CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

Galilee Energy Limited

ABN 11 064 957 419

and controlled entities

Contents

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 half-year ended 31 December 2016.

Directors

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

Dr David King - Non-executive Chairman since 31/10/2013 Appointed Director 24/09/2013

Peter Lansom - Managing Director since 31/10/2013 Appointed Director 24/09/2013

Ray Shorrocks - Non-executive Appointed Director 02/12/13

Principal Activities

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

The principal activity of the consolidated entity is oil and gas exploration and production. The foundation asset of the Company is the development of coal seam gas in the Galilee Basin near Longreach in Queensland. In addition, the Company has oil and gas projects in the USA and South America.

Results from operations

The loss for the half-year ended 31 December 2016 was $3,709,918 (31 December 2015: $4,623,061). The material components of the loss relate to exploration expenditure on the Glenaras pilot operations amounting to $2,941,610.

Review of Operations

1. Glenaras Gas Project (ATP 2019) – GLL 100%

During the half-year, the Company's primary focus has been on its flagship Glenaras Gas Project ("Project") in the highly prospective ATP2019 permit ("Permit) which strategically located in western Queensland's Galilee Basin. The Permit covers an area of approximately 4000 km2 and is 100% owned and operated by Galilee Energy Limited.

The Project contains a significant independently derived and certified coal seam gas Contingent Resource within the Betts Creek coals comprising 1C of 308 PJ, 2C of 2508 PJ and 3C of 5314 PJ. The Contingent Resource estimation was undertaken by MHA Petroleum Consultants LLC (MHA) in September 2015.

During the period August to September 2016, despite adverse weather conditions restricting access and movement in the area, the Company successfully drilled a lateral well through the middle of the Glenaras Gas Pilot in order to accelerate reservoir pressure drawdown and the onset of gas production. The well was drilled over late August/early September and was completed with no safety incidents and within budget. The lateral well was drilled from Glenaras 5 across to Glenaras 3 with excellent geological control and stayed in the target R1 coal seam as planned for a total 400m horizontal in-seam section.

Since the completion of the lateral well, the Company's focus has been on the production testing of the lateral well. At the end of the half-year, the well was producing at full drawdown through the separator with strong water rates along with a small, but continuous, gas flow. Strong pressure depletion has been observed in the coal at the Glenaras 4 vertical observation well. Also, pressure depletion has been observed at the outer Glenaras 2 and 6 wells. The strong drawdown at Glenaras 4 highlights the dominant master cleat system in the Betts Creek coals where these master cleats have a strong orientation in the northwest - southeast direction.

These results are important for future development planning and shows that excellent connection though the coal reservoir over large areas has been achieved. This means that fewer wells will be required in a future development than previously anticipated. The strong drawdown at Glenaras 4 also confirms water production is coming from the coal only, and not from neighbouring sandstones which is a key positive result for the Project.

The artificial lift pumping system has performed superbly, overcoming what was a major issue for the previous Operator with the pilots it drilled in the Permit. The vertical production well, Glenaras 3 has also produced minimal coal fines, a common issue with lateral wells, and the integrity of the lateral section of the well remains strong. This result confirms the completion design and is encouraging for a development where lateral well technology is utilised.

While gas rates are not yet at a level that would enable a Reserve booking, all production and pressure monitoring data has now been submitted to MHA Petroleum Consultants, the Company's independent reserve's certifier. MHA will now model the high quality data gathered to date to assess the forward plans for the Project.

Directors' report (continued)

Review of Operations (continued)

1. Glenaras Gas Project (ATP 2019) – GLL 100% (continued)

During the latter part of the half-year, the Company acquired a small four-man camp and AWD vehicle for its Glenaras pilot operations. This will allow on site accommodation for the operations team, rather than their having to travel to and from Longreach. Not only does this represent time economies, this is an important safety initiative to reduce driving risk as well as being a critical logistical advantage during the summer months when heavy rainfall can limit site access.

2. Lavaca County - Texas Gulf Coast

Galilee holds a large lease position in JV with other parties over the Lower Wilcox play in Lavaca County, Texas. While there has been no exploration activity during the half-year, there is farm-in interest for the acreage from third parties. The JV is currently assessing these proposals.

3. Kansas Shallow Oil & Gas (farming in to earn up to 75%WI)

Galilee has a 345,000-acre Area of Mutual Interest in Meade County, Kansas. Galilee completed a 3D seismic survey over a portion of this acreage in early 2015. Since that time Galilee has refined the prospects identified by the survey and has identified a number of drillable prospects. Galilee is the Operator for the JV. There is no planned activity for this asset at this stage.

4. Chile

The Company completed its evaluation and study of the Coal Seam Gas (CSG) potential in the Southern Magallanes Basin in Chile late 2015. Galilee has submitted a draft application to the Chilean government for an exploration permit application (CEOP) over an area of almost 6,000 sq.km. There has been no significant activity on this application during the half-year.

Auditor's independence declaration

The auditor's independence declaration is included on Page 3 of the Directors' Report for the half-year.

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

On behalf of the Directors

Dr David King
Chairman
Brisbane, 14 March 2017

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 A J WHYTE TO DIRECTORS OF GALILEE ENERGY LIMITED

As lead auditor of Galilee Energy Limited for the half-year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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

A J Whyte
Director

BDO Audit Pty Ltd

Brisbane, 14 March 2017

Consolidated Statement of Profit or Loss & Other Comprehensive Income

for the half-year ended 31 December 2016

	Consolidated	
	31 Dec 16	31 Dec 15
	$	$
Revenue and other income		
Interest received	110,607	214,618
Other income	-	-
	110,607	214,618
Expenses		
Exploration and evaluation costs	(2,950,898)	(3,926,542)
Employee benefits expense	(427,155)	(246,540)
Directors remuneration	(10,417)	(84,519)
Consulting fees	(52,211)	(112,734)
New project evaluation and analysis	-	(159,536)
Administration expenses	(379,844)	(307,808)
Total expenses	(3,820,525)	(4,837,679)
Loss before income tax	(3,709,918)	(4,623,061)
Income tax benefit/(expense)	-	-
Loss for the year	(3,709,918)	(4,623,061)
Other comprehensive (loss)/income, net of income tax		
Items that may be reclassified subsequently to profit and loss		
Exchange differences on translation of foreign operations	2,928	(20,067)
Total other comprehensive income, net of income tax	2,928	(20,067)
Total comprehensive loss	(3,706,990)	(4,643,128)
Loss per share	Cents	Cents
Basic loss per share	2.45	3.05
Diluted loss per share	2.45	3.05

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

Consolidated Statement of Financial Position
as at 31 December 2016

	Note	Consolidated	
		31 Dec 16	30 Jun 16
		$	$
Assets			
Current assets			
Cash and cash equivalents		6,090,108	9,479,013
Trade and other receivables	5	87,382	79,361
Total current assets		6,177,490	9,558,374
Non-current assets			
Trade and other receivables	5	1,544,902	1,534,202
Property, plant and equipment		168,512	101,208
Total non-current assets		1,713,414	1,635,410
Total assets		7,890,904	11,193,784
Liabilities			
Current liabilities			
Trade and other payables	6	275,938	224,105
Provisions	7	53,134	-
Total current liabilities		329,072	224,105
Non-current liabilities			
Trade and other payables	6	3,804	3,805
Provisions	7	1,215,280	1,147,000
Total non-current liabilities		1,219,084	1,150,805
Total liabilities		1,548,156	1,374,910
Net assets		6,342,748	9,818,874
Equity			
Issued capital		60,227,574	60,227,574
Reserves		(7,464,163)	(7,675,838)
Accumulated losses		(46,420,663)	(42,732,862)
Total equity		6,342,748	9,818,874

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

Consolidated Statement of Changes in Equity
for the half-year ended 31 December 2016

	Issued Capital	Accumulated Losses	Non-controlling Interests Elimination Reserve	Foreign Currency Translation Reserve	Share-based Payments Reserve	Total
	$	$	$	$	$	$
Balance at 1 July 2016	60,227,574	(42,732,862)	(7,656,400)	(50,332)	30,894	9,818,874
Loss for the period	-	(3,709,918)	-	-	-	(3,709,918)
Other comprehensive loss	-	-	-	2,928	-	2,928
Total comprehensive loss	-	(3,709,918)	-	2,928	-	(3,706,990)
Share-based payments expense	-	-	-	-	230,864	230,864
Transfers	-	22,117	-	-	(22,117)	-
	-	22,117	-	-	208,747	230,864
Balance at 31 December 2016	60,227,574	(46,420,663)	(7,656,400)	(47,404)	239,641	6,342,748
Balance at 1 July 2015	60,227,574	(37,712,317)	(7,656,400)	(18,596)	1,015,677	15,855,938
Loss for the period	-	(4,623,061)	-	-	-	(4,623,061)
Other comprehensive loss	-	-	-	(20,067)	-	(20,067)
Total comprehensive loss	-	(4,623,061)	-	(20,067)	-	(4,643,128)
Share-based payments expense	-	-	-	-	22,019	22,019
Balance at 31 December 2015	60,227,574	(42,335,378)	(7,656,400)	(38,663)	1,037,696	11,234,829

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

Consolidated Statement of Cash Flows
for the half-year ended 31 December 2016

	Consolidated	
	31 Dec 16	31 Dec 15
	$	$
Cash flows from operating activities		
Payments to suppliers and employees (including GST)	(499,754)	(793,059)
Payments for exploration	(2,873,915)	(3,377,027)
Interest received	80,601	161,771
Other revenue	-	-
Net cash used in operating activities	(3,293,068)	(4,008,315)
Cash flows from investing activities		
Payments for property, plant and equipment	(83,938)	(92,833)
Proceeds from disposal of property, plant and equipment	-	-
Refunds of/(Payments for) bonds and deposits	(10,700)	(259,875)
Net cash provided by investing activities	(94,638)	(352,708)
Net Decrease in cash and cash equivalents	(3,387,706)	(4,361,023)
Cash and cash equivalents at the beginning of the period	9,479,013	16,016,462
Effects of exchange rates on cash	(1,199)	8,449
Cash and cash equivalents at the end of the period	6,090,108	11,663,888

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

Notes to the Consolidated Financial Statements
for the half-year ended 31 December 2016

1. Principal Activities

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

There have been no significant changes in the nature of the Group's principal activities during the half-year.

2. Basis of preparation

The interim consolidated financial statements (the interim financial statements) are for the six months ended 31 December 2016 and are presented in Australian Dollar ($AUD) which is the functional currency of the Parent Company. The interim financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standard AASB 134: *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 134 “Interim Financial Reporting”.

The financial statements have been prepared on an accruals basis and are based on historical costs modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The interim financial statements do not include all of the notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report of the Group together with any public announcements made by the Group during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

3. Significant accounting policies

The accounting policies adopted in the preparation of this interim financial report are consistent with those of the previous financial year and corresponding interim reporting period. The accounting policies have been applied consistently throughout the Group for the purpose of preparation of the interim financial statements.

The Group has adopted all of the mandatory new and amended Accounting Standards issued that are relevant to its operations and effective for the current reporting period. There was no material impact on the financial report as a result of the adoption of these standards.

4. Segment Information

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

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

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

Notes to the Consolidated Financial Statements
for the half-year ended 31 December 2016

4. Segment Information (continued)

Segment performance
The following table shows the revenue and exploration and evaluation expenditure information regarding the Group's operating segments for 31 December 2016 and 31 December 2015.

	Australia	United States			South America	
	Qld	Illinois	Texas	Kansas	Chile	Total
	$	$	$	$	$	$
31 December 2016						
Segment Result						
Segment Revenue	-	-	-	-	-	-
Exploration & evaluation costs	(2,941,610)	(7,441)	4,848	-	(6,695)	(2,950,898)
Segment result before tax	(2,941,610)	(7,441)	4,848	-	(6,695)	(2,950,898)
Reconciliation of segment result to Group loss before tax						
Interest revenue						110,607
Other income						-
Employee benefits expense						(427,155)
Directors remuneration						(10,417)
Consulting fees						(52,211)
New project evaluation and analysis						-
Administration expenses						(379,844)
Loss before tax						(3,709,918)
31 December 2015						
Segment Result						
Segment Revenue	-	-	-	-	-	-
Exploration & evaluation costs	(2,019)	(8)	(1,757)	(45)	(97)	(3,926)
Segment result before tax	(2,019)	(8)	(1,757)	(45)	(97)	(3,926)
Reconciliation of segment result to Group loss before tax						
Interest revenue						214,618
Other income						-
Employee benefits expense						(246,540)
Directors remuneration						(84,519)
Consulting fees						(112,734)
New project evaluation and analysis						(159,536)
Administration expenses						(307,808)
Loss before tax						(700,445)

Notes to the Consolidated Financial Statements
for the half-year ended 31 December 2016

5. Receivables

	Consolidated	
	31 Dec 16	30 Jun 16
Current	**$**	$
Trade receivables	**9,791**	11,363
Interest receivable	**59,512**	29,506
Prepayments	**18,079**	38,492
	87,382	79,361
Non-Current		
Environmental bonds and deposits	**1,198,167**	1,187,467
Rental bond	**346,735**	346,735
	1,544,902	1,534,202
	1,632,284	1,613,563

6. Trade and other payables

	Consolidated	
	31 Dec 16	30 Jun 16
Current	**$**	$
Trade payables	**179,856**	95,878
Other payables	**66,236**	87,865
Employee benefits	**29,846**	40,362
	275,938	224,105
Non-Current		
Employee benefits	**3,804**	3,805
	279,742	227,910

7. Provisions

	Consolidated	
	31 Dec 16	30 Jun 16
Current	**$**	$
Obligations under sublease	**53,134**	-
	53,134	-
Non-Current		
Obligations under sublease	**68,280**	-
Rehabilitation & restoration	**1,147,000**	1,147,000
	1,215,280	1,147,000
	1,268,414	1,147,000

8. Issued Capital

No shares were issued during the 31 December 2016 half-year or the prior half-year to 31 December 2015.

Notes to the Consolidated Financial Statements
for the half-year ended 31 December 2016

9. Share based payments

During the half-year, no performance rights were granted to employees and contractors. The following table shows the movements in the number of performance rights granted in prior periods and on issue at 31 December 2016.

Grant date	Expiry date	Opening balance	Granted during the period	Exercised during the period	Expired during the period	Closing balance
20-Nov-14	1-Dec-16	600,000	-	-	(600,000)	-
20-Nov-14	1-Dec-17	600,000	-	-	-	600,000
		1,200,000	-	-	(600,000)	600,000

During the half-year, the following share options were granted to the Directors and an employee.

Grant date	Expiry date	Opening balance	Granted during the period	Exercised during the period	Expired during the period	Closing balance
18-Nov-16	18-Nov-19	-	7,600,000	-	-	7,600,000

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

No. of Options Granted	Grant Date	Fair Value (cents)	Exercise Price (cents)	Expiry Date	Vesting Date	No. of Options Exercisable
7,600,000	18-Nov-16	2.9	12.5	18-Nov-19	18-Nov-16	7,600,000

The fair value of share options issued during the half-year is measured at grant date and is determined using a binomial or Black-Scholes pricing model that takes into account the term of the option, the underlying share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the share option. Where options have an expiry date in the future but have already vested, the fair value at grant date is based on managements' of an anticipated exercise date which may be a date earlier than the expiry date of the options.

Where the options are granted subject to a market condition, the pricing model also takes into account the probability that the market condition will be satisfied/not satisfied during the term of the option e.g. "monte carlo" simulation technique.

10. Contingent liabilities

The directors are not aware of any contingent assets or liabilities.

Notes to the Consolidated Financial Statements
for the half-year ended 31 December 2016

11. Commitments

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

	Consolidated	
	31 Dec 16	30 Jun 16
Operating lease commitments	$	$
Minimum lease payments payable as follows:		
not later than 12 months	146,503	144,005
between 12 months and 5 years	297,133	370,298
	443,636	514,303

Bank guarantees
National Australia Bank Limited have provided a bank guarantees totalling $1,520,626 (June 2016: $1,520,626) as follows:

- $1,173,891 (June 2016: $1,173,891) to the State of Queensland in respect of the Group's exploration permits and environmental guarantees;
- $346,735 (June 2016: $346,735) to the landlord of the Brisbane office premises to support the Group's obligations under the lease of the Edward Street, Brisbane premises.

The bank guarantees are secured by term deposits.

Exploration expenditure
In order to maintain an interest in the exploration tenements in which the Group is involved, the Group is committed to meet the conditions under the agreements. The timing and amount of exploration expenditure and obligations of the Group are subject to the minimum work or expenditure requirements of the permit conditions or farm-in agreements (where applicable) and may vary significantly from the forecast based on the results of the work performed, which will determine the prospectivity of the relevant area of interest.

With respect to permit ATP 2019, at 31 December 2016 the Group has met all of the exploration commitments under the current work programme. This permit has been renewed and is granted to 30 November 2020. As the exploration commitments had been met, no additional exploration expenditure is required

In the case of the United States of America and Chile there are no commitments beyond 31 December 2016.

12. Events occurring after balance date

There has not arisen in the interval between the end of the half-year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors, to affect significantly the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial periods.

Directors' declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 4 to 12 are in accordance with the *Corporations Act 2001*, including:

(i) complying with ASSB 134 Interim Financial Reporting, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the half-year ended on that date; and

(b) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

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

Dr David King
Chairman
Brisbane, 14 March 2017

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 REVIEW REPORT

To the members of Galilee Energy Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Galilee Energy Limited, which comprises the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Galilee Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, 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 review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Galilee Energy Limited is not in accordance with the *Corporations Act 2001* including:

(i) Giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

(ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

BDO Audit Pty Ltd

BDO

A J Whyte
Director

Brisbane, 14 March 2017