GALILEE
ENERGY LIMITED

annual report 2013

CORPORATE DIRECTORY

ASX: GLL

ACN: 064 957 419

GALILEE ENERGY LIMITED

DIRECTORS & MANAGEMENT

Dr David King – Non-executive Chairman
Peter Lanson – Managing Director
Paul Bilston – Executive Director

Glenn Haworth – General Manager
Simon Brodie – Chief Financial Officer & Joint Company Secretary

COMPANY SECRETARY

Bill Lyne

CORPORATE & INVESTOR RELATIONS

Simon Brodie
Phone: +61 (0)7 3216 1155
Email: sbrodie@galilee-energy.com.au

AUDITORS

BDO Audit Pty Ltd
300 Queen Street
Brisbane Qld 4000

PRINCIPAL REGISTERED OFFICE

Level 2, 895 Ann Street
Fortitude Valley Qld 4006

PO Box 2145, Fortitude Valley BC Qld 4006

Phone: +61 (0)7 3216 1155
Fax: + 61 (0)7 3216 1199
Email: info@galilee-energy.com.au

SHARE REGISTRY

Computershare Investor Services Pty Ltd
117 Victoria Street
West End Qld 4101
Phone: 1300 850 505
GPO Box 2975
Melbourne Victoria 3001

BANKERS

Westpac
260 Queen Street
Brisbane Qld 4000

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Shareholder message – significant matters arising subsequent to financial year end and Directors' Report of 13 September 2013.

It is now 4 weeks since the requisitioned meeting of 24 September 2013, and the distribution of the Company's Directors' Report on the 13 September 2013, which is included in this Annual Report publication. The Directors of your company wish to summarise important matters that have occurred since the Directors Report was issued to ensure you are fully informed. All of these matters have been informed to the market via separate announcements, but are consolidated below.

Board composition

With the untimely passing of Steven Koroknay on 6 June 2013, the Company undertook a search for a new independent Non-executive Chairman and Andrew Young was selected and appointed on the 19 August. On the 24 September, Glenn Haworth resigned from the Board and was appointed General Manager. The board appointed Paul Jensen as an independent Non-executive Director of the Company.

At the General Meeting held on the same day four of the five resolutions were passed, the fifth having been withdrawn due to the Directors' resignation. Cam Rathie was removed as a Director and David King, Paul Bilston and Peter Lansom (New Directors) were each elected to the Board.

As reported previously to shareholders on 15 October 2013, the New Directors, filed an application in the Supreme Court for leave to bring Derivative Action against the other three Directors and Glenn Haworth.

On 30 October 2013, the company advised that Mr Young, Mr Camarri and Mr Jensen had resigned as Directors of Galilee and advised Galilee that they would not be standing for election as Directors at the forthcoming Annual General Meeting.

The company also advised that, in light of the resignations, Dr King, Mr Lansom and Mr Bilston, notified Galilee of their agreement to withdraw the application lodged in the Supreme Court of Queensland and Galilee consented to the proceedings being withdrawn.

As announced on 31 October 2013, your new Galilee board is now comprised of three Directors. David King is independent Non-executive Chairman, Peter Lansom is Managing Director and Paul Bilston is Executive Director.

A profile of each directors' background and experience is available on the Galilee website and included in this Annual Report. The board has an excellent set of complementary skills and experience.

Proportional takeover notice received from Mercantile Investment Company Limited

On 21 October 2013, the Company received a letter of intention from Sir Ron Brierley's company Mercantile Investments Company Limited to make a proportional takeover offer for 50% of each shareholders' holding at a price of 15 cents per share. The Offer Document with full details, is yet to be received. Accordingly your Directors recommend you take no action at this stage.

Cash position and Glenaras Gas Project status

At 30 September the company had cash of $27.1 million.

Galilee management is focused on working with AGL with the objective of obtaining an independent evaluation of the recoverable gas and the economics of delivering the gas to market. To date this has been frustrated due to a range of operational site issues.

It is anticipated by AGL that we will have meaningful field results by first Quarter 2014 and we expect to be in a position to appoint an Independent Auditor to provide an opinion on the recoverable hydrocarbons 'contingent resources' or 'reserves' of the ATP529P tenement. We are planning to have the Independent Auditor's report published by the end of the first half of 2014 – making the first half of 2014 a critical period for the company.

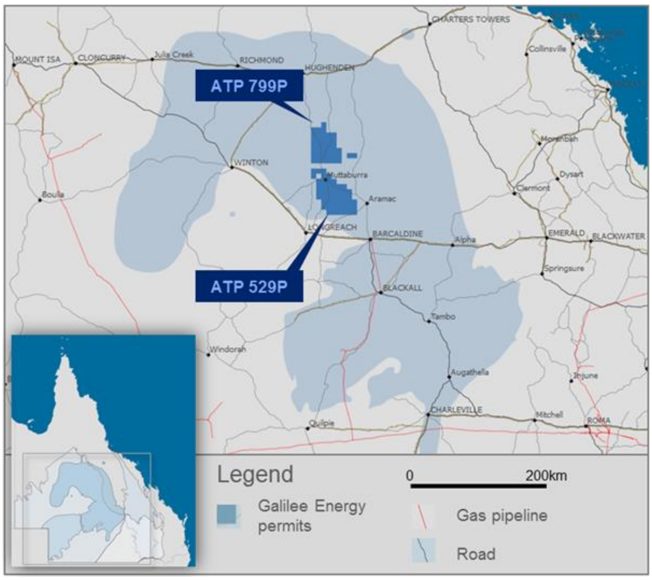
Management and operational report

Management and operational report

Galilee Energy Limited (Galilee) is a Brisbane based emerging energy company with coal seam gas (CSG) interests in Australia.

During the 2013 financial year Galilee has focussed on:

- activities required to deliver shareholder value from the Galilee basin tenements; and
- investigate growth and expansion through the acquisition of hydrocarbon projects.



Location map of ATP 529P and ATP 799P

Prospects

The Company holds a leading position in the Galilee Basin with two highly prospective coal seam gas and hydrocarbon tenements in central Queensland through subsidiary, Galilee Resources. The tenements, ATP 529P and 799P, cover approximately 9,000 km^2.

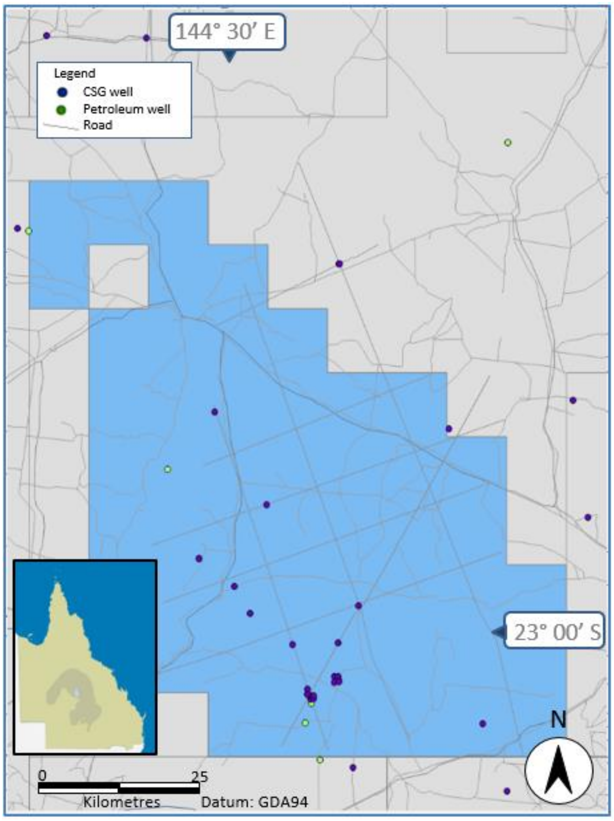
The Galilee Gas Project, ATP 529P, is held in a 50/50 JV with AGL Energy Limited (AGL, ASX: AGK) under which AGL is the operator. In September 2011 the JV announced its first gas discovery from the Glenaras pilot. The pilot is undergoing gas flow testing, having produced 1,170 mscf in May 2012.

ATP 799P is wholly owned and operated by Galilee Energy Ltd.

ATP 529P Galilee Gas Project

ATP 529P tenement covers an area of 5,942 km^2. The tenement is located north of Longreach in Queensland. The primary target is the Permian age Betts Creek beds, up to 35m net coal with average gas content on the Glenaras anticline of 6.0m^3 and up to 7.8m^3 per tonne (DAF), found typically between 800 and 1,000m. In September 2012 AGL lodged a renewal and a four year later work program application that included statutory relinquishment of 33% of the tenement.

Previous project activities include 540 km 2D seismic surveys, ten core holes and construction of the Glenaras pilot; incorporating five production wells and a 357 ML produced water holding pond.



Location Map ATP 529P

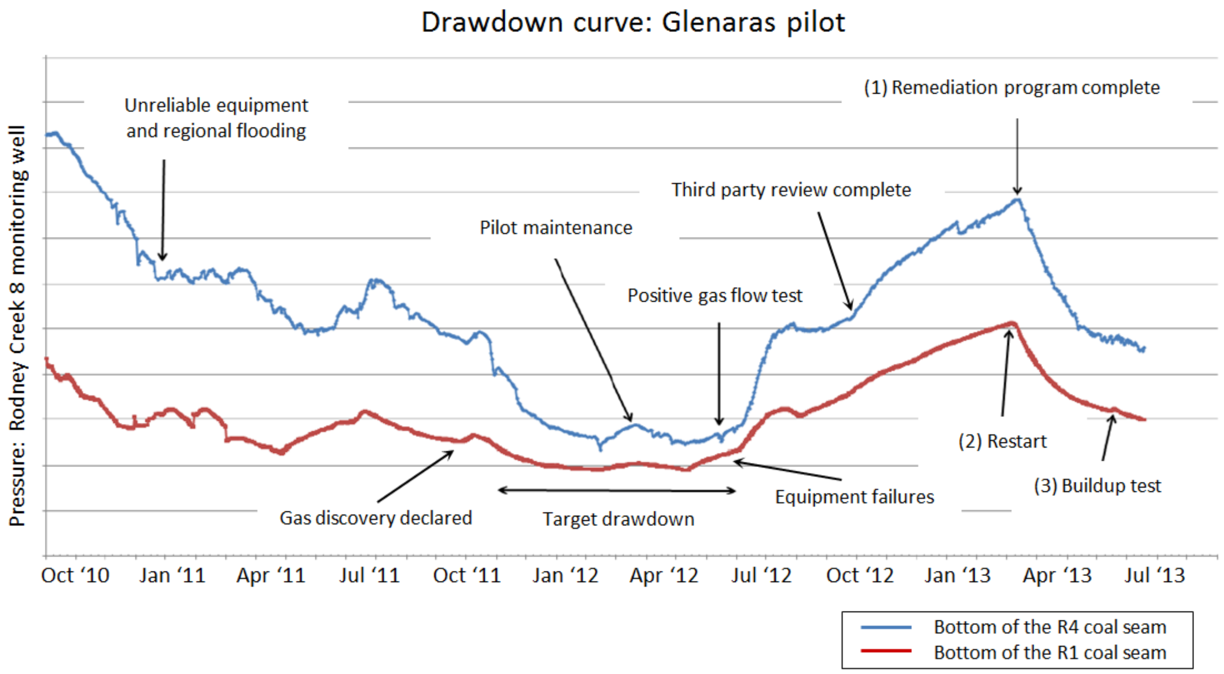
Purpose of the pilot

The Glenaras pilot is essentially an appraisal project, whose purpose is to:

Key pilot objectives	Scorecard
Deliver a stable artificial lift system	Now maintain focus
Demonstrate a commercial gas flow rate	Early gas detected
Community engagement program	Built on respect and trust

Ongoing activities

Over the past two years the Operator has used over 20 pumps and conducted over 40 workovers at the pilot. While historically these recurring operational challenges have impeded progress, recent performance demonstrates significantly improved



field equipment reliability. With continued focus, a Resource/Reserve review is due in early 2014.

During the year the JV parties undertook a strategic review of the reservoir properties at the Glenaras pilot location. The review concluded that gas content, relative permeability and gas flow tests still support a potential large scale project.

During the year a number of workovers were completed. The pump in GA05 failed, it was removed and stripped down at the Schlumberger workshop in Toowoomba. Inspection of the pump identified scaling caused by precipitation of calcite at higher operating temperatures, due to a high recycle rate, that caused the pump to seize. The scaling issue has been resolved with a smaller capacity pump.

The pump in GA06 failed due to an accumulation of corrosion material in the upper pump section. A new pump was installed and tested on 5 May. The pump failed after six minutes of operation and the manufacturer agreed to replace the pump under warranty. On 7 June a new pump was installed, successfully tested and continues to operate.

Since completion of the remediation program in March 2013 all five wells have performed to design and delivered stable operations with coal seam gas desorption from all wells.

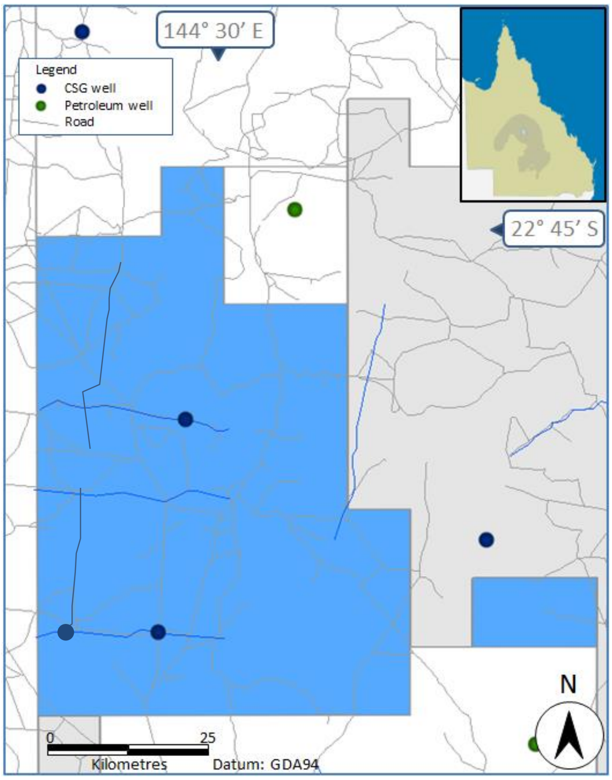
At end of June average total water flow rate was approximately 3,200 bbl/day (declining) and a total gas flow rate of approximately 12 mscf/day. These flow rates are in line with the Operator's plans and are consistent with the expected trajectory for a successful pilot production test.

The chart above shows the drawdown pressure at the Rodney Creek 8 monitoring well (800m from the centre of the pilot) since October 2010. Key inflection points identify historic equipment failures, declaration of first gas discovery, target drawdown, third party review and remediation. Since (1) Remediation program complete and (2) Restart, the drawdown pressure has followed a classic dewatering trajectory. (3) Buildup test, shows a short period of time when the pumps were stopped for a test that confirmed good reservoir connectivity.

Produced water management

The water storage facility operated at approximately 50% of capacity through the year. The Operator has completed a review of water treatment options. The parties will consider long-term options after the current pilot operations.

ATP 799P



Location Map ATP 799P

ATP 799P is 100% owned and operated by Galilee Energy Ltd. The tenement is located adjacent to ATP 529P, north of Muttaburra in Queensland. ATP 799P tenement covers an area of 3,087 km^2. The primary target is the Permian age Betts Creek beds found typically between 1,000 and 1,300m.

Previous project activities include 144 km 2D seismic surveys and two core holes.

A six million dollar four-year work program was submitted in February 2010. In 2012/13 the board approved activities to acquire 48km of 2D seismic survey, drill one exploration core hole at Hillview 06 and complete a Geophysical and Geological review.

Hillview 06 was drilled with the following aims:

Key exploration objectives	Scorecard
Confirm seismic indication of thicker coals	✓
Test for higher reservoir temperatures	✓
Assess the presence of oil and gas shows	✓
Recover core to determine rock and reservoir properties	✓
Evaluate the permeability of the coal seams	✓
Acquire wireline logs of the cored interval	✓

Hillview 06 was drilled 15km west of Dotswood 01 on 2D seismic line 2009-GEL-03. This site was chosen because the seismic line exhibits multiple stacked reflectors at this position, predicting and confirming increased probability of thicker coal seams. The well is also located on a basement high where present day temperatures were predicted and confirmed to be higher than previous tenement wells due to thinner underlying basement sediment cover. In addition, the Toolebuc shale was predicted and confirmed to be at the thickest and most thermally mature in this region of the tenement.

As the outcomes of the drilling program provided further evidence to support the model and geological interpretation the company undertook a 2D Seismic survey to further refine the locations for the next exploration targets. The program was run in May 2013 after planning identified higher than average rainfall forecast for April.

The 2D seismic data was analysed and depth maps completed to identify the configuration of key regional formations.

Given the present market conditions for oil and gas exploration in the Galilee Basin and that Galilee's share price is discounted to cash backing, a review is underway to determine if the future two well corehole program adds shareholder value in the short term.

Community engagement

As part of a community engagement strategy the JV operator, AGL Energy, conducted an open day program on 14 and 15 September 2012 at the Glenaras pilot. Approximately 80 people attended over the two days. Buses took participants around the site and the operators' staff explained the operation of the pilot. Included were displays showing:

a) pump and motor assemblies used in the operation of the pilot;
b) samples of core showing coal and host rocks;
c) production equipment including:
   a. Water and gas separators;
   b. Water management; and
   c. Flare management.
d) drilling equipment including:
   a. cross section model showing how a drill hole is constructed; and
   b. drill bits.
e) maps and drawings of Coal Seam Gas explorations.

Glenaras Open Day

Anyone interested in the pilot can access specific information and events related to the project through the AGL Galilee Gas Project website. The site provides fact sheets, a history of the project, links to information about CSG evaluation methods and access to community events as well as material from completed events. The site also provides real time weather information located at the Glenaras 5-spot pilot - see *http://agk.com.au/galilee.*

In addition, RPS[1] completed a coordinated baseline water assessment of the Galilee Basin.

The scope included:

- identify data currently readily available;
- provide a regional understanding of the aquifers and their use for bore water supplies;
- identify areas where information is lacking; and
- provide the groundwork for the future development of a hydrogeological model for the Galilee Basin.

The assessment has confirmed that the vast majority of water bores in the region extract water from the Great Artesian Basin (GAB) which includes the Hooray and Hutton sandstones. The GAB lies above the Betts Creek beds. Our CSG wells are designed and tested to ensure that the GAB remains isolated from the target coal seams found within the Betts Creek beds.

The results of the baseline water assessment have been shared with the general public – see *http://www.gbof.com.au*.

Growth opportunities

Galilee is pursuing growth through hydrocarbon development acquisitions where they may arise or are presented to the company. During the year the company evaluated a number of onshore oil and gas acquisitions predominantly in Australia. It is anticipated given the tight present market conditions that the quality of growth opportunities will increase as parties struggle to secure funding. Galilee's strong cash position ideally positions it to take advantage of strategic opportunities that may arise.

In addition, Galilee has also considered merger opportunities with companies holding attractive assets, both producing and exploration.

Yours sincerely

Glenn Haworth
General Manager

Glenaras pilot area

[1] RPS is an international consultancy providing world-class, local solutions in energy and resources, infrastructure, environment and urban growth.

Corporate Governance Statement

Introduction

The primary role of the Board is to ensure the long-term health and prosperity of the Company, which it aims to accomplish by setting strategic direction and approving objectives, set by management with a view to maximising shareholder value.

This Corporate Governance Statement is structured with reference to the ASX Corporate Governance Council's (CGC) published guidelines containing eight key principles. The Company's Corporate Governance charters and policies that have been adopted by the Board of Directors in line with the CGC's recommendations, having regard to the size of the Company's operations, are available on the Company's website.

The following table outlines where the Company either 'complies' or 'does not comply' with each CGC principle and recommendation.

Principles and Recommendations		Compliance
1.1	Establish the functions reserved to the Board of Directors (Board) of the Company and those delegated to manage and disclose those functions.	Complies.
1.2	Disclose the process for evaluating the performance of senior executives.	Complies.
1.3	Provide the information indicated in Guide to reporting on Principle 1.	Complies
Principle 2 – Structure the Board to add value		
2.1	A Majority of the Board should be independent directors.	Does not comply. The majority of the Board's directors are not independent. Mr Paul Bilston and Mr Peter Lansom are not independent directors because of their executive roles in the company as well as being substantial shareholders in the Company. In determining the independence of its directors, the Company follows the guidelines as outlined by the CGC. The Board considers the current mix of skills and experience of the directors positions it to meet the requirements of the Company. However given the changes to the Board as announced 30 October 2013, the Board intends to carry out a search for an additional suitably qualified independent non-executive director.
2.2	The Chair should be an independent director.	Complies.
2.3	The roles of Chair and Managing Director should not be exercised by the same individual.	Complies.
2.4	The Board should establish a nomination committee.	Does not comply. Given the Company is relatively small the Board considers it unnecessary to have a nomination committee.

Principles and Recommendations		Compliance
2.5	Disclose the process for evaluating the performance of the Board, its committees and individual directors.	Does not comply. The Company conducts the process for evaluating the performance of the Board, its committees and individual directors informally.
2.6	Provide the information indicated in the Guide to reporting on Principle 2.	Complies
Principle 3 – Promote ethical and responsible decision making		
3.1	Establish a code of conduct and disclose the code or a summary of the code.	Complies.
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the Board to establish measurable objectives for achieving gender diversity and to assess annually both the objectives and progress in achieving them.	Complies.
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	Complies. No staff positions became available in the 12 month period.
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	Complies. The diversity of the workforce remains unchanged with 33% of employees being women. There are no women in senior executive positions, or on the Board.
3.5	Provide the information indicated in Guide to reporting on Principle 3.	Complies.
Principle 4 – Safeguard integrity in financial reporting		
4.1	The Board should establish an audit committee.	Complies.
4.2	The audit committee should be structured so that it consist of only non-executive directors, a majority of independent directors, is chaired by an independent chair who is not chair of the Board and have at least 3 members.	Does not comply. The Audit Committee currently consists of Dr David King (chair, who is independent) and Mr Paul Bilston. Mr Bilston is not independent. The Board intends to carry out a search for an additional suitably qualified independent non-executive director who will be appointed to the Audit Committee.
4.3	The audit committee should have a formal charter.	Complies.
4.4	Provide the information indicated in Guide to reporting on Principle 4.	Complies.

Principle 5 – Make timely and balanced disclosure		
5.1	Establish written policies designed to ensure compliance with ASX Listing Rules disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Complies.
5.2	Provide the information indicated in the Guide to reporting on Principle 5.	Complies.
Principle 6 – Respect the rights of shareholders		
6.1	Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meeting and disclose that policy or a summary of that policy.	Does not comply. The Company has not yet established a formal communications policy. Rather, it does have an informative web-site as the basis for maintaining close contact with shareholders and it is regularly updating the site, in recognition that these days the Company's web-site is one of the main avenues for keeping shareholders and market participants aware of the Company's activities.
6.2	Provide the information indicated in the Guide to reporting on Principle 6.	Complies
Principle 7 – Recognise and manage risk		
7.1	Establish policies for the oversight and management of material business risks and disclose a summary of these policies.	Complies.
7.2	The Board should require management to design and implement the risk management and internal control system to manage the Company's material business risks and report to it on whether those risks are being managed effectively. The Board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	Complies.
7.3	The Board should disclose whether it has received assurance from the Managing Director and Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating efficiently and effectively in all material respects in relation to the financial reporting risks.	Complies.

Principles and Recommendations		Compliance
7.4	Provide the information indicated in Guide to reporting on Principle 7.	Complies.
Principle 8 – Remunerate fairly and responsibly		
8.1	The Board should establish a remuneration committee.	Does not comply. No separate remuneration committee has been formed as the Directors consider it appropriate, given the relatively small size of the Company, for such matters to be determined at Board level. The Board considers that the Directors are sufficiently qualified to consider and decide on matters covering recruitment and remuneration of senior executives, superannuation arrangements, Directors' remuneration and retirement benefits.
8.2	The remuneration committee should be structured so that it consists of a majority of independent directors; is chaired by an independent chair and has a least three members.	Does not comply. Reasons outlined above.
8.3	Clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Complies.
8.4	Provide the information indicated in the Guide to reporting on Principle 8.	Complies.

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 2013.

Directors

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

Andrew A Young
Non-executive Chairman
(appointed 19/8/13)

Rino Camarri
Non-executive Director

Cam Rathie AM
Non-executive Director

Glenn Haworth
Managing Director
(appointed 7/6/13)

Steven J Koroknay
(ceased 6/6/13)

Principal Activities

During the year, the continuing activities of the consolidated entity were the exploration and development of coal seam gas in the Galilee Basin near Longreach in Queensland. The Company also continued to seek growth and expansion through the acquisition of hydrocarbon projects.

Business strategies and prospects

Develop the Galilee Gas Project into a commercial gas field - the current program includes a reserves development campaign and a pilot step-out drilling program. Continue to pursue growth through hydrocarbon development opportunities.

Financial position

Total comprehensive income for the year was ($6.496 million) (2012: $6.261 million) and the loss for the year was $6.496 million (2012: $6.261 million). The loss from continuing operations after tax for the year is $6.496 million (2012: loss of $6.261 million): an increase of $0.350 million. This was largely due to the exploration expenditure on ATP 799P.

The Company's activities for the year were proportioned between exploration in ATP 799P, and meeting obligations under the 50/50 JV with AGL Energy Limited (ASX:AGK) in ATP 529P Through the financial year the Company's activities largely involved the management of the Galilee Gas Project, evaluation of acquisition opportunities and the investment of cash. The activities precipitated the following key changes to the Company's financial position - a decrease in cash of $6.408 million, working capital decrease of $6.460 million and a decrease in net assets of $6.460 million. Liabilities increased by $0.412 million being expense incurred for the ATP 799P work program.

Dividends

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

Review of operations

During the year the company, through JV partner and operator AGL Energy, continued the management of the Glenaras Pilot at the Galilee Gas Project (ATP 529P 50%). The first resource estimation for 100% of the Galilee Gas Project showed a Contingent Resource of 259 PJ of 2C (Best Estimate) covering 450 km^2 of 5,929 km^2. Since then the project has undergone several gas flow tests and wells have undergone a number of workovers. In May 2012 the Pilot flowed 1,170 mscf of gas. The pilot has been extended to December 2013 and is on schedule for a Resource/Reserve estimate to be prepared by an Independent Competent Person.

A successful work program was completed in ATP 799P. Hillview 06 was drilled and 386m of core recovered from the Betts Creek beds and Aramac Coal Measures. Further to the drilling of Hillview 06 a seismic survey was undertaken to further knowledge of the basin's geology.

Galilee is actively pursuing growth through hydrocarbon development acquisitions. During the year, the company evaluated a number of onshore oil and gas opportunities predominantly in Australia. Galilee continues to assess a number of opportunities.

Significant changes in state of affairs

There were no significant changes in the company's activities as it continued to focus on the exploration and development of hydrocarbons including coal seam gas and conventional oil and gas.

Matters subsequent to the end of financial year

On 24 July 2013, the company received a notice requisitioning a General Meeting of shareholders from Malt Energy. The requisition seeks to remove Cam Rathie (Director) and Glenn Haworth (Managing Director). Motions included the appointment of two directors representing Malt and another director of their nomination as Chairman. The meeting of shareholders is to be held on 24 September 2013.

Subsequent to the sudden death of Chairman Steve Koroknay on 6 June 2013, Mr Rathie was elected interim Chairman whilst the company immediately commenced the search for a qualified and suitable independent non-executive director. After a considered process, Mr Andrew Young was appointed Chairman on 19 August 2013.

Other than the above, no other matters occurred subsequent to the end of the financial year that would impact on the financial position of the consolidated entity.

Environmental regulation

The company conducts its operations in compliance with the *Queensland Petroleum Act* and the *Mineral Resources Act*. Environmental considerations are reviewed with and approved by the Queensland Department of Environment and Resource Management and Environmental Protection Authority. The company has not reported any material breaches of any of its environmental licence conditions nor has it been notified of any material environmental breaches by any government agency during the year.

Directors and officers insurance

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

During the financial year, the company paid premiums for directors' and officers' liability insurance. The contract prohibits disclosure of the details of the nature of the liabilities covered or the premium paid.

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

Proceedings on behalf of the Company

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

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 2013, and the numbers of meetings attended by each director were:

Name	Meetings of Directors		Meetings of Audit committee	
	A	B	A	B
C Rathie	16	16	2	2
R Camarri	16	16	2	2
G Haworth	1	1		
S Koroknay	10	10		

A = Number of meetings attended, B = Number of meetings eligible to attend

Information on Directors

Andrew A Young

Chairman–Independent Non–executive

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

Andrew was twice a Director of the International Board, including President, of The Society of Petroleum Engineers (SPE, 2003). He is a recipient of a number of International awards including Honorary Member of the SPE (2012) and the American Institute of Mining, Metallurgical and Petroleum Engineers (AIME, 2012). He is a member of AICD and SPE, and a past Councillor of the Australian Petroleum, Production and Exploration Association (APPEA).

Other directorships in listed companies – current

New Guinea Energy Limited	Appointed 10/10
Cue Energy Resources Ltd	Appointed 12/11
Cliq Energy Berhad (Malaysia)	Appointed 5/12

Cam Rathie AM

Independent Non-executive Director

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

Special responsibilities
Member - audit committee

Interest in shares and options
180,000 shares in Galilee Energy Limited

Rino Camarri

Non-executive Director

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

Special responsibilities
Chairman – audit committee

Interest in shares and options
235,536 shares in Galilee Energy Limited

Glenn Haworth

Managing Director

Mr Haworth is a graduate of the University of Edinburgh and has worked in the international oil and gas sector for over 22 years. He started his career as a graduate engineer with BP before undertaking his MBA at Queensland University of Technology. Over the last six years, Glenn's focus has been on consulting related to engineering and coal seam gas technology, project management and new business ventures.

Special responsibilities
Managing Director

Interest in shares and options
3,000,000 share rights in Galilee Energy Limited

Steven J Koroknay

Ceased 6 June 2013

Mr Koroknay had more than 30 years experience in the international oil and gas industry. Initially with Esso Australia, where he became Technical Manager of their upstream activities in Australia, and later with Bridge Oil Limited where he rose to Executive Director - Resources. Mr Koroknay founded Anzon Energy and Anzon Australia, was a non-executive director and chairman of CIM Resources and consulted to Transfield in respect of their coal seam gas assets.

It was with great sadness that the company announced the sudden death of Mr Koroknay on 6 June 2013. He was an esteemed oil and gas industry veteran and his contribution to the business and personal support of his colleagues will be sadly missed.

Bill Lyne

Joint Company Secretary

Mr Lyne is the principal of Australian Company Secretary Service, providing company secretarial, compliance and governance services to companies. He is secretary of a number of other public companies in Australia and overseas, including some involved in mining exploration and production.

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

Simon Brodie

Joint Company Secretary

Simon Brodie has over 23 years experience with a strong resources focus including as CFO and company secretary for several listed gold and base metals producers including roles as a Director of Bellamel Mining Limited and Iberian Resources Limited. Simon has experience in growing listed juniors into production and has led several successful takeovers.

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

Interest in shares and options
2,000,000 share rights in Galilee Energy Limited

Remuneration Report (audited)

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

A Principles used to determine the nature and amount of remuneration

B Details of remuneration

C Service agreements

D Share-based compensation

A Principles used to determine the nature and amount of remuneration

The objective of the 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.

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

Alignment to shareholders' interests:

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

Alignment to program participants' interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in shareholder wealth
- provides a clear structure for earning rewards
- provides recognition for contribution.

The framework provides a mix of fixed and variable pay, and long-term incentives.

Non-executive directors

Fees and payments to non-executive directors reflect the demands that are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board to ensure fees are appropriate and in line with the market.

Directors' fees

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

Remuneration Report (audited) (continued)

Remuneration consultants

The company did not engage remuneration consultants during the year.

Executive pay

The executive remuneration and reward framework has the following components:

- base pay and non-monetary benefits
- share based payments, and
- other remuneration such as superannuation and long service leave.

The combination of these comprises the executive's total remuneration. The company reviewed its long-term equity-linked performance incentives for executives during the year and issued three million performance rights as disclosed in the section providing information on executives.

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.

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

Share-based payments

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

Superannuation and long service leave

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

Relationship between remuneration and Company performance

Other than as described in D (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 2013:

Item	Unit	2013	2012	2011	2010	2009
Revenue – continuing operations	$'000s	1,593	2,237	1,022	265	20,570
Net profit/(loss) before tax - continuing operations	$'000s	(6,496)	(6,261)	(4,571)	(8,379)	(1,909)
Net profit(loss) after tax	$'000s	(6,496)	(6,261)	21,430	1,598	(2,447)
Basic earnings/(loss) per share	cents	(4.3)	(4.1)	14.1	1.5	(3.3)
Last traded share price	cents	13.0	13.5	19.0	17.5	29.5

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

Remuneration Report (audited) (continued)

B Details of remuneration

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

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

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

Name	Short term benefits		Termination payments	Post-employment benefits		Share-based Payments equity settled rights	Total	% paid as rights
	Salary and fees $	Non-cash benefits $	$	Super-annuation $	Retirement benefits $	$	$	%
2012								
Non-executive directors								
SJ Koroknay	66,667	-	-	8,333	-	-	75,000	-
R Camarri	50,000	-	-	-	-	-	50,000	-
LC Rathie	136,944	-	-	5,556	-	-	142,500	-
Other key management personnel								
G Haworth	389,705	-	-	15,775	-	13,867	419,347	3.3%
S Brodie	268,390	-	-	15,775	-	9,245	293,411	3.2%
Totals	911,706	-	-	45,439	-	23,112	980,257	-

The proportions of payments linked to a performance incentive are identified in the table above in the column titled "% paid as rights" and reflect long term incentives. The Board did not set or approve short term incentive payments for FY 2012 or FY 2013.

Options issued to directors

No options were issued to directors in 2013.

C Service agreements

Remuneration and other terms of employment for key management personnel are:

Glenn Haworth, Managing Director

Term of agreement – three years commencing 1 September 2010

- Base salary of $453,500 including superannuation
- Salary rate is reviewed annually in line with a performance review
- The required notice period on termination is three months by either party

There are no termination benefits.

Simon Brodie, Chief Financial Officer

Term of agreement – open-ended agreement commencing 17 January 2011

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

Remuneration Report (audited) (continued)

D Share based compensation

Directors' share options

No options were granted as remuneration during the year. The options granted in the period ended 30 June 2009 lapsed during the year. Currently, there are no directors share options.

Performance rights were issued to executives of the company – details are set out in the table below.

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

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

At the date of this report, the following options and performance rights were outstanding:

Number	Grant date	Expiry date	Exercise price
Performance rights			
1,000,000	25/10/2011	01/03/2014	Nil: Vests on share price of $0.49 cents
1,000,000	25/10/2011	01/03/2015	Nil: Vests on share price of $0.6125 cents
1,000,000	15/05/2013	01/03/2015	Nil: Vests on share price of $0.21 cents
1,000,000	15/05/2013	01/03/2016	Nil: Vests on share price of $0.28 cents
1,000,000	15/05/2013	01/03/2017	Nil: Vests on share price of $0.35 cents

During the year, the following performance rights were issued to executives included in KMP:

Number	Grant date	Expiry date	Vesting date	Total value
Glenn Haworth				
600,000	15/05/2013	01/03/2015	01/03/2015	$24,000
600,000	15/05/2013	01/03/2016	01/03/2016	$26,400
600,000	15/05/2013	01/03/2017	01/03/2017	$27,000
Simon Brodie				
400,000	15/05/2013	01/03/2015	01/03/2015	$16,000
400,000	15/05/2013	01/03/2016	01/03/2016	$17,600
400,000	15/05/2013	01/03/2017	01/03/2017	$18,000

All performance rights were issued for nil consideration, have an exercise price of nil and, at 30 June 2013, no rights had vested. Values per performance right at grant date were - first tranche $0.040, second tranche $0.044 and third tranche $0.045.

Remuneration Report (audited) (continued)

D Share based compensation

Directors' share options

During the year, the following performance rights lapsed:

Number	Grant date	Expiry date	Exercise price	Value
Glenn Haworth				
600,000	25/10/2011	01/03/2013	Nil: Vests on share price of .$0.3675 cents	$16,140
Simon Brodie				
400,000	25/10/2011	01/03/2013	Nil: Vests on share price of .$0.3675 cents	$10,760

End of audited remuneration report

Non-audit services

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

The Board of directors has considered the position and, in accordance with the advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

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

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

Auditing or reviewing the financial reports $46,500

Taxation services $16,200

Rounding of amounts

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

Auditor's independence declaration

The auditor's independence declaration is included on Page 11 of the financial report for the year.

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

On behalf of the Directors

Andrew A Young
Chairman

Brisbane
13 September 2013

Tel: +61 7 3237 5999
Fax: +61 7 3221 9227
www.bdo.com.au

Level 10, 12 Creek St
Brisbane QLD 4000
GPO Box 457 Brisbane QLD 4001
Australia

DECLARATION OF INDEPENDENCE BY C R JENKINS TO THE DIRECTORS OF GALILEE ENERGY LIMITED

As lead auditor of Galilee Energy Limited for the year ended 30 June 2013, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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

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

Craig Jenkins
Director
BDO Audit Pty Ltd

Brisbane, 13 September 2013

Galilee Energy Limited

Financial Report

30 June 2013

Contents

General Information

The financial report covers Galilee Energy Limited as a consolidated entity consisting of Galilee Energy Limited and the entities it controlled. The financial report is presented in Australian dollars, which is Galilee Energy Limited's functional and presentation currency.

The financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

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

Level 2
895 Ann Street
Fortitude Valley Qld 4006

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial report.

The financial report was authorised for issue, in accordance with a resolution of directors, on 13 September 2013. The directors have the power to amend and reissue the financial report.

Statement of profit or loss and other comprehensive income

for the year ended 30 June 2013

	Note	Consolidated 2013 $'000	2012 $'000
Revenue from continuing operations	2	**1,593**	2,237
Exploration and evaluation expenses			
Proportionate share of exploration and evaluation expenditure in joint venture	3	**(4,598)**	(6,053)
Consulting fees		**(307)**	(79)
Contractors		**(2,669)**	-
Depreciation		**(1)**	(1)
Other		**(219)**	(100)
		(7,794)	(6,233)
Administration expenses			
Employee benefits expense		**(890)**	(844)
Directors' remuneration		**(173)**	(175)
Consulting fees		**(248)**	(686)
Depreciation	3	**(20)**	(24)
General administration expenses		**(443)**	(536)
		(1,774)	(2,265)
Loss before income tax expense from continuing operations		**(7,975)**	(6,261)
Income tax benefit/(expense)	4	**1,479**	-
Loss from continuing operations after tax		**(6,496)**	(6,261)
Loss after income tax expense for the year		**(6,496)**	(6,261)
Total comprehensive income for the year		**(6,496)**	(6,261)
		Cents	Cents
Earnings/(loss) per share from continuing operations attributable to the owners of Galilee Energy Limited			
Basic earnings per share	7	(4.3)	(4.1)
Diluted earnings per share	7	(4.3)	(4.1)
Earnings/(loss) per share for profit/(loss) attributable to the owners of Galilee Energy Limited			
Basic earnings per share	7	(4.3)	(4.1)
Diluted earnings per share	7	(4.3)	(4.1)

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

Statement of financial position

as at 30 June 2013

	Note	Consolidated 2013 $'000	2012 $'000
ASSETS			
Current assets			
Cash and cash equivalents	8	**27,393**	33,801
Trade and other receivables	9	**1,405**	1,033
Total current assets		**28,798**	34,834
Non-current assets			
Receivables	9	**713**	713
Property, plant and equipment	12	**118**	130
Total non-current assets		**831**	843
Total assets		**29,629**	35,677
LIABILITIES			
Current liabilities			
Trade and other payables	13	**777**	370
Total current liabilities		**777**	370
Non-current liabilities			
Deferred income	13	**8**	24
Provisions	14	**442**	421
Total non-current liabilities		**450**	445
Total liabilities		**1,227**	815
Net assets		**28,402**	34,862
EQUITY			
Issued capital	15	**60,228**	60,228
Reserves	25	**(6,689)**	(6,724)
Accumulated losses		**(25,137)**	(18,642)
Total equity		**28,402**	34,862

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

Statement of changes in equity

for the year ended 30 June 2013

	Issued capital	Accumulated losses	Non-controlling interest elimination reserve	Share-based payments reserve	Total
	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2012	**60,228**	**(18,642)**	**(7,656)**	**932**	**34,862**
Loss for the year	**-**	**(6,496)**	**-**	**-**	**(6,496)**
Other comprehensive income		**-**			**-**
Total comprehensive income	**-**	**(6,496)**	**-**	**-**	**(6,496)**
Share-based payments expense				**35**	**35**
Rounding adjustment	**-**	**1**	**-**	**-**	**1**
Balance at 30 June 2013	**60,228**	**(25,137)**	**(7,656)**	**967**	**28,402**
		-		-	
Balance at 1 July 2011	60,228	(12,381)	(7,656)	909	41,100
Profit for the year	-	(6,261)	-	-	(6,261)
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	(6,261)	-	-	(6,261)
Share-based payments expense	-	-	-	23	23
Balance at 30 June 2012	60,228	(18,642)	(7,656)	932	34,862

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

Statement of cash flows

for the year ended 30 June 2013

	Note	Consolidated 2013 $'000	2012 $'000
Cash flows from operating activities			
Receipts from customers		**-**	-
Payments to suppliers and employees		**(9,085)**	(8,718)
Other revenue		**801**	(8)
Interest received		**1,596**	2,322
Tax benefit received		**289**	-
Net cash outflow from operating activities	**21**	**(6,399)**	**(6,404)**
Cash flows from investing activities			
Payments for property, plant and equipment	**12**	**(9)**	-
Proceeds from disposal of property, plant and equipment		**-**	**(11)**
(Payments for) bonds and deposits		**-**	**(11)**
Net cash (outflow) inflow from investing activities		**(9)**	**(22)**
Cash flows from financing activities			
Proceeds from issue of shares		**-**	**-**
Share issue transaction costs		**-**	**-**
Repayments of borrowings		**-**	**-**
Net cash (outflow) inflow from financing activities		**-**	**-**
Net increase (decrease) in cash and cash equivalents		**(6,408)**	**(6,426)**
Cash and cash equivalents at the beginning of the financial year		**33,801**	**40,227**
Cash and cash equivalents at the end of the financial year	**8**	**27,393**	**33,801**

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

Index to notes

1 Significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB") that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 2011-9 Amendments to Presentation of Items of Other Comprehensive Income

The consolidated entity has applied AASB 2011-9 amendments from 1 July 2012. The amendments require grouping together of items within other comprehensive income on the basis of whether they will eventually be "recycled" to the profit or loss (reclassification adjustments). The change provides clarity about the nature of items presented as other comprehensive income and the related tax presentation. The amendments also introduced the term "Statement of profit or loss and other comprehensive income" clarifying that there are two discrete sections, the profit or loss section (or separate statement of profit or loss) and other comprehensive income section.

(a) Basis of preparation

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.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 1.

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

(b) Parent entity information

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

(c) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Galilee Energy Limited (''company'' or ''parent entity'') as at 30 June 2013 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".

(c) Principles of consolidation (continued)

Subsidiaries

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.

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

Intercompany transactions, balances and unrealised gains on transaction between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity. Investments in subsidiaries are accounted for at cost in the individual financial statements of Galilee Energy Limited.

Joint ventures – Jointly controlled assets

The proportionate interests in the assets, liabilities and expenses of a joint venture activity have been incorporated in the financial statements under the appropriate headings. Details of the joint venture are set out in note 10.

(d) Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

Group companies

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

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

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

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

(e) Revenue recognition

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

Sale of goods

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

Interest income

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

(f) Income tax

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

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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

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

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

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

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

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

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

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group. Details about the tax funding agreement are disclosed in note 4(g).

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

(g) Leases

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

(h) Business combinations

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

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

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

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

(i) Impairment of assets

Financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows, which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Cash and cash equivalents

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

(k) Trade and other receivables

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

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

(l) Financial Instruments

Initial recognition and measurement

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

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

Classification and subsequent measurement

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

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

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

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Held-to-maturity investments

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

Available-for-sale financial assets

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

(l) Financial Instruments (continued)

Financial liabilities

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

Derivative instruments

The Group designates certain derivatives as either:

(a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or

(b) hedges of highly probable forecast transactions (cash flow hedges).

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

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

Fair value hedge

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

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts accumulated in the hedge reserve in equity are reclassified to profit or loss in the periods when the hedged item will affect profit or loss.

Fair value

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

Impairment

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

Financial guarantees

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

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

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

- the likelihood of the guaranteed party defaulting in a year period;

- the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and

- the maximum loss exposed if the guaranteed party were to default.

Derecognition

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

(m) Property, plant and equipment

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

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

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

Buildings and leasehold improvements	2% - 30%
Motor vehicles	15% - 30%
Plant and equipment	4% - 50%
Leased plant and equipment	Units of use

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)). Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in profit or loss.

(n) Exploration and evaluation expenditure

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

(o) Trade and other payables

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

(p) Provisions

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

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

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

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

(q) Employee benefits

Employee benefits

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

Retirement benefit obligations

Contributions to defined contribution superannuation plans are expensed when incurred.

Share-based equity settled benefits

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

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

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

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

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

(r) Issued capital

Ordinary shares are classified as equity.

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

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

(s) Earnings per share

Basic earnings per share

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

Diluted earnings per share

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

(t) Goods and Services Tax (GST)

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

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are also presented on a gross GST basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented in the receipts from customers or payments to suppliers.

(u) Critical accounting estimates and judgements

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

(v) Rehabilitation Provision

Estimates are made for rehabilitation based on the level of disturbance known at each balance date. These estimates are then costed at future rates and discounted back to present value. The level of rehabilitation depends on the requirements of the rehabilitation agreement for each area of interest. The rehabilitation provision has been calculated by the JV operator AGL Energy limited. The calculation assumes that rehabilitation will occur in two years time. Costs have been discounted at the appropriate bond rate. The carrying amount of the rehabilitation provision at balance date is $432,442 (2012: $411,003)

(w) Accounting Standards issued not yet effective

The following new or amended accounting standards and interpretations have been issued, but are not mandatory for the financial year ended 30 June 2013. They have not been adopted in preparing the financial statements for the year ended 30 June 2013 and are expected to impact the Group in the period of initial application. In all cases, the Group intends to apply these standards from the application date as indicated in the table below.

Share based payment transactions

The consolidated entity measures the cost of equity settled transactions by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using a Monte Carlo simulation model, taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity settled share based payments would have no impact on assets or liabilities within the next 12 months, but may impact on profit and loss and equity.

AASB 9 - Financial Instruments

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2015 and completes phase I of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'). This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income, unless it would create an accounting mismatch. The consolidated entity will adopt this standard from 1 July 2015, but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB 10 Consolidated Financial Statements

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard has a new definition of "control". Control exists when the reporting entity is exposed, or has the rights, to variable returns (e.g. dividends, remuneration, returns that are not available to other interest holders including losses) from its involvement with another entity and has the ability to affect those returns through its "power" over that other entity. A reporting entity has power when it has rights (e.g. voting rights, potential voting rights, rights to appoint key management, decision making rights, kick out rights) that give it the current ability to direct the activities that significantly affect the investees returns, (e.g. operating policies, capital decisions, appointment of key management). The consolidated entity will not only have to consider its holdings and rights, but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes.

(w) Accounting Standards issued not yet effective (continued)

The adoption of this standard from 1 July 2013 may have an impact where the consolidated entity has a holding of less than 50% in an entity, has de facto control, and is not currently consolidating that entity.

AASB 11 Joint Arrangements

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard defines which entities qualify as joint ventures and removes the option to account for joint ventures using proportional consolidation. Joint ventures, where the parties to the agreement have the rights to the net assets, will use equity accounting. Joint operations, where the parties to the agreements have the rights to the assets and obligations for the liabilities will account for the assets, liabilities, revenues and expenses separately, using proportionate consolidation. The adoption of this standard from 1 July 2013 may have a material impact on the consolidated entity as it relates to the joint venture with AGL on ATP 529P.

AASB 12 Disclosure of Interests in Other Entities

This standard is applicable to annual reporting periods beginning on or after 1 January 2013. It contains the entire disclosure requirement associated with other entities, being subsidiaries, associates and joint ventures. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation – Special Purpose Entities'. The adoption of this standard from 1 July 2013 will significantly increase the amount of disclosures required to be given by the consolidated entity such as significant judgements and assumptions made in determining whether it has a controlling or non-controlling interest in another entity and the type of non-controlling interest and the nature and risks involved.

AASB 2011-4 - Amendments to Remove Individual Key Management Personnel Disclosure Requirement

These amendments are applicable to annual reporting periods beginning on or after 1 July 2013, with early adoption not permitted. They amend AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). The adoption of these amendments from 1 July 2014 will remove the duplication of information relating to individual KMP in the notes to the financial statements and the directors report. As the aggregate disclosures are still required by AASB 124 and, during the transitional period, the requirements may be included in the Corporations Act or other legislation, it is expected that the amendments will not have a material impact on the consolidated entity.

AASB 2011-7 - Amendments to Consolidation and Joint Arrangements Standards

The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments make numerous consequential changes to a range of Australian Accounting Standards and Interpretations, following the issuance of AASB 10, AASB 11, AASB 12 and revised AASB 127 and AASB 128. The adoption of these amendments from 1 July 2013 will not have a material impact on the consolidated entity.

2 Revenue from continuing operations

	Consolidated 2013 $'000	2012 $'000
Interest received or receivable	**1,576**	2,225
Sundry income	**17**	12
Total revenue from continuing operations	**1,593**	2,237

3 Expenses of continuing operations

	Consolidated 2013 $'000	2012 $'000
Includes the following specific expenses:		
Exploration and evaluation		
Proportionate share of exploration and evaluation expenditure in joint venture (note 1)	**4,598**	6,053
Depreciation of plant and equipment	**1**	1
Administration		
Depreciation		
Buildings and leasehold improvements	**5**	6
Plant and equipment	**15**	18
	20	24
Net Loss/(Gain) on disposals of property, plant and equipment	**-**	7
Share based payments expense	35	23
Rental expense relating to operating leases - minimum lease payments	**168**	155
Defined contribution superannuation expense	**42**	40

4 Income tax

	Consolidated 2013 $'000	2012 $'000
(a) Income tax expense/(benefit)		
Current tax	**(2,413)**	(1,866)
Adjustments for deferred tax of prior periods	**(138)**	(5)
De-recognition of deferred tax assets	**138**	5
De-recognition of deferred tax losses	**2,413**	1,866
R & D refund	**(1,479)**	-
	(1,479)	-
Deferred income tax expense/(benefit) included in income tax expense/(benefit) comprises:		
Decrease/(Increase) in deferred tax assets	**(130)**	(24)
Increase/(Decrease) in deferred tax liabilities	**(6)**	29
	(136)	5

4 Income tax (continued)

	Consolidated 2013 $'000	2012 $'000
(b) Numerical reconciliation of Income tax benefit to prima facie tax payable:		
Loss from continuing operations before income tax	**7,975**	6,261
Tax benefit at the Australian tax rate of 30% (2012: 30%)	**2,393**	1,878
Tax effect of amounts which are not taxable/(deductible)		
Non-deductible share based payments	**(9)**	(7)
Current year tax losses not recognised	**(1,096)**	(1,866)
Research & development grant received	**1,479**	-
Recognised directly in equity	**-**	28
De-recognition of net deferred tax assets	**-**	(33)
Prior period under provision	**(1,288)**	
Income tax benefit	**1,479**	-

	Consolidated 2013 $'000	2012 $'000
(c) Deferred tax assets/liabilities		
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Accrued expenses	**8**	10
Employee benefits	**15**	15
Provision for lease make-good expense	**133**	3
Lease fitout allowance	**-**	4
Black hole expenses	**129**	117
Receivables	**(47)**	(53)
Provision for rehabilitation	**-**	-
Unrealised exchange gains	**-**	(3)
Buildings & improvements	**21**	-
	259	93
Amounts recognised directly in equity		
Share issue expenses less amortisation	**26**	52
	285	145
De-recognition of net deferred tax assets through profit or loss	**(259)**	(93)
De-recognition of net deferred tax assets from equity	**(26)**	(52)
Deferred tax assets/(liabilities)	**-**	-

	Consolidated 2013 $'000	2012 $'000
(d) Movements in deferred tax assets/(liabilities)		
Opening balance at 1 July	**-**	-
Charged/(credited) to profit or loss - continuing operations	**259**	148
De-recognition of deferred tax assets through profit or loss	**(259)**	(96)
De-recognition of deferred tax assets from equity	**(26)**	(52)
Deferred tax credited directly to equity	**26**	
Closing balance at 30 June	**-**	-

4 Income tax (continued)

(e) Franking credits

The Group has no franking credits (2012: nil).

	Consolidated	
	2013	2012
	$'000	$'000
(f) Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	**39,344**	35,691
Potential tax benefit at 30%	**11,803**	10,707

Petroleum Resource Rent Tax:

On 19 March, 2012, the Australian Government passed through the Senate, the Petroleum Resource Rent Tax 2012, with application to certain profits arising from petroleum extracted in Australia. In broad terms, the tax is imposed on a project-by-project basis. This tax applies to upstream mining operations only, and the effective rate of Petroleum Resource Rent Tax is 22.5%.

This tax is considered to be an “income tax” for the purposes of AASB 112.

Certain transition measures are contained in the legislation which can give rise to deductions in future years by adopting fair value, for Petroleum Resource Rent Tax purposes.

Affected entities have until 31 December 2013, to exercise an election to adopt fair value as opposed to cost, in determining their future deductions.

The Group is not in the production phase yet and is currently below the taxable threshold. Accordingly, the Group has not yet exercised its election, nor have fair value modelling and valuations been performed. Thus, the Group is not yet able to determine any potential increase in the balance of deferred tax assets that may otherwise arise should the Group elect by 31 December 2013 to adopt the fair value basis in determining future tax deductions.

5 Interests of Key Management Personnel (KMP)

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2013.

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

	Consolidated 2013 $'000	2012 $'000
Short-term employee benefits	**926**	912
Post-employment benefits	**43**	45
Share-based equity settled payments	**35**	23
Termination benefits	**-**	-
	1,004	980

There are no other long-term benefits.

KMP options and rights holdings

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

	Balance at the start of the year	Granted as remuneration	Options / Rights Exercised	Other Changes	Balance at the end of the year	Total vested	Vested and exercisable	Vested and unexercisable
2013								
S J Koroknay	**2,000,000**	**-**	**-**	**(2,000,000)**	**-**	**-**	**-**	**-**
L C Rathie	**2,000,000**	**-**	**-**	**(2,000,000)**	**-**	**-**	**-**	**-**
G Haworth (rights	**1,800,000**	**1,800,000**	**-**	**(600,000)**	**3,000,000**	**600,000**	**-**	**600,000**
S C Brodie (rights	**1,200,000**	**1,200,000**	**-**	**(400,000)**	**2,000,000**	**400,000**	**-**	**400,000**
2012								
S J Koroknay	2,000,000	-	-	-	2,000,000	2,000,000	-	2,000,000
L C Rathie	2,000,000	-	-	-	2,000,000	2,000,000	-	2,000,000
G Haworth (rights)	-	1,800,000	-	-	1,800,000	-	-	-
S C Brodie (rights)	-	1,200,000	-	-	1,200,000	-	-	-

KMP shareholdings

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

Ordinary shares	Balance at the start of the year	Shares acquired during the year	Other * changes during the year	Balance at the end of the year
2013				
S J Koroknay	**125,000**	**175,000**	**-**	**300,000**
L C Rathie	**100,000**	**80,000**	**-**	**180,000**
R Camarri	**235,536**	**-**	**-**	**235,536**
2012				
S J Koroknay	125,000	-	-	125,000
L C Rathie	100,000	-	-	100,000
R Camarri	235,536	-	-	235,536
WA Parker (ceased employment 30 Sep 2011)	20,000	-	(20,000)	-

There were no shares held nominally by key management personnel (2012: Nil)

There were no shares granted as compensation or on exercise of options previously granted as compensation (2012:Nil)

* "Other" changes occurred because options lapsed, or people left the company and were no longer classed as KMPs.

Other KMP transactions

There have been no other transactions involving equity instruments other than those described in the tables above. For details of other transactions with KMP, refer to Note 23: Related party transactions.

6 Auditors' remuneration

	Consolidated 2013	2012
Remuneration of the auditor of the parent company for:		
Auditing or reviewing the financial reports	**46,500**	52,000
Taxation services	**16,200**	27,500
Other assurance services #	**-**	16,000
	62,700	95,500

BDO Audit Pty Ltd conducted a review of the farm-in spend by AGL and accounting methodology for the joint venture ATP 529P during the 2012 year.

7 Earnings per share (EPS)

		Consolidated 2013 $'000	2012 $'000
(a)	**Earnings used in calculating earnings per share**		
	Basic and diluted earnings		
	Profit/(Loss) for the year from continuing operations	**(6,496)**	(6,261)
	Profit/(Loss) for the year	**(6,496)**	(6,261)

		2013 Number	2012 Number
(b)	**Weighted average number of ordinary shares**		
	Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	**152,140,466**	152,140,466
	Weighted average number of dilutive options outstanding *	**-**	-
	Weighted average number of ordinary shares and potential ordinary shares outstanding during the year used in calculating diluted EPS	**152,140,466**	152,140,466

* Options/rights were not included in the current year because the Group had a loss and options were, therefore, considered anti-dilutive. Options were not included as they are not considered dilutive. There are a total of 5,000,000 (2012:8,000,000) including KMP options/rights outstanding which are potentially dilutive.

		Consolidated 2013 $'000	2012 $'000
(c)	**Earnings per share**		
	From continuing operations		
	Basic earnings per share	**(4.3)**	(4.1)
	Diluted earnings per share	**(4.3)**	(4.1)
	From profit for the year		
	Basic earnings per share	**(4.3)**	(4.1)
	Diluted earnings per share	**(4.3)**	(4.1)

8 Cash and cash equivalents

	Consolidated 2013 $'000	2012 $'000
Cash at bank and in hand	**993**	681
Deposits at call	**26,400**	33,120
	27,393	33,801

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

9 Trade and other receivables

	Consolidated 2013 $'000	2012 $'000
CURRENT		
Trade receivables	**1,199**	9
Other receivables	**175**	994
Prepayments	**31**	30
	1,405	1,033
NON-CURRENT		
Environmental bonds and deposits	**641**	641
Rental bond	**72**	72
	713	713

Other receivables:
Included in Other Receivables – Current of $0.175 m (2012: $0.994 m) is an amount of $0.157 m receivable from NAB and Westpac for interest on interest bearing deposits.

As of 30 June 2013, there were $nil (2012: $nil) overdue or impaired trade receivables. Refer to Note 24 for further description of the Group's credit risk exposures.

10 Interest in joint venture

The group through its subsidiary Galilee Resources Pty Ltd has a joint venture agreement in place for the development of its tenement ATP 529P in the Galilee Basin with AGL Energy Ltd. Under the Joint Operating Agreement, AGL is the operator for exploration and development programs. The group holds a 50% interest.

11 Subsidiaries

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

Name of entity	Country of Incorporation	Class of equity	Equity Holding 2013	2012
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%

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

12 Property, plant and equipment

	Freehold land $'000	Buildings & leasehold improvements $'000	Plant and equipment $'000	Total $'000
At 30 June 2013				
Cost	8	140	129	277
Accumulated depreciation	-	(68)	(91)	(159)
Net book amount	8	72	38	118
Year ended 30 June 2013				
Balance, 1 July 2012	8	77	45	130
Additions	-	2	11	13
Disposals	-	-	-	-
Depreciation charge	-	(7)	(18)	(25)
Balance, 30 June 2013	8	72	38	118

	Freehold land $'000	Buildings & leasehold improvements $'000	Plant and equipment $'000	Total $'000
At 30 June 2012				
Cost	8	139	121	268
Accumulated depreciation	-	(62)	(76)	(138)
Net book amount	8	77	45	130
Year ended 30 June 2012				
Balance, 1 July 2011	8	84	59	151
Additions	-	-	11	11
Disposals	-	-	(7)	(7)
Depreciation charge	-	(7)	(18)	(25)
Balance, 30 June 2012	8	77	45	130

(a) Non-current assets pledged as security

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

13 Trade and other payables

	Consolidated	
	2013 $'000	2012 $'000
CURRENT		
Trade payables	**185**	243
Other payables	**541**	78
Employee benefits payable	**51**	49
	777	370
NON-CURRENT		
Other payables	**8**	24
	785	394

14 Provisions

	Consolidated 2013 $'000	2012 $'000
Rehabilitation	**432**	411
Make-good obligation under lease agreement	**10**	10
	442	421

(a) Movement in provision for rehabilitation

	Consolidated 2013 $'000	2012 $'000
Opening balance 1 July	**411**	362
Additional provisions recognised	**142**	49
Amounts used	**(121)**	-
Closing balance 30 June	**432**	411

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

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

	Consolidated 2013 $'000	2012 $'000
Opening balance 1 July	**10**	10
Closing balance 30 June	**10**	10

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

15 Issued capital

(a) Share capital

	Consolidated 2013 $'000	2012 $'000
152,140,466 (2012: 152,140,466) fully paid ordinary shares	**61,518**	61,518
Transaction costs relating to share issues (net of tax)	**(1,290)**	(1,290)
	60,228	60,228

(b) Movements in ordinary share capital:

Date	**Number of shares**	Issue price	**$'000**
30 June 2011	**152,140,466**		**60,228**
Changes in the year from 1 July 2011 to 30 June 2012			**-**
30 June 2012	**152,140,466**		**60,228**
Changes in the year from 1 July 2012 to 30 June 2013			**-**
30 June 2013	**152,140,466**	**-**	**60,228**

(c) Ordinary shares

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

15 Issued capital (continued)

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.

(d) Options over shares

Refer to Note 16 for details of share options.

(e) Capital Management

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

The Group's capital comprises equity as described in the statement of financial position supported by financial assets. There are no externally imposed capital requirements.

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

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

16 Share-based payments

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

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

The weighted average remaining life of options/rights outstanding at the year end was 2.070 years (2012: 0.893 years). The options/rights outstanding at the end of the year have exercise prices ranging from $0.21 to $0.6125 (2012: $0.24 to $0.87).

The fair values of rights granted in 2013 were calculated using a Monte Carlo simulation model tailored specifically for use in valuing employee and director options/rights, applying the following inputs:

		2013		
Exercise price:	$	0.210	0.280	0.350
Weighted average life of the option/right:	years	1.668	2.671	3.671
Underlying share price:	$	0.140	0.140	0.140
Expected share price volatility:	%	0.500	0.500	0.500
Risk-free interest rate:	%	2.63%	2.68%	2.78%
Fair value	$	0.040	0.044	0.045

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

16 Share-based payments (continued)

(b) On 17th October 2011, two employees were issued with rights to take up ordinary shares in 3 tranches. Under the terms of the rights the employees are entitled to shares in the company at no cost subject to vesting conditions. Details are as follows:

	Employee 1	**Employee 2**
Total number of rights issued	1,800,000	1,200,000
Tranche #1		
Number of rights	600,000	400,000
Exercise date	1 Mar 2013	1 Mar 2013
Vesting condition: a share price equal to or greater than	$0.3675	$0.3675
Tranche #2		
Number of rights	600,000	400,000
Exercise date	1 Mar 2014	1 Mar 2014
Vesting condition: a share price equal to or greater than	$0.4900	$0.4900
Tranche #3		
Number of rights	600,000	400,000
Exercise date	1 Mar 2015	1 Mar 2015
Vesting condition: a share price equal to or greater than	$0.6125	$0.6125

The weighted average remaining life of options/rights outstanding at the year end was 1.668 years (2012:1.35 years). The options/rights outstanding at the end of the year have exercise prices ranging from $0.21 to $0.6125 (2011:$0.30 to $0.87).

The fair values of rights granted in 2012 were calculated using a binomial model tailored specifically for use in valuing employee and director options/rights, applying the following inputs:

		2012		
Weighted average exercise price:	$	0.368	0.490	0.613
Weighted average life of the option/right:	years	1.350	1.668	2.668
Underlying share price:	$	0.180	0.018	0.180
Expected share price volatility:	%	0.755	0.755	0.755
Risk-free interest rate:	%	3.95%	3.97%	4.11%
Fair value	$	0.027	0.022	0.018

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

	2013 No. of Options / Rights	**Weighted average exercise price**	2012 No. of Options / Rights	Weighted average exercise price
Outstanding at beginning of the year	**8,000,000**	**$0.631**	9,000,000	$0.716
Granted (rights)	**3,000,000**	**$0.280**	3,000,000	$0.490
Forfeited (options)	**(6,000,000)**	**$0.658**	(4,000,000)	$0.325
Exercised	**-**	**-**	-	-
Expired	**-**	**-**	-	-
Outstanding at end of year	**5,000,000**	**$0.389**	8,000,000	$0.631
Exercisable at end of year	**-**	**-**	5,000,000	$0.716

Equity-settled share-based payment transactions relating to employees totalled $34,626 (2012: $23,112) and this amount is included under Administration expense in profit or loss. There were no equity-settled share-based transactions relating to directors during the year or the previous year.

17 Parent Company Information

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

Galilee Energy Limited	**2013**	2012
	$'000	$'000
Current assets	**28,798**	34,193
Non-current assets	**3,699**	4,352
Total assets	**32,497**	38,545
Current liabilities	**777**	370
Non-current liabilities	**19**	34
Total liabilities	**796**	404
Net assets	**31,701**	38,141
Issued capital	**60,228**	60,228
Share-based payments reserve	**967**	880
Retained earnings/(accumulated losses)	**(29,494)**	(22,967)
Total shareholders' equity	**31,701**	38,141
Profit/(Loss) for the year	**(6,527)**	(30,303)
Total comprehensive income/(loss) for the year	**(6,527)**	(30,303)

The net assets of the parent include an investment in Galilee Resources Pty Ltd of $24,090,412 (2012: $24,090,412), for which no exploration and evaluation expenditure has been capitalised in the consolidated entity. In the opinion of the Directors, the investment in this subsidiary has been impaired in the prior year.

Contractual commitments

The parent company had no contractual commitments for the acquisition of property, plant and equipment at 30 June 2013 (2012: $Nil). The parent company has not guaranteed the debts of any subsidiary company (2012: $Nil), other than through its tax sharing and tax funding agreements.

Contingent Liabilities

The parent company has no contingent liabilities (2012: $Nil).

18 Commitments

(a) Lease commitments : Group as lessee

Operating leases

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

	2013	2012
	$'000	$'000
Within one year	**155**	179
Later than one year but not later than five years	**-**	154
Later than five years	**-**	-
	155	333

18 Commitments (continued)

(b) Exploration commitments

Galilee Resources Pty Ltd

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

The sale, transfer or farm-out of exploration rights to third parties reduces or extinguishes these obligations.

In the case of ATP 799P, the obligations were renegotiated upon expiry on 28 February 2010 for a further term to expire on 28 February 2014 subject to mandatory relinquishment of one third of tenement blocks and further expenditure totalling $6,000,000.

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

In the case of ATP 799P, expenditure targets (both annual and for the period of the term) can be reduced at the Minister's discretion, by the relinquishment of unwanted blocks, nominated by the ATP holder.

	2013	2012
	$'000	$'000
Commitments in relation to exploration permit ATP 799 are as follows:		
Within one year	**1,211**	-
Later than one year but not later than five years	-	4,236
Minimum payments	**1,211**	4,236

19 Contingent liabilities

The Group has no contingent assets or liabilities.

20 Operating Segments

Identification of reportable operating segments

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

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

21 Notes to the Statement of Cash Flows

	Consolidated	
	2013	2012
	$'000	$'000
Reconciliation of loss for the year to net cash flows from operating activities:		
Loss for the year	**(6,496)**	(6,261)
Depreciation	**21**	25
Losses on disposal of property, plant and equipment	**-**	7
Share-based payments	**35**	23
Changes in operating assets and liabilities:		
(Increase) decrease in trade and other receivables	**(372)**	73
Increase (decrease) in trade and other payables	**392**	(320)
Increase (decrease) in provisions	**21**	49
Net cash outflow from operating activities	**(6,399)**	(6,404)

22 Events occurring after the balance sheet date

On 24 July 2013, the company received a notice requisitioning a General Meeting of shareholders from Malt Energy. The requisition seeks to remove Cam Rathie (Director) and Glenn Haworth (Managing Director). Motions included the appointment of two Directors representing Malt and another Director of their nomination as Chairman. The meeting of shareholders is to be held on 24 September 2013.

23 Related party transactions

(a) Parent entity
The parent company within the Group and the ultimate parent company is Galilee Energy Limited.

(b) Subsidiaries
Interests in subsidiaries are set out in note 11.

(c) Key management personnel
Disclosures relating to key management personnel are set out in note 5.

(e) Terms and conditions
All transactions with related parties are made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of loans between the parties.

24 Financial instruments

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

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

	Consolidated	
	2013	2012
	$'000	$'000
Financial assets		
Cash and cash equivalents	**27,393**	33,801
Trade and other receivables	**2,088**	1,715
	29,481	35,516
Financial liabilities		
Trade and other payables	**785**	394
	785	394

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

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

Specific financial risk exposures and management

(a) Credit risk
The Group is exposed to credit risk through its cash and cash equivalents. At 30 June 2013, the group had $27,372,301 (2012: $33,80,445) in accounts with the Westpac Banking Corporation and National Australia Bank.

24 Financial instruments (continued)

(b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group aims at maintaining flexibility in funding by arranging appropriate banking facilities as and when required. At the reporting date the Group held cash and cash equivalents of $27,392,301

All financial liabilities of the continuing business totalling $784,414 (2012: $394,185) are due and payable within six months of the reporting date.

(c) Market risk

(i) Interest rate risk

Exposure to interest rate risk arises on financial assets and liabilities because a future change in interest rates will affect future cash flows of variable rate financial instruments.

(ii) Foreign exchange risk

Foreign exchange risk arises from financial assets and liabilities denominated in a currency that is not the operating entity's functional currency. The Group's reporting currency is Australian dollars (AUD). At the reporting date, the Group held no financial assets or liabilities in any other currency (2012: $Nil).

Sensitivity Analysis

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

	Profit	Equity
	$	$
Year ended 30 June 2013		
+/- 2% in interest rates	+/- 548	+/- 548
Year ended 30 June 2012		
+/- 2% in interest rates	-/+ 742	-/+ 742

(d) Fair value estimation

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

25 Reserves

	Consolidated	
	2013	2012
	$'000	$'000
Share based payments reserve	**967**	932
Non-controlling interests elimination reserve	**(7,656)**	(7,656)
	(6,689)	(6,724)

(i) Share based payments reserve

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

(iii) Non-controlling interests elimination reserve

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

Directors' declaration

The directors of the company declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and accompanying notes are in accordance with the Corporations Act 2001 and:

   (a) comply with Accounting Standards and the Corporations Regulations 2001; and

   (b) give a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date.

2. The Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

3. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

4. The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

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

Andrew A Young
Chairman

Brisbane
13 September 2013

BDO

Tel: +61 7 3237 5999
Fax: +61 7 3221 9227
www.bdo.com.au

Level 10, 12 Creek St
Brisbane QLD 4000
GPO Box 457 Brisbane QLD 4001
Australia

INDEPENDENT AUDITOR'S REPORT

To the members of Galilee Energy Limited

Report on the Financial Report

We have audited the accompanying financial report of Galilee Energy Limited, which comprises the statement of financial position as at 30 June 2013, the statement of income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

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

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Galilee Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of Galilee Energy Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 5 to 9 of the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Galilee Energy Limited for the year ended 30 June 2013 complies with section 300A of the *Corporations Act 2001*.

BDO Audit Pty Ltd

BDO

C R Jenkins

Director

Brisbane: 13 September 2013

Matters subsequent to the end of financial year and finalisation of the Annual Financial Report

Director's information

As announced to the ASX on 24 September 2013, Paul Jensen was appointed to the Board as an Independent Non-executive Director. Paul subsequently resigned 30 October. Further, Glenn Haworth stepped down as Managing Director to take up the position of General Manager.

As stated in the Annual financial report – "Matters subsequent to the end of the financial year", the company held a General Meeting of shareholders on 24 September 2013.

The resulting board changes were the appointment of Dr David King, Paul Bilston and Peter Lansom as directors, and the removal of Cam Rathie as a director.

Andrew Young and Rino Camarri resigned 30 October 2013 and Dr David King was elected Chairman. Current Board and management composition is detailed in the Corporate Directory (inside front cover).

Paul Jensen

Independent Non–executive Director

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

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

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

Other directorships in listed companies – current

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

Special responsibilities
Member - audit committee

Dr David King

Appointed Chairman 30/10/2013

Appointed Non-executive Director 24/09/2013

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.

David is a Fellow of the Australian Institute of Company Directors, a Fellow of the Australasian Institute of Mining and Metallurgy and Chartered Professional (Management), and a Fellow of the Australian Institute of Geoscientists.

Other directorships in listed companies – current

Robust Resources Ltd	Appointed January 2010
Cellmid Ltd Limited	Appointed January 2008
Republic Gold Ltd	Appointed July 2011

NSX Listed - African Petroleum Corporation Ltd Appointed July 2013

Special responsibilities
Member - audit committee

Peter Lansom

Appointed Managing Director 30/10/2013

Appointed Non-executive Director 24/09/2013

Mr Lansom has over 25 years experience in conventional and unconventional exploration and development, working with Comet Ridge Ltd, Eastern Star Gas, 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.

Matters subsequent to the end of financial year and finalisation of the Annual Financial Report (continued)

Peter Lansom (continued)

In his recent role as Executive Director at Eastern Star Gas 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.

Peter holds a Bachelor of Petroleum Engineering (Honours) degree from the University of NSW.

Interest in shares and options
Director - Malt Energy 24,532,647 shares in Galilee Energy Limited.

Beneficial interest via a share purchase agreement for 4,380,165 shares from Malt Energy Pty Ltd.

Paul Bilston

Appointed Executive Director 30/10/2013

Appointed Non-executive Director 24/09/2013

Mr Bilston has 18 years experience in the Oil and Gas sector and has worked in a number of senior technical, commercial and management roles domestically and overseas. Early in his career, Paul worked in engineering consulting as a senior engineer and as project manager / director for Worley and GHD. This was followed by senior management roles with AGL Energy, AJ Lucas and Challenger Energy.

Paul holds a Bachelor of Engineering (Mech) and a PhD in Structural Engineering.

Other directorships in listed companies – current

Challenger Energy Ltd	Appointed April 2010

Interest in shares and options
Director - Malt Energy 24,532,647 shares in Galilee Energy Limited.

Beneficial interest via a share purchase agreement for 4,380,165 shares from Malt Energy Pty Ltd.

Special responsibilities
Member - audit committee

Shareholder Information

Shareholder information set out below was applicable as at 30 September 2013.
The Company has the following securities on issue:

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

Unquoted: 5,000,000 performance rights, as detailed (g)

(a) Distribution of ordinary shares

Analysis of shareholders by size of holding:

Range	Total Holders	No of shares	% of Issued Capital
1 – 1,000	108	44,030	0.03
1,001 – 5,000	454	1,565,259	1.03
5,001 – 10,000	311	2,584,920	1.70
10,001 – 100,000	504	16,114,023	10.59
100,001 – and over	135	131,832,234	86.65
Total Holders	1,512	152,140,466	100.00

The number of shareholders holding less than a marketable parcel (minimum $500.00 at 15cper share) is 322.

(b) 20 Largest Shareholders as of 21 October, 2013.

Rank	Name	Units	% of Units
1.	MALT ENERGY PTY LTD	24,532,647	16.12
2.	ECARLATE PTY LTD	18,342,608	12.06
3.	EKCO INVESTMENTS PTY LTD	8,881,011	5.84
4.	AMP LIFE LIMITED	8,419,967	5.53
5.	BECAMAL PTY LTD <GORDON SMITH FAMILY A/C>	5,520,945	3.63
6.	MCNEIL NOMINEES PTY LIMITED	3,500,000	2.30
7.	JADE SECURITIES PTY LTD <BEK UNIT A/C>	3,000,000	1.97
8.	VENTURIN NOMINEES PTY LIMITED	2,996,337	1.97
9.	PACIFIC ROAD PROVIDENT PTY LTD	2,451,083	1.61
10.	SCINTILLA STRATEGIC INVESTMENTS LIMITED	1,805,000	1.19
11.	PACIFIC TUG PTY LTD <THE KYTHERA UNIT A/C>	1,698,984	1.12
12.	EDWARDS INVESTMENTS AUSTRALIA PTY LTD	1,401,975	0.92
13.	KIRKHAM INVESTMENTS AUSTRALIA PTY LTD	1,401,975	0.92
14.	MR R C WILSON + MRS S F WILSON <THE WILSON S/F A/C>	1,362,582	0.90
15.	ARLES INTERNATIONAL LTD	1,314,286	0.86
16.	MR D K EDWARDS + MRS R M EDWARDS <EDWARDS SUPER FUND	1,247,085	0.82
17.	MRS E A KIRKHAM + MR R CAMARRI <KIRKHAM SUPER FUND A/C>	1,165,206	0.77
18.	CUDECO LIMITED	1,095,239	0.72
19.	ACN 139 886 025 PTY LTD	1,071,259	0.70
20.	PIAT CORP PTY LTD	1,066,930	0.70
Totals		**92,275,119**	**60.65**

(c) Substantial shareholders

The following have disclosed substantial shareholder notices to the Company:

Shareholder	Number of Shares	%
Malt Energy Pty Ltd	24,532,647	16.12
Ecarlate Pty Ltd	18,342,608	12.06
Ekco Investments Pty Ltd	8,881,011	5.84
AMP Life Limited	8,419,967	5.53

(d) Voting Rights

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

(i) Ordinary Shares

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

(ii) Options

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

(e) Share Buy-backs

There is no current on-market buy-back.

(f) Restricted securities

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

(g) Options/Performance Rights Details

Unquoted options/performance rights are held as follows:

Employee Performance rights			
	1,000,000	49.00c	1 March 2014
	1,000,000	61.25c	1 March 2015
	1,000,000	21.00c	1 March 2015
	1,000,000	28.00c	1 March 2016
	1,000,000	35.00c	1 March 2017

Tenement Interests

Coal Seam Gas	Interest	Basin	Location
ATP 799P	100%	Galilee	Queensland
ATP 529P	50% Galilee Energy Limited 50% AGL Energy Limited	Galilee	Queensland

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GALILEE

ENERGY LIMITED

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GALILEE ENERGY LIMITED

Level 2
895 Ann Street
Fortitude Valley QLD 4006

Telephone: +61 (0)7 3216 1155
Facsimile: +61 (0)7 3216 1199
Email: info@galilee-energy.com.au

www.galilee-energy.com.au