the period	-	(3,830,096)	-	-	-	(3,830,096)
Other comprehensive loss	-	-	-	2,170	-	2,170
Total comprehensive loss	-	(3,830,096)	-	2,170	-	(3,827,926)
Share-based payments expense	-	-	-	-	235,091	235,091
Transfers	-	22,117	-	-	(22,117)	-
	-	22,117	-	-	212,974	235,091
Balance at 30 June 2017	60,227,574	(46,540,841)	(7,656,400)	(48,162)	243,868	6,226,039

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

Consolidated Statement of Cash Flows

for the year ended 30 June 2018

	Consolidated	
	30 Jun 18	30 Jun 17
	\$	\$
Cash flows from operating activities		
Payments for exploration	(6,583,925)	(3,752,039)
Research and Development tax offset received	1,578,045	1,404,773
Payments to suppliers and employees (including GST)	(1,610,205)	(1,206,713)
Interest received	183,885	207,411
Net cash used in operating activities	(6,432,200)	(3,346,568)
Cash flows from investing activities		
Payments for property, plant and equipment	(1,429)	(87,658)
Refunds of/(Payments for) bonds and deposits	129,938	43,300
Net cash provided by/(used in) investing activities	128,509	(44,358)
Cash flows from financing activities		
Proceeds from issue of shares	5,635,084	-
Share issue costs	(501,843)	-
Net cash provided by financing activities	5,133,241	-
Net Decrease in cash and cash equivalents	(1,170,450)	(3,390,926)
Cash and cash equivalents at the beginning of the period	6,087,157	9,479,013
Effects of exchange rates on cash	(447)	(930)
Cash and cash equivalents at the end of the period	4,916,260	6,087,157

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

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Notes to the Consolidated Financial Statements for the year ended 30 June 2017

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.

General information

These financial statements include the consolidated financial statements and Notes of Galilee Energy Limited (the Company) and its controlled entities (Galilee Energy or “the Group”). Galilee Energy Limited is a for-profit entity for the purpose of preparing the financial statements. The financial statements were approved for issue by the Directors on 20 September 2018.

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

Level 26, 71 Eagle Street
BRISBANE QLD 4000

Principal activities

Galilee Energy Limited and Subsidiaries, (the Group) principal activities are to carry out oil and gas exploration and appraisal. The Group has tenement interests and exploration and evaluation activities in Australia, the United States and Chile.

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 financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the ordinary course of business. The Group has not generated revenues from operations. As such, the Group’s ability to continue to adopt the going concern assumption will depend upon a number of matters including subsequent successful raisings in the future of necessary funding and the successful exploration and subsequent exploitation of the Group’s tenements.

On 10 July 2018 the Group completed a private placement and raised \$5,662,000 in cash. Accordingly, existing cash reserves and the proceeds from the private placement are considered to be adequate to fund the planned expenditure for at least 12 months from the date of this report.

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

Notes to the Consolidated Financial Statements (continued)

1. Significant accounting policies (continued)

Critical accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement when applying the group's accounting policies. These 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 group and that are believed to be reasonable under present circumstances.

The critical estimates and judgements applied in the preparation of the financial statements are as follows:

Provision for rehabilitation

The Group's exploration activities are subject to various laws and regulations governing the protection of the environment, which require the rehabilitation of permit areas following the completion of exploration and/or production. The group estimates the future rehabilitation costs at the time of drilling the wells or installation of the assets. Rehabilitation could involve re-vegetation of the land area affected and the removal of oil and gas wells, and other surface plant and equipment. In some cases, the rehabilitation will occur many years into the future. The Group recognises managements' best estimate of the nature, extent and cost of the rehabilitation obligations in the period in which they arise. In addition, future changes to environmental laws and regulations, production estimates and discount rates could affect the calculation of the estimated cost of the rehabilitation estimates. As a result, actual costs incurred in future periods could differ materially from the estimates.

Estimates are made for rehabilitation based on the level of disturbance known at each balance date. These estimates are then costed at future rates. The calculation assumes that rehabilitation will occur in one years' time. The carrying amount of the rehabilitation provision at balance date is \$1,547,000 (2017: \$1,147,000).

Joint arrangements

The Group has interests in a number of joint arrangements in the USA:

In accordance with *AASB 11 Joint Arrangements*, the accounting treatment adopted for these joint arrangements depends upon an assessment of the rights and obligations of the parties to the arrangement that are established in each of the joint operating agreements (JOAs) or the farm-in agreement as the case may be. The JOA or farm-in agreement sets out the voting rights of the parties to the agreement. The voting rights determine who has control i.e. the power to direct the operating activities of the joint arrangement.

Based on the on an analysis of each JOA and farm-in agreement, the group has classified each of its joint arrangements as a "joint operation" in accordance with the requirements of AASB 11 in that:

- there is joint control because all decisions about the operating activities requires unanimous consent of all the parties, or a group of the parties considered collectively; and
- each party to the joint operation has rights to its respective interest in the assets and revenue of the arrangement, and obligations for its share of the liabilities and expenditure.

As a result, the group recognises in its financial statements its share of the revenue, expenses, assets and liabilities of each of the joint operations in which it has an interest.

Loans to and investments in subsidiaries

The parent entity has recorded its investments in subsidiaries at cost of \$24,098,886 (2017: \$24,098,886) less provisions for impairment of \$24,098,886 (2017: \$24,098,886). The parent entity has also loaned funds to its subsidiaries of \$14,117,731 (2017: \$14,278,437) primarily to fund exploration activities. The parent entity has impaired the carrying amount of loans by \$14,117,731 (2017: \$14,278,437). The impairment of the investments and loans has been based on the underlying net assets of the subsidiaries. In future periods, as the exploration activities progress on the various areas of interest, and with changes in other market conditions, the carrying amounts of investments and loans may need to be reassessed in line with the net asset position of the subsidiaries or as otherwise appropriate.

Notes to the Consolidated Financial Statements (continued)

1. Significant accounting policies (continued)

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.

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 2018 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 Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. 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.

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.

Notes to the Consolidated Financial Statements (continued)

1. Significant accounting policies (continued)

Foreign currency translation (continued)

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.

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 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.

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.

Government grants

Grants that compensate the Group for expenses incurred e.g. Research and Development are recognised in profit or loss when received and are offset against the expenditure to which the grant relates.

Notes to the Consolidated Financial Statements (continued)

1. Significant accounting policies (continued)

Research and development

Research and development expenditure is recognised as an expense as incurred. Costs incurred on research and development projects (relating to the design and testing of new or improved products or processes) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other developmental expenditures that do not meet these criteria are recognised as an expense when incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised on a straight-line basis over the asset's useful life from the point at which the asset is ready for use.

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.

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.

Notes to the Consolidated Financial Statements (continued)

1. Significant accounting policies (continued)

Income tax (continued)

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.

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 20). 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.

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.

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.

Notes to the Consolidated Financial Statements (continued)

1. Significant accounting policies (continued)

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.

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.

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 (i.e. trade date accounting is adopted).

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

Classification and subsequent measurement

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

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

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability.

Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

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

Notes to the Consolidated Financial Statements (continued)

1. Significant accounting policies (continued)

Financial instruments (continued)

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:

Notes to the Consolidated Financial Statements (continued)

1. Significant accounting policies (continued)

Financial instruments (continued)

- 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

De-recognition

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.

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:

Office equipment	15% - 30%
Plant and equipment	4% - 50%

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.

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.

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.

Notes to the Consolidated Financial Statements (continued)

1. Significant accounting policies (continued)

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.

Rehabilitation

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.

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.

Employee benefits

Short-term obligations

Provision is made for the Group's liability for wages and salaries, including non-monetary benefits, annual leave and long service leave arising from services rendered by employees up to reporting date. Employee benefits that are expected to be settled within one year are measured at the amounts expected to be paid when the liability is settled.

The liability for annual leave and long service leave expected to be settled with 12 months is recognised in the current provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

Other long-term obligations

The liability for long service leave and annual leave which is not expected to be settled wholly within 12 months after the end of the reporting period in which the employees render the related service is recognised in the non-current provision for employee benefits. 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, as closely as possible, the expected timing of cash flows.

Retirement benefit obligations

The Group makes contributions to defined superannuation funds. The contributions are recognised as an expense as they become payable.

Share-based equity settled benefits

The Group provides additional benefits to employees in the form of share-based compensation, whereby, subject to certain conditions, part of an employee's remuneration includes an entitlement to receive performance rights or options over shares ("equity-settled transactions").

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

Notes to the Consolidated Financial Statements (continued)

1. Significant accounting policies (continued)

Employee benefits (continued)

Share-based equity settled benefits (continued)

Fair value of a performance right or option is measured at grant date using a binomial or Black-Scholes pricing model that takes into account the exercise price, the term, any market performance conditions (the impact of non-market performance vesting conditions is excluded), the underlying share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the expected risk free interest rate for the term of the option or performance right.

Non-market vesting conditions are taken into account in the estimate of the number of rights or options that are expected to ultimately vest. At the end of each reporting period, the number of rights/options expected to vest based on the non-market vesting conditions is revised. The impact of the revision to the original estimates, if any, is recognised in profit or loss with a corresponding adjustment to equity. An expense is still recognised for options that do not ultimately vest because a market condition was not met.

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.

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.

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.

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.

Notes to the Consolidated Financial Statements (continued)

1. Significant accounting policies (continued)

New accounting standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 9 Financial Instruments

Nature of change

AASB 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 July 2018:

The financial assets held by the Group primarily comprise cash and debt instruments currently measured at amortised cost which meet the conditions for classification at amortised cost under AASB 9.

Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets.

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 new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under AASB 139. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under AASB 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. Based on the assessments undertaken to date, the Group expects no significant increase in the loss allowance for trade debtors.

The new standard also introduces expanded disclosure requirements and changes in presentation. These may change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption

Must be applied for financial years commencing on or after 1 July 2018. The Group will apply the new rules retrospectively from 1 July 2018, with the practical expedients permitted under the standard.

Notes to the Consolidated Financial Statements (continued)

1. Significant accounting policies (continued)

New accounting standards and interpretations not yet adopted (continued)

AASB 15 Revenue from Contracts with Customers

Nature of change

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods and services.

To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with a customer
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract(s); and
- recognise revenue when (or as) the performance obligations are satisfied.

Impact

The transitional provisions of this Standard permit an entity to either restate the contracts that existed in each prior period presented per AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors (subject to certain practical expedients in AASB 15); or recognise the cumulative effect of retrospective application to incomplete contracts on the date of initial application. There are also enhanced disclosure requirements regarding revenue.

The Group has assessed the impact of AASB 15 and has noted that this will not have a material impact on the accounts.

Date of adoption

Mandatory for financial years commencing on or after 1 July 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption, if any, will be recognised in retained earnings as of 1 July 2018 and that comparatives will not be restated.

AASB 16 Leases

Nature of change

AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. Based on the operating leases in place at balance date, it is not expected that AASB 16 will have a material impact on the financial report on adoption.

Date of adoption

AASB 16 is mandatory for financial years commencing on or after 1 July 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified date/date of transition approach and will likely not restate comparative amounts for the year prior to first adoption.

Notes to the Consolidated Financial Statements (continued)

2. Expenses

	Consolidated	
	30 Jun 18	30 Jun 17
	\$	\$
Loss before income tax includes the following specific expenses:		
(a) Exploration and evaluation expenditure		
Australia	(10,495,172)	(3,816,652)
United States	-	(5,897)
Chile	-	(13,483)
	<u>(10,495,172)</u>	<u>(3,836,032)</u>
(b) Employee benefits expense		
Other employee benefits expense	(479,227)	(411,748)
Directors' fees	(137,500)	(78,125)
Share based payments expense	-	(235,091)
Defined contribution superannuation expense	(29,532)	(29,099)
	<u>(646,259)</u>	<u>(754,063)</u>
(c) Contractor and consultants costs		
Consulting fees	(275,052)	(103,065)
	<u>(275,052)</u>	<u>(103,065)</u>
(d) Other expenses include the following specific items:		
Auditors remuneration		
- auditing or reviewing the financial reports	(34,112)	(42,842)
- taxation services	(11,011)	(17,886)
Occupancy costs		
- Rental expense relating to operating leases - minimum lease rentals	(41,946)	(174,777)
- Other occupancy costs	-	(5,548)
Depreciation	(39,751)	(71,368)
Other administration and office costs	(263,195)	(223,546)
Foreign exchange losses/gains (net)	(299)	(144)
	<u>(390,314)</u>	<u>(536,111)</u>

Notes to the Consolidated Financial Statements (continued)

3. Income tax

	Consolidated	
	30 Jun 18	30 Jun 17
	\$	\$
(a) Recognised in the statement of profit and loss and other comprehensive income		
Current tax benefit	2,394,861	583,784
De-recognition of deferred tax losses	<u>(2,394,861)</u>	<u>(583,784)</u>
	-	-
(b) Numerical reconciliation of income tax expense to prima facie tax on accounting profit		
Loss before income tax	(10,316,449)	(3,830,096)
Tax at the Australian tax rate of 30% (2017 30%)	3,094,935	1,149,029
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenses	(558,593)	(401,065)
Share-based payments expensed	50,608	(70,527)
Research and development tax offset received	473,414	421,432
Prior year tax losses converted to research and development tax offset	(1,088,309)	(936,517)
Current year tax losses not recognised	<u>(1,972,055)</u>	<u>(162,352)</u>
Income tax expense/(credit)	-	-
(c) Deferred tax assets not recognised		
Deferred tax assets have not been recognised in respect of the following items:		
Accrued expenses	7,327	7,347
Employee benefits	29,208	12,156
Other provisions	464,100	344,100
Capital costs deductible over 5 years	120,551	77,227
Receivables	<u>(3,590)</u>	<u>(4,811)</u>
Net deferred tax assets/(liabilities)	617,596	436,019
De-recognition of net deferred tax assets through profit or loss	<u>(617,596)</u>	<u>(436,019)</u>
Net deferred tax asset not recognised	-	-
Movement in deferred tax assets/(liabilities)		
Balance at the beginning of the year	-	-
(Charged)/credited to profit or loss	617,596	436,019
De-recognition of deferred tax assets through profit or loss	<u>(617,596)</u>	<u>(436,019)</u>
Balance at the end of the year	-	-
(d) Unused tax losses		
Income losses		
Australian income losses	52,742,576	45,083,852
US income losses	<u>12,060,233</u>	<u>12,170,481</u>
	64,802,809	57,254,333
Australian capital losses	<u>3,204,839</u>	<u>3,204,839</u>
Total unused tax losses	<u>68,007,648</u>	<u>60,459,172</u>
Potential tax benefit		
Australian losses @ 30%	15,822,773	13,525,156
US Losses @ 40%	4,824,093	4,868,192
Capital losses @ 30%	<u>961,452</u>	<u>961,452</u>
	<u>21,608,318</u>	<u>19,354,800</u>

Notes to the Consolidated Financial Statements (continued)

4. Interests of Key Management personnel

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 2018.

The totals of remuneration paid to Key Management Personnel of the Group during the year are as follows:

	Consolidated	
	30 Jun 18	30 Jun 17
	\$	\$
Short-term employee benefits	480,772	361,548
Post-employment benefits	30,894	26,393
Long-term employment benefits	7,468	1,512
Share -based payments	-	162,059
	519,134	551,512

5. Auditor's remuneration

	Consolidated	
	30 Jun 18	30 Jun 17
	\$	\$
Remuneration of the auditor of the parent company for:		
Audit services		
- Auditing or reviewing the financial statements	34,181	44,866
Non-audit services		
- Tax compliance services	11,011	13,200
	45,192	58,066

6. Earnings per share

Performance rights and options are not included in the calculation of earnings per share because they are not considered dilutive as the Group has losses.

	Consolidated	
	30 Jun 18	30 Jun 17
	\$	\$
(a) Earnings used in calculating basic and diluted earnings per share:		
Loss for the year	(10,316,449)	(3,830,096)
Loss used in the calculation of the basic and dilutive earnings per share	(10,316,449)	(3,830,096)
	Number	Number
(b) Weighted average number of ordinary shares used as the denominator		
Weighted average number of ordinary shares used in calculating basic earnings per share	173,960,333	152,140,466
Adjustments for the calculation of diluted earnings per share:		
Options/performance rights	-	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	173,960,333	152,140,466

Notes to the Consolidated Financial Statements (continued)

7. Cash and cash equivalents

	Consolidated	
	30 Jun 18	30 Jun 17
	\$	\$
Cash at bank and on hand	4,916,260	2,387,157
Deposits at call	-	3,700,000
Cash at bank and on hand	4,916,260	6,087,157

8. Trade and other receivables

	Consolidated	
	30 Jun 18	30 Jun 17
	\$	\$
Current		
Trade receivables	72,046	28,119
Interest receivable	11,967	16,038
Prepayments	49,009	43,911
	133,022	88,068
Non-Current		
Environmental bonds and deposits	1,198,167	1,198,167
Rental bond	216,797	346,735
	1,414,964	1,544,902
	1,547,986	1,632,970

9. Property, plant and equipment

	Consolidated	
	30 Jun 18	30 Jun 17
	\$	\$
Plant and equipment at cost	209,484	209,484
Accumulated depreciation	(146,818)	(119,961)
	62,666	89,523
Office equipment at cost	144,454	143,025
Accumulated depreciation	(127,944)	(115,050)
	16,510	27,975
	79,176	117,498

Notes to the Consolidated Financial Statements (continued)

9 Property, plant and equipment (continued)

Movements in carrying amounts of property, plant and equipment

	Buildings & leasehold improvements	Office equipment	Plant and equipment	Total
	\$	\$	\$	\$
Balance, 1 July 2017	-	27,975	89,523	117,498
Additions	-	1,429	-	1,429
Disposals	-	-	-	-
Depreciation	-	(12,894)	(26,857)	(39,751)
Balance, 30 June 2018	-	16,510	62,666	79,176

	Buildings & leasehold improvements	Office equipment	Plant and equipment	Total
	\$	\$	\$	\$
Balance, 1 July 2016	65	42,042	59,101	101,208
Additions	-	3,128	88,782	91,910
Disposals	-	(2,079)	(2,173)	(4,252)
Depreciation	(65)	(15,116)	(56,187)	(71,368)
Balance, 30 June 2017	-	27,975	89,523	117,498

Non-current assets pledged as security

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

10. Trade and other payables

	Consolidated	
	30 Jun 18	30 Jun 17
	\$	\$
Current		
Trade payables	3,690,987	180,179
Other payables	58,469	84,160
Employee benefits	88,299	54,970
	3,837,755	319,309
Non-Current		
Employee benefits	9,060	5,788
Security bond - sub-lease	54,000	54,000
	63,060	59,788
	3,900,815	379,097

Notes to the Consolidated Financial Statements (continued)

11. Provisions

	Consolidated	
	30 Jun 18	30 Jun 17
Current	\$	\$
Obligations under sub-lease	38,307	36,834
	38,307	36,834
Non-current		
Restoration & rehabilitation	1,547,000	1,147,000
Obligations under sub-lease	14,178	48,655
	1,561,178	1,195,655
	1,599,485	1,232,489

The amount of restoration and rehabilitation represents the obligation to restore land disturbed during exploration and evaluation activities to the conditions specified in the rehabilitation agreement. Rehabilitation is expected to be undertaken after the 2019 financial year.

	Consolidated	
	30 Jun 18	30 Jun 17
Movements in carrying amounts of restoration and rehabilitation provision	\$	\$
Balance at the beginning of year	1,147,000	1,147,000
Increase/(reduction) in amount provided	400,000	-
Balance at the end of year	1,547,000	1,147,000

The Company leased office premises in Edward Street on 31 December 2016 at a lease rental of \$12,168 per month. The lease term ends November 2019 with rent indexed annually at 4% from November 2017. After 31 December 2016, the premises were sub-leased for \$9,000 per month indexed the same as the head lease. As a result, the Company has an ongoing commitment up to and including November 2019 of \$3,168 per month.

In accordance with AASB 137, from 1 January 2017 the Edward Street lease becomes an onerous contract because the economic benefits from occupying the premises are now nil and there is an ongoing cost until the end of the lease term arising from the shortfall in the amount of the sub-lease rental. As a result, a provision for the full amount of the ongoing rental obligations under the sub-lease was initially recognised and is being reduced over the lease term as the sub-lease rental is received. The Company holds a rental bond of \$54,000 from the sub-tenant.

	Consolidated	
	30 Jun 18	30 Jun 17
Movements in carrying amounts of obligations under sub-lease provision	\$	\$
Balance at the beginning of year	85,490	-
Initial recognition of obligations under sub-lease	-	121,414
Reduction of rental obligations under sub-lease	(39,983)	(37,008)
Finance charges on unwinding of obligation	6,978	1,084
Balance at the end of year	52,485	85,490

Notes to the Consolidated Financial Statements (continued)

12. Issued capital

	Consolidated			
	30 Jun 18		30 Jun 17	
	\$		\$	
Ordinary shares				
Ordinary shares - fully paid	67,153,440		61,518,356	
Transaction costs relating to share issues (net of tax)	(1,806,725)		(1,290,782)	
	65,346,715		60,227,574	

	30 Jun 18		30 Jun 17	
	Number of Shares		\$	\$
Movements in ordinary shares				
Balance at the beginning of the year	152,140,466	152,140,466	60,227,574	60,227,574
Share placement @ 15 cents	20,321,070	-	3,048,161	-
Share rights issue @ 15 cents	17,246,154	-	2,586,923	-
Share issue costs	-	-	(515,943)	-
Balance at the end of the year	189,707,690	152,140,466	65,346,715	60,227,574

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.

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.

13. Reserves

	Consolidated	
	30 Jun 18	30 Jun 17
	\$	
Share based payments	257,968	243,868
Foreign currency translation	(47,871)	(48,162)
Non-controlling interest elimination reserve	(7,656,400)	(7,656,400)
	(7,446,303)	(7,460,694)

Share based payments reserve

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

Foreign currency translation reserve

The foreign currency translation reserve records the exchange differences arising on translation of foreign subsidiaries.

Notes to the Consolidated Financial Statements (continued)

13 Reserves (continued)

Non-controlling interest's 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.

	Share based payments	Foreign currency translation	Non-controlling interest elimination	Total
	\$	\$	\$	\$
Movements in reserves - 2018				
Balance at the beginning of year	243,868	(48,162)	(7,656,400)	(7,460,694)
Grant of options	14,100	-	-	14,100
Transfers	-	-	-	-
Foreign currency translation	-	291	-	291
Balance at the end of year	257,968	(47,871)	(7,656,400)	(7,446,303)
Movements in reserves - 2017				
Balance at the beginning of year	30,894	(50,332)	(7,656,400)	(7,675,838)
Grant of performance rights	235,091	-	-	235,091
Transfers	(22,117)	-	-	(22,117)
Foreign currency translation	-	2,170	-	2,170
Balance at the end of year	243,868	(48,162)	(7,656,400)	(7,460,694)

14. Interest in joint operation

Subsidiary	Agreement	Interest	Comment
Galilee Energy Texas LLC	Hoffer-Klmitchek Area Lavaca County Participation Agreement and Joint Operating Agreement	3%	Working interest reduced to 3% after payback.
Galilee Energy Kansas LLC	<ul style="list-style-type: none"> • Key Terms Agreement • Joint Venture Agreement Joint Operating Agreement	25% 50% 75%	Interest earned after: 3D seismic Well 1 to Casing point Well 2 to casing point

The Group's accounting policy is to expense its interests in the joint operations until such time an economically recoverable resource has been identified.

Notes to the Consolidated Financial Statements (continued)

15. Subsidiaries

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

Name of entity	Country of Incorporation	Class of equity	Equity Holding	
			2018	2017
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%	100%
Galilee Energy Texas LLC	United States	Ordinary	100%	100%
Galilee Energy Kansas LLC	United States	Ordinary	100%	100%
Galilee Energy Illinois LLC	United States	Ordinary	0%	100%
Galilee Energy Chile SpA	Chile	Ordinary	100%	100%

All subsidiaries have the same reporting date as the parent, Galilee Energy Limited.

16. Share based payments

Share-based payments expense

The share based payments expense included in the financial statement with respect to Options issued during the year is as follows:

	Consolidated	
	30 Jun 18	30 Jun 17
Statement of comprehensive income	\$	\$
Share based payments expense included in employee benefits expense	-	235,091
Movements in share based payments reserve		
Balance at the beginning of the period	243,868	30,894
Share based payments included in employee benefits expense	-	235,091
Share based payments included in share issue costs	14,100	-
Rights/options expired of forfeited transferred to issued capital	-	(22,117)
Balance at the end of the period	257,968	243,868

During the year, no performance rights or share options were granted to employees and contractors as part of their remuneration. Share issue costs incurred with respect to the share placement and rights issue completed during the year includes a bonus payment to Gleneagles which comprised the issue of 2,500,000 share options with an exercise price of 25 cents. This expense is included in share issue costs in equity.

The types of share-based payment plans are described below:

Employee share options

Options are granted either under the Company's Employee Share Incentive Option Plan or on terms determined by the directors or otherwise approved by the Company at a general meeting. The options are granted for no consideration. Options are usually granted for a three to four year period and entitlements to the options are vested on a time basis and/or on specific performance based criteria such as share price increases or reserves certification. Options granted either under the plan or otherwise as described above carry no dividend or voting rights. When exercisable, each option is convertible to one ordinary share.

Notes to the Consolidated Financial Statements (continued)

16. Share based payments (continued)

Employee share options (continued)

The amount assessed as fair value at grant date is allocated equally over the period from grant date to vesting date.

The following table shows the number and movements of share options during the year and on issue at balance date.

Grant date	Expiry date	Opening balance	Granted during the period	Exercised during the period	Expired during the period	Closing balance	% Vested & Exercisable
18-Nov-16	18-Nov-19	7,600,000	-	-	-	7,600,000	100%
1-Dec-17	31-Dec-19	-	2,500,000	-	-	2,500,000	100%
		<u>7,600,000</u>	<u>2,500,000</u>	<u>-</u>	<u>-</u>	<u>10,100,000</u>	

Details of the terms and conditions of share options on issue at the beginning of the year and issued during the year are as follows:

No. of Options Granted	Grant Date	Fair Value (cents)	Exercise Price (cents)	Expiry Date	Vesting Date	No. of Options Exercisable
7,600,000	18-Nov-16	2.9	12.5	18-Nov-19	18-Nov-16	7,600,000
2,500,000	1-Dec-17	0.6	25.0	31-Dec-19	1-Dec-17	2,500,000

The fair value of the share options issued to Gleneagles as part of its fee for assistance with the capital raising during the year was determined as follows:

Options Issued	2,500,000
Capital raising \$	5,635,091
Gross fee %	7.25%
Gross fee \$	408,544
Cash fee paid \$	394,456
Value of options issued \$	14,088
Fair value per option	0.6 cents

The fair value of the share options issued during the 2017 year was determined using a Black-Scholes option pricing model and Monte Carlo simulation taking into account the term of the option, the share price at grant date, the expected price volatility of the underlying share, the expected dividend yield, the risk free interest rate for the term of the option and, as the options had already vested, an estimate of the anticipated exercise date. The following table lists the inputs to the model used to value the share options granted during the year.

Input Variables	Input
Options granted	7,600,000
Grant date	18-Nov-16
Vesting date	18-Nov-16
Exercise period	3 years
Expected exercise date	31-Oct-17
Expected life	0.95 years
Risk free rate	1.75%
Expected annual volatility	80.00%
Annual rate of dividends	0%
Value per option	2.9 cents

Notes to the Consolidated Financial Statements (continued)

16. Share based payments (continued)

Employee Performance Share Rights

Employee Performance Rights are provided to certain employees via the Galilee Energy Limited Performance Rights Plans for employees and contractors. Performance Rights are granted on terms determined by the directors.

The object of the plans is to:

- (a) provide an incentive for employees/contractors to remain in their employment and continue to provide services to the Group in the long term;
- (b) recognise the ongoing efforts and contributions of employees/contractors to the long term performance and success of the Group; and
- (c) provide employee/contractors with the opportunity to acquire performance rights, and ultimately shares in Galilee Energy Limited.

Performance Rights are issued for no consideration and provide an equity-based reward for employees that is linked with achieving performance conditions determined when the Performance Rights are granted. The performance criteria are determined on a case by case basis by the Board. These performance criteria are likely to be matters such as length of employment, successful operational results and/or direct increase in shareholder value linked to the share price of the Company or reserve targets.

No performance rights were granted to employees or contractors during the year. The following table shows the number and movements of performance rights during the year and on issue at 30 June 2018:

Grant date	Expiry date	Opening balance	Granted	Exercised	Expired	Forfeited	Closing balance
20-Nov-14	1-Dec-17	600,000	-	-	(600,000)	-	-
		600,000	-	-	(600,000)	-	-

Notes to the Consolidated Financial Statements (continued)

17. Parent company information

The assets, liabilities and results of the parent company are disclosed below in accordance with the accounting policy described in Note 1.

Galilee Energy Limited	30 Jun 18	30 Jun 17
	\$	\$
Assets		
Current assets	4,977,308	6,156,191
Non-current assets	1,481,864	1,650,124
Total assets	<u>6,459,172</u>	<u>7,806,315</u>
Liabilities		
Current liabilities	3,811,936	338,581
Non-current liabilities	468,178	102,655
Total liabilities	<u>4,280,114</u>	<u>441,236</u>
Net assets	<u>2,179,058</u>	<u>7,365,079</u>
Shareholders' Equity		
Issued capital	65,346,715	60,227,574
Reserves	257,968	243,868
Accumulated losses	(63,425,625)	(53,106,363)
Total shareholders' equity	<u>2,179,058</u>	<u>7,365,079</u>
Loss for the year	<u>(10,319,262)</u>	5,800,736
Total comprehensive loss for the year	<u>(10,319,262)</u>	5,800,736

The parent company did not have any contingent liabilities at 30 June 2018 (2017: \$Nil). The parent company has not entered into any guarantees in relation to the debts of its subsidiaries (2018: \$Nil).

18. Contractual commitments

The parent company had no contractual commitments for the acquisition of property, plant and equipment at 30 June 2018 (2017: \$Nil). The parent company has not guaranteed the debts of any subsidiary company (2017: \$Nil), other than through its tax sharing and tax funding agreements.

19. Contingent Liabilities

The directors are not aware of any contingent assets or liabilities for the Group (2017: \$Nil).

20. Commitments

Operating lease commitments

Commitments for minimum lease payments for non-cancellable operating leases for offices and equipment contracted for but not recognised in the financial statements.

	Consolidated	
	30 Jun 18	30 Jun 17
	\$	\$
Operating lease commitments		
Minimum lease payments payable as follows:		
not later than 12 months	155,400	149,423
between 12 months and 5 years	65,804	208,044
	<u>221,204</u>	<u>357,467</u>

Notes to the Consolidated Financial Statements (continued)

20. Commitments (continued)

Bank guarantees

National Australia Bank have provided bank guarantees totalling \$1,520,626 (June 2017: \$1,520,626) as follows:
The bank guarantees are secured by term deposits.

- \$1,173,891 (June 2017: \$1,173,891) to the State of Queensland in respect of the Group's exploration permits and environmental guarantees; and
- \$346,735 (June 2017: \$346,735) to the landlord of the Brisbane office premises to support the Group's obligations under the lease of the Edward Street, Brisbane premises.

Exploration expenditure

In order to maintain its interests in the exploration permits in which the Group is involved, the Group is required to meet certain conditions imposed by the various statutory authorities granting the exploration permits or that are imposed by the various joint arrangements entered into by the Group. These conditions include minimum expenditure commitments.

At balance date, the Group's minimum work program commitments for the Galilee Basin permit have been met. Actual expenditure may vary significantly from the minimum commitment obligations and will be dependent on the outcome of exploration activity currently being planned.

Commitments in the United States of America and South America in the next 12 months are \$nil (2017: \$nil). There are no commitments beyond 30 June 2018.

21. Segment Information

Identification of reportable segments

The Group has identified its operating segments based on the geographic location of its respective areas of interest (tenements). The internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources are prepared on the same basis.

The principal operating activities of the Group are the exploration and evaluation of its tenements for oil and gas reserves. Other than the expensing of exploration and evaluation expenditure, income and expenditure as per the statement of comprehensive income consists of incidental revenue including interest and corporate overhead expenditure which are not allocated to the Group's operating segments.

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

Notes to the Consolidated Financial Statements (continued)

21. Segment Information (continued)

Segment performance

The following table shows the revenue and exploration and evaluation expenditure information regarding the Group's operating segments for 30 June 2018 and 30 June 2017.

	Australia Qld \$	Illinois \$	United States Texas \$	Kansas \$	South America Chile \$	Total \$
30 June 2018						
Segment Result						
Exploration & evaluation costs	(10,495,172)	-	-	-	-	(10,495,172)
Segment result before tax	(10,495,172)	-	-	-	-	(10,495,172)

Reconciliation of segment result to Group loss before tax

Interest revenue						179,814
Other income						1,578,045
Employee benefits expense						(646,259)
Consulting fees						(275,052)
Business development Administration expenses						(267,511)
						(390,314)
Loss before tax						(10,316,449)

30 June 2017

Segment Result

Exploration & evaluation costs	(3,816,645)	(10,767)	4,871	-	(13,484)	(3,836,025)
Segment result before tax	(3,816,645)	(10,767)	4,871	-	(13,484)	(3,836,025)

Reconciliation of segment result to Group loss before tax

Interest revenue						193,943
Other income						1,404,773
Employee benefits expense						(754,063)
Consulting fees						(103,065)
Business development Administration expenses						(199,541)
						(536,111)
Loss before tax						(3,830,089)

Notes to the Consolidated Financial Statements (continued)

22. Notes to the Statement of Cash Flows

	Consolidated	
	30 Jun 18	30 Jun 17
(a) Reconciliation of cash flow from operations	\$	\$
Loss for the period	(10,316,449)	(3,830,096)
Depreciation	39,751	71,368
Share-based payments	-	235,091
Gain on sale of property, plant and equipment		
Net exchange differences	738	3,100
<i>Changes in operating assets and liabilities</i>		
Decrease in trade and other receivables	(39,856)	(3,288)
Decrease in trade payables and accruals	3,485,117	80,596
(Increase) in prepayments and deposits paid	(5,098)	(5,419)
Decrease in provisions	3,597	102,080
	<u>(6,832,200)</u>	<u>(3,346,568)</u>

(b) Non-cash financing and investing activities

There were no investing and financing transactions undertaken during the current year that did not require the use of cash or cash equivalents.

23. Events occurring after balance date

There has not arisen in the interval between the end of the year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect significantly the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial periods. In July 2018 the Company entered into placement subscription agreements with a number of sophisticated investors raising approximately \$5.66 million before costs.

24. Related party transactions

Parent entity

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

Subsidiaries

Interests in subsidiaries are set out in note 15.

Key management personnel

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

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.

Transactions with controlled entities

Transactions between Galilee Energy Limited and its subsidiaries during the year included:

- Loans advanced to subsidiaries; and
- Investments in subsidiaries

Loans to subsidiaries have been impaired as noted in Note 1 Critical Estimates and Judgements – Loans to and investments in subsidiaries. The loans to subsidiaries are interest free, repayable in cash at call and are unsecured.

Notes to the Consolidated Financial Statements (continued)

25. Financial risk management

Overview

The Group's principal financial instruments comprise receivables, payables, available for sale financial assets, cash, term deposits and financial liabilities at fair value. The main risks arising from the Group's financial assets and liabilities are interest rate risk, price risk, foreign currency risk, credit risk and liquidity risk.

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk. There have been no significant changes since the previous financial year to the exposure or management of these risks.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. The key risks are monitored and reviewed on a regular basis and as circumstances change (e.g. acquisition of new entity or project) policies are created or revised as required. The overall objective of the Group's financial risk management policy is to support the delivery of the Group's financial targets whilst minimising potential adverse effects on financial performance.

Given the nature and size of the business, and uncertainty as to the timing and amount of cash inflows and outflows, the Group does not enter into derivative transactions to mitigate the financial risks. In addition, the Group's policy is that no trading in financial instruments shall be undertaken for the purpose of making speculative gains.

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	
	30 Jun 18	30 Jun 17
Financial Assets	\$	\$
Cash and cash equivalents	4,916,260	6,087,157
Trade and other receivables	1,547,986	1,632,970
	6,464,246	7,720,127
Financial Liabilities		
Trade and other payables	3,803,456	318,339
	3,803,456	318,339

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 are summarised below.

Interest rate risk

Exposure to interest rate risk arises on cash and term deposits recognised at reporting date because a future change in interest rates will affect future cash flows received from variable rate financial instruments or the fair value of fixed rate financial instruments.

Interest rate risk is managed by forecasting future cash requirements (generally up to one year). Cash deposit interest rate information is obtained from a variety of banks over a variety of periods (usually one month up to six month term deposits) and funds are then invested in an optimised fashion to maximise interest returns.

Notes to the Consolidated Financial Statements (continued)

25 Financial risk management (continued)

Interest rate sensitivity

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.

A sensitivity of 2% interest rate has been selected as this is considered reasonable given the current market conditions. A 2% movement in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2017.

Interest rate sensitivity	Profit or Loss		Equity	
	2% increase	2% decrease	2% increase	2% decrease
2018 - Consolidated	\$	\$	\$	\$
Cash and cash equivalents and restricted cash	98,325	(98,325)	98,325	(98,325)
2017 - Consolidated				
Cash and cash equivalents and restricted cash	121,743	(121,743)	121,743	(121,743)

Credit risk

The Group is exposed to significant credit risk through its cash and cash equivalents. At 30 June 2018, the Group had \$4.916 million (2017: \$6.087 million) in accounts with the National Australia Bank.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Board's approach to managing liquidity is to ensure, as far as possible, that the Group will always have sufficient liquidity to meet its obligations when due.

Ultimate responsibility for liquidity risk management rests with the Board of Directors. The Group manages liquidity risk by maintaining adequate reserves and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. This is based on the undiscounted cash flows of the financial liabilities based on the earliest date on which they are required to be paid.

The following table shows the contractual maturity for non-derivative financial liabilities.

Liquidity risk	<1 year	>3 years	Total	Carrying Amount
			Contractual Cash Flows	
Consolidated - 30 June 2018	\$	\$	\$	\$
Trade and other payables	3,749,456	54,000	3,803,456	3,803,456
Consolidated - 30 June 2017				
Trade and other payables	264,339	54,000	318,339	318,339

Notes to the Consolidated Financial Statements (continued)

25 Financial risk management (continued)

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 reporting date, the Group had the following financial liabilities in US dollars:

	2018	2017
	USD	USD
Financial Liabilities		
Trade and other payables	1,212	4,316

As a result of activities overseas, the Group's statement of financial position can be affected by movements in exchange rates. The Group also has transactional currency exposures. Such exposures arise from transactions denominated in currencies other than the functional currency of the Group. The Group's exposure to foreign currency risk primarily arises from the Group's operations overseas, namely in the USA.

The Group currently does not engage in any hedging or derivative transactions to manage foreign currency risk. The Group's policy is to generally convert its local currency to US dollars at the time of transaction. The Group has, on rare occasions, taken the opportunity to move Australian dollars into foreign currency (ahead of a planned requirement for those foreign funds) when exchange rate movements have moved significantly in favour of the Australian dollar, and management considers that the currency movement is extremely likely to move back in subsequent weeks or months. Therefore, the opportunity has been taken to lock in currency at a favourable rate to the Group. This practice is expected to be the exception, rather than the normal practice.

Based on financial instruments held at 30 June 2018, had the Australian dollar strengthened/weakened by 10% the Group's profit or loss and equity expressed in Australian dollars would be impacted as follows:

	Profit or Loss		Equity	
	10% Increase	10% Decrease	10% Increase	10% Decrease
Foreign currency rate sensitivity				
2018	\$	\$	\$	\$
US dollar	121	(121)	121	(121)
2017				
US dollar	432	(432)	432	(432)

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.

Directors' declaration

The directors of the Company declare that:

1. The financial statements, comprising the consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated 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 2018 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.

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.



Raymond Shorrocks
Chairman

Brisbane, 24 September 2018



INDEPENDENT AUDITOR'S REPORT

To the members of Galilee Energy Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Galilee Energy Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, 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, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



Going Concern

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>Note 1 of the financial statements outlines the basis of preparation of financial statements which indicates being 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.</p> <p>As the group generates no revenue and is reliant on funding from other sources such as capital raising, there is significant judgement involved in determining whether the going concern basis adopted is appropriate and is critical to the understanding of the financial statements as a whole. As a result, this matter was key to our audit.</p>	<p>Our procedures, amongst others, included:</p> <ul style="list-style-type: none"> Assessing the cash flow forecasts provided by management and challenging the assumptions therein in to determine if there is consistency with management’s intention and stated business and operational objectives. Checking the mathematical accuracy of the cash flow forecasts. Performing sensitivity analysis, on the cash flow forecast provided to determine if the Group has sufficient funds to continue as a going concern for the next 12 months.

Other information

The directors are responsible for the other information. The other information comprises the information contained in directors’ report for the year ended 30 June 2018, but does not include the financial report and our auditor’s report thereon, which we obtained prior to the date of this auditor’s report, and the annual report, which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and will request that it is corrected. If it is not corrected, we will seek to have the matter appropriately brought to the attention of users for whom our report is prepared.



Responsibilities of the directors 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 preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 5 to 9 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Galilee Energy Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

BDO Audit Pty Ltd

BDO

A handwritten signature in black ink, appearing to read 'A J Whyte', written over a circular stamp or seal.

A J Whyte
Director

Brisbane, 24 September 2018

Securities on issue

The Company has the following securities on issue:

ASX quoted: 204,012,690 ordinary shares, each fully paid.

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

As at 15 October 2018

Range	Total holders	Units	% of Issued Capital
1 - 1,000	151	54,208	0.03
1,001 - 5,000	501	1,652,903	0.81
5,001 - 10,000	346	2,845,323	1.39
10,001 - 100,000	663	22,728,516	11.14
100,001 Over	222	176,731,740	86.63
Rounding			-0.00
Total	1,883	204,012,690	100.00

The number of shareholders holding less than a marketable parcel (minimum \$500.00 at 61c per share) is 112.

(b) 20 largest shareholders as of 15 October 2018.

Rank	Name	Units	% of Units
1.	ECARLATE PTY LTD	19,259,738	9.44
2.	MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED <NO 1 ACCOUNT>	19,014,743	9.32
3.	CITICORP NOMINEES PTY LIMITED	10,849,009	5.32
4.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	7,378,878	3.62
5.	J P MORGAN NOMINEES AUSTRALIA LIMITED	5,642,198	2.77
6.	BECAMAL PTY LTD <GORDON SMITH FAMILY A/C>	5,520,945	2.71
7.	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	4,159,686	2.04
8.	MR A EDGAR + MS T BAINBRIDGE <EDGAR FAMILY SUPER FUND A/C>	4,076,070	2.00
9.	TDF PROPERTIES PTY LTD <THE TDF PROPERTY A/C>	4,000,000	1.96
10.	SLADE TECHNOLOGIES PTY LTD <EMBRY FAMILY SUPERFUND A/C>	3,530,000	1.73
11.	MACLANS SUPERANNUATION HOLDCO PTY LTD	3,300,000	1.62
12.	ANNWYLIE PTY LTD <EMBREY PROPERTY S/F A/C>	3,000,000	1.47
13.	VENTURIN NOMINEES PTY LIMITED	2,996,337	1.47
14.	TINTERN (VIC) PTY LTD <A & P MILLER FAMILY A/C>	2,613,594	1.28
15.	EXIT OUT PTY LTD <THE DISCRETIONARY A/C>	2,100,000	1.03
16.	COPULOS SUPERANNUATION PTY LTD <COPULOS PROVIDENT FUND A/C>	2,085,500	1.02
17.	MCLANS SERVICES PTY LTD <MACLANS SUPER FUND A/C>	1,912,601	.94
18.	SCINTILLA STRATEGIC INVESTMENTS LIMITED	1,900,000	.93
19.	PACIFIC TUG PTY LTD <THE KYTHERA UNIT A/C>	1,698,984	.83
20.	SPACETIME PTY LTD <COPULOS EXEC S/F NO.1 A/C>	1,570,000	.77
Totals: Top 20 holders of FULLY PAID ORDINARY SHARES (TOTAL)		106,608,283	52.26

Securities on issue (continued)

(c) Substantial shareholders

The following have disclosed substantial shareholder notices to the Company. (As of 15 October 2018)

Name	Units	% of Units
ECARLATE PTY LTD	19,259,738	9.44
MORGAN STANLEY AUSTRALIA SECURITIES (NOMINEE) PTY LIMITED	18,466,593	9.04
COPULOS GROUP	11,322,186	5.55

(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 unlisted Options or Performance Rights have no voting rights in respect to such securities until such options are exercised or performance rights vest. However, the shares that issue upon the exercise of the Options or the satisfaction of the conditions attaching to the Performance Rights will rank pari passu with the then existing issued fully paid ordinary shares.

(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) Unlisted Options

The number of beneficial holders of Unlisted Options total 29.

Tranch 1	Exp 18.11.2019	7,600,000	Exercisable at 12.5 cents
Tranch 2	Exp 31.12.2019	2,350,000	Exercisable at 25 cents
Tranch 3	Exp 21.12.2019	14,155,000	Exercisable at 50 cents

Tenement Interests

Australia Galilee Energy Limited Queensland ATP 2019 100% Galilee Energy Limited

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SAFETY
ENERGY LINES

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1/2" NPT
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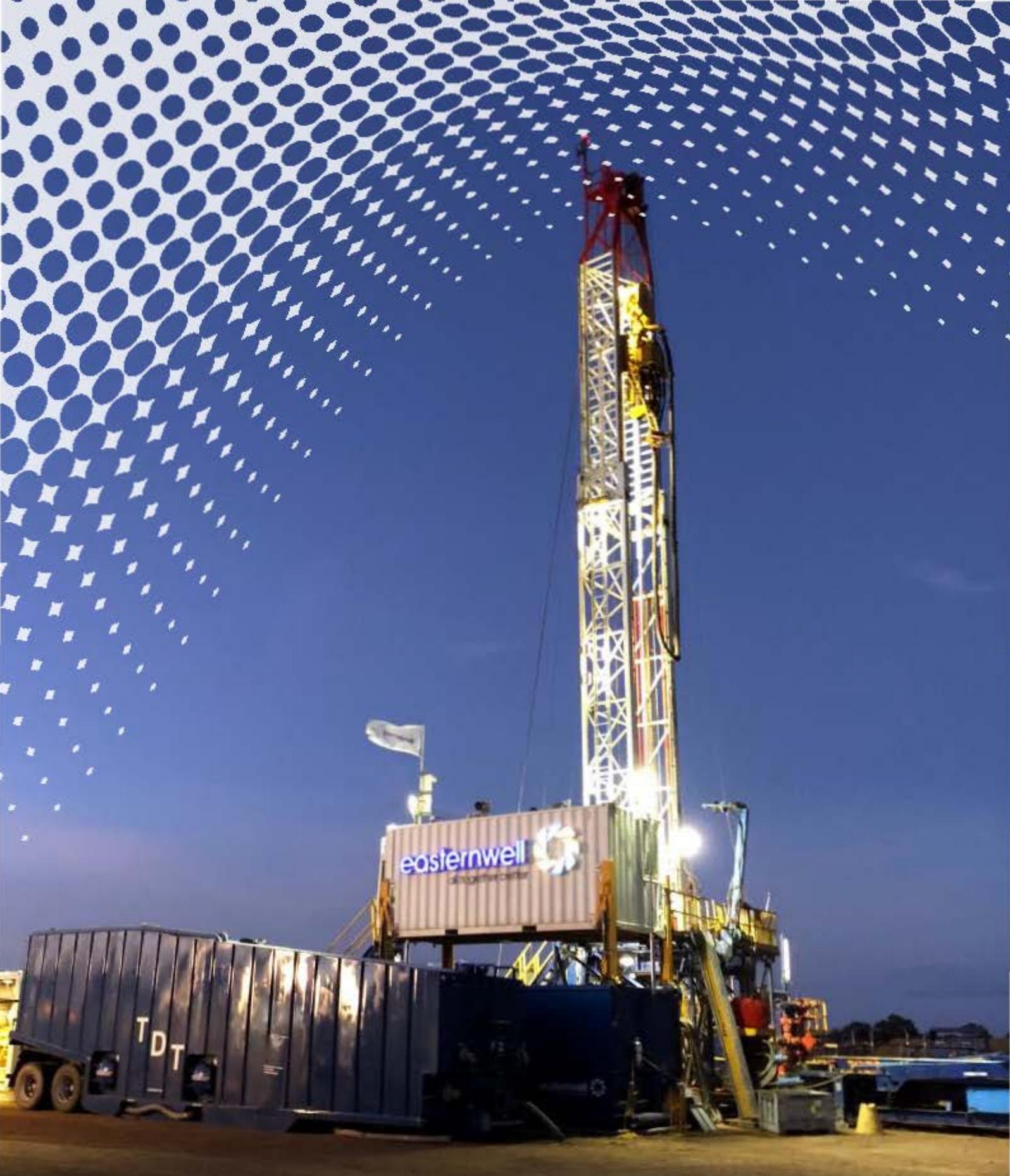
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