

The cover features a background image of an oil drilling rig at dusk. A large, semi-transparent blue globe with a white grid is overlaid on the scene. The rig's derrick is on the left, and various pieces of equipment are visible on the ground. The text 'ANNUAL REPORT' is centered in white, bold, uppercase letters.

**ANNUAL
REPORT**

2017



GALILEE
ENERGY LIMITED

CORPORATE DIRECTORY

Directors & Management

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

Chief Financial Officer
Don Langdon

Company Secretary
Stephen Rodgers

Principal Registered Office

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Brisbane QLD 4000

GPO Box 1944, Brisbane QLD 4001

Phone: (07) 3177 9970
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Share and Options Registry

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

Stock Exchange

Australian Securities Exchange
Home Branch: Brisbane

ASX Code

GLL

Auditors

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

Solicitors

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

Bankers

National Australia Bank
308 - 322 Queen St
Brisbane QLD 4000

www.galilee-energy.com.au





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CHAIRMAN'S LETTER

Dear Shareholder,

I am pleased to present to you the 2017 Annual Report for Galilee Energy Limited.

In my letter to Shareholders at this time last year I foreshadowed the predicted shortfall in supply for the Australian east coast gas markets. That east coast domestic gas market is now critically undersupplied, and at a time when exploration for, and development of, new gas supplies in the eastern states is severely (regulatory) challenged everywhere other than in Queensland.

Galilee is fortunate indeed that it operates entirely in Queensland, within its 100% owned ATP 2019 (erstwhile ATP 529); and even more so because this permit area hosts the 2nd largest Contingent Gas Resource in Queensland (or the other eastern States) excluding the three big LNG exporters.

The Company's 3C gas resource of 5,314PJ (2C 2,508PJ) is a substantial asset in the context of an east coast domestic market of ~650PJ/year. In ATP 2019, inherited legacy issues of poorly located and inappropriately completed production pilots have resulted in our anticipated timeframe for converting a significant portion of this impressive resource base in to reserves proving to be overly optimistic. However I am pleased to report that the long term uninterrupted testing at the Glenaras pilot has been successfully completed during the year, and has for the first time provided a clear picture of the path to commerciality. In house and independent expert analysis of the extensive data collected through the operations at Glenaras has enabled our technical team to design a highly cost effective multi-lateral pilot programme which we are confident will when implemented complete the remaining step to significant value creation.

In addition to the advances in the technical work required to unlock the Company's gas resources, the year in review has seen good progress also on other important elements of any successful gas development programme. Supply and demand constraints on the east coast are such that gas prices are strong and highly likely to remain so in the medium term at least. Pricing will also be underpinned by finding and development cost, much less affected than in the past by co-production from oil developments offshore Victoria and elsewhere. New uncontracted gas supplies, especially from areas with relatively low field development costs such as the Galilee Basin, will inevitably be highly valuable.

Finally our MoU with Jemena in regard to fast tracking the connection of the Galilee Basin to the East coast is another very important step in the development of our project... It is with good reason that we look forward to an exciting year ahead.

Our field operations in western Queensland have again operated very smoothly throughout the year - a testament to the support and friendship of all our stakeholders in those areas. I take this opportunity to express our special thanks to all of those stakeholders.

Our Company operates with a small but highly qualified and experienced technical and management team, and I thank them for the excellent work and commitment throughout the year.

On behalf of the Board, I thank all shareholders for their support and interest in our activities.

Yours faithfully



Dr David King
Chairman

MANAGING DIRECTOR'S REPORT

Glenaras Gas Project (ATP 2019) – GLL 100%

Galilee Energy resumed full ownership and control of the Glenaras Gas Project in late 2015. Since regaining control it has become our number one focus as we foresaw the opportunity arising from a looming gas supply problem that is now a daily news item.

The Company's flagship Glenaras Gas Project ("Project") (Figure 1), has one of the largest remaining uncontracted gas resources on the east coast of Australia with an independently derived and certified Contingent Resource+ within the Betts Creek coals with a 1C of 308 PJ, a 2C of 2508 PJ and a 3C of 5314 PJ. The Company's primary focus is on converting these Contingent Resources to Reserves.

Since 2015 we have moved the project forward whilst preserving both the company funds and its 100% equity position in a low oil price environment where the industry has been generally unwilling to fund exploration.

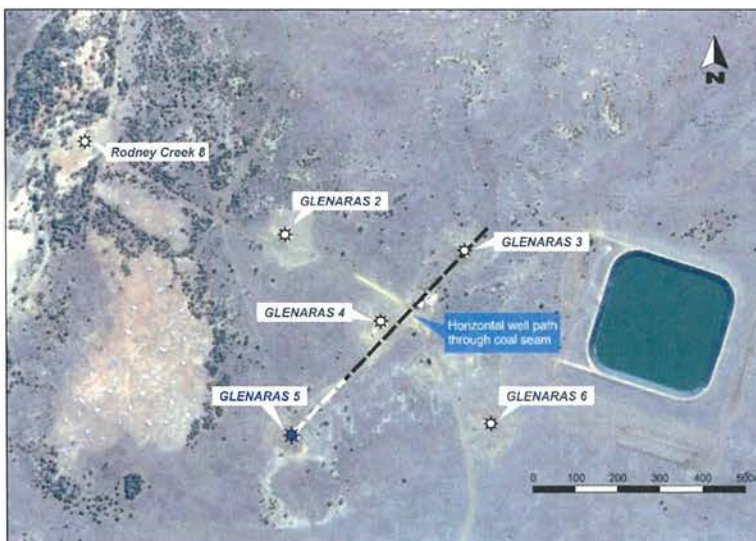
In the past 12 months, the Company has taken significant steps forward both technically and commercially.

Permit Administration

During the latter half of 2016, the Company held detailed discussions with the Queensland Government regarding the ATP529 permit renewal, which was due in December 2016. ATP529 had been administered under the QLD Government Petroleum Act 1923, which is now outdated legislation. Most oil and gas permits are now administered under the 2004 Petroleum and Gas Act. During the quarter, the Company applied for conversion to the 2004 Act. On the 28th November 2016, ATP529 was converted to the new Act and is now called ATP2019. The permit area remains the same.

This conversion allows much greater flexibility in moving the permit to higher forms of tenure such as retention leases (or Potential Commercial Areas) or to Petroleum Leases for production. The tenure is now fully secure for its final four-year exploration term.

R1 coal seam lateral well pilot



Following completion of the R1 seam vertical pilot, the R1 lateral well was drilled during the 3rd quarter of 2016 through the centre of the existing Glenaras Gas Project - R1 vertical pilot. The aim of the lateral was to improve production offtake from the coal, accelerate drawdown and the onset of gas production.

The horizontal well was drilled with excellent geological control and was able to stay in the bottom section of the R1 coal as planned.

Figure 2

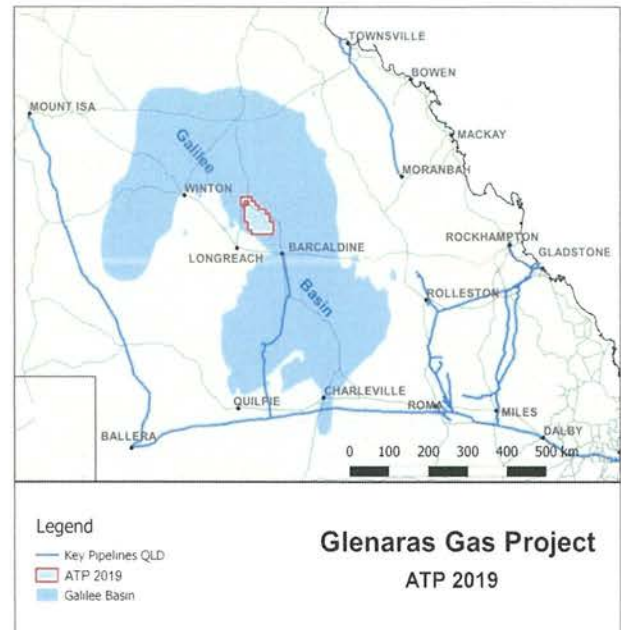


Figure 1

MANAGING DIRECTOR'S REPORT

A total of 400 m of lower R1 coal was opened for production in the horizontal well and produced from the Glenaras 3 vertical well.

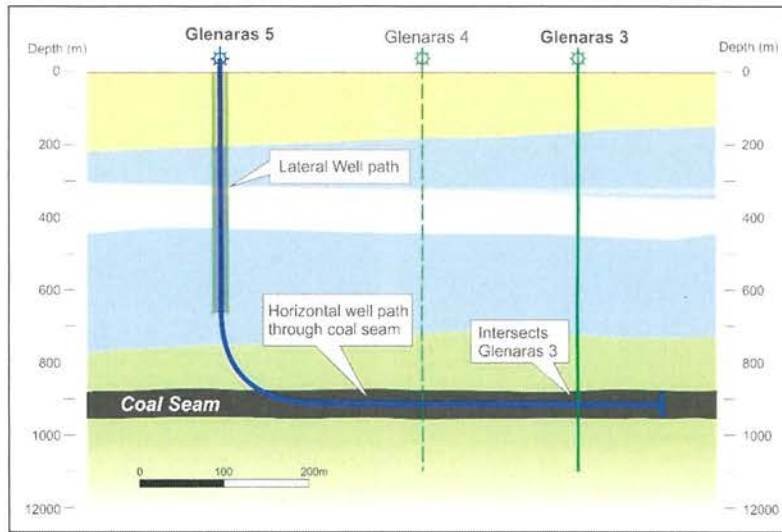


Figure 3

The plot below shows the Schlumberger Periscope HD response through the Glenaras lateral well with the high-quality coal layer within the R1 coal seam identified by the bright red/orange band. The well was easily controlled within this layer and achieved 100% within target coal seam. (Figure 4).

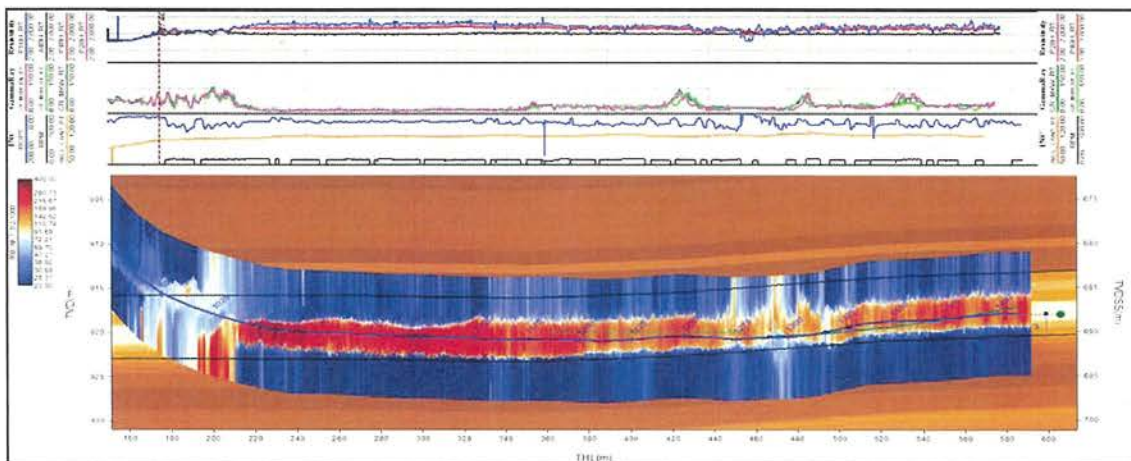


Figure 4

The lateral well was put on pump following the completion of the drilling program and at full drawdown, the water rates from the lateral represented a 6-fold improvement over the best vertical well production rate previously recorded. Excellent quality data from the nine months of production has been collected, including gas and water production data from the lateral well, along with key pressure data from the surrounding vertical wells.

This pilot has been able to confirm a number of key properties important for the future development of the resource, despite the poorer coal characteristics of the R1 coal in the immediate vicinity of the current Glenaras pilot. The results have now provided a clear path forward for the commercialisation of the asset.

Modelling of the pilot data has greatly strengthened our understanding of the reservoir and our confidence in the forward commercialisation of the resource. In particular:

- The artificial lift pumping system selected for the pilot has performed flawlessly. Artificial lift systems have been a continuous source of downtime and problems with previous pilots in the permit. The system developed for use in the current pilot will be used in any forward development.

MANAGING DIRECTOR'S REPORT

- The lateral pilot indicated that the Betts Creek coals in this area have a strong directional permeability, consistent with the dominant master cleat direction within the coal. This geological feature will result in increased reservoir drainage and recovery per well resulting in a reduction in development well numbers. This will have a strong bearing on future pilot design and ultimate development planning.
- The pilot production and near well pressure data from surrounding wells confirms production from coal only. This is a major step forward in confidence that the Betts Creek coals can be successfully developed without any significant interference by the interbedded sands within the Betts Creek sequence.
- Recent advances in lateral drilling technology allow excellent well control to stay within coal seams while drilling.
- Although the water rates from the lateral well were significantly higher than the vertical well pilot a commercial gas rate was not achieved as the permeability in the R1 coal in this location has proven to be too low.
- Comparisons with analogous pilots in similar coals confirm that a multi-lateral well pilot should achieve commercial pilot results and booking of first Reserves for the Basin.

New Multi-lateral Pilot

Analysis of the existing lateral pilot has identified the best way forward to commercialising the Glenaras project. The modelling has shown that a new pilot located a short distance from the current pilot, in better permeability coals identified by coreholes is likely to achieve a commercial flow result in a short time frame, enabling the timely booking of a significant Reserves.

This new pilot is being planned as a multi-lateral pilot, with three evenly spaced parallel laterals so as to allow the outer shield wells to protect the inner lateral (Figure 5), as with the analogous pilot elsewhere in eastern Australia. This configuration will allow the central well to draw the reservoir down below critical desorption pressure and achieve commercial gas rates more rapidly. Importantly, the proposed new pilot will be able to utilise existing production facilities such as camp, evaporation pond and surface pumping equipment.

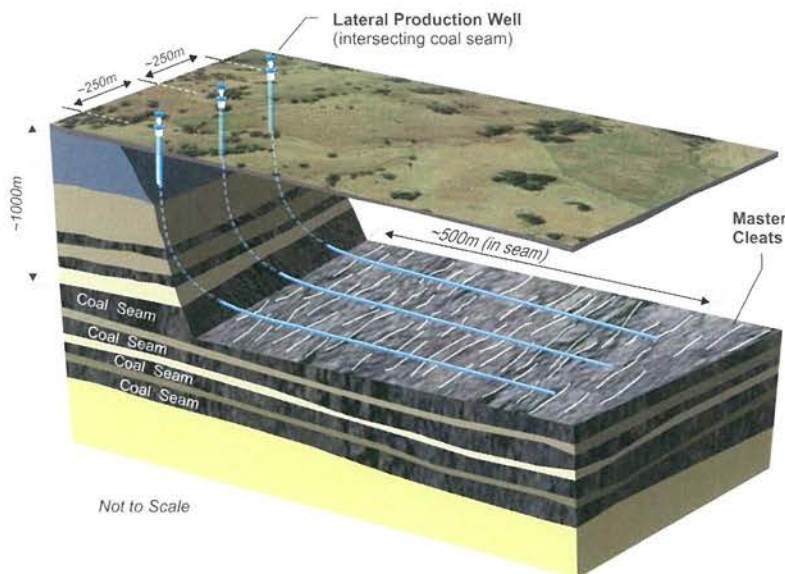


Figure 5

Preliminary pilot has the lateral wells drilled perpendicular to the master cleat orientation. The coal characteristics are analogous to the Gunnedah Basin coals where the same lateral pilot design has proven successful. A successful pilot achieving commercial gas rates has the potential to book 500 PJ+ (500 million GJ) of 2P reserves.

Work is well advanced on the location and design of this new pilot. The Company is currently tendering for the drilling and completion work and procuring the long lead items.

MANAGING DIRECTOR'S REPORT

Commercial and Market

One of the significant developments throughout this reporting year has been the increasing gas supply shortfall in the East Coast Australia gas market. The Federal Government's AEMO has flagged a growing shortfall in domestic gas supply as shown in the Figure below (see Figure 6). This has resulted in much media and Government attention and reflected a significant increase in wholesale gas prices on the east coast. This has resulted in increased attention on new supply options such as the Glenaras Gas Project and there is now strong support from all levels of Government to assist with unlocking this valuable asset and connect to market.

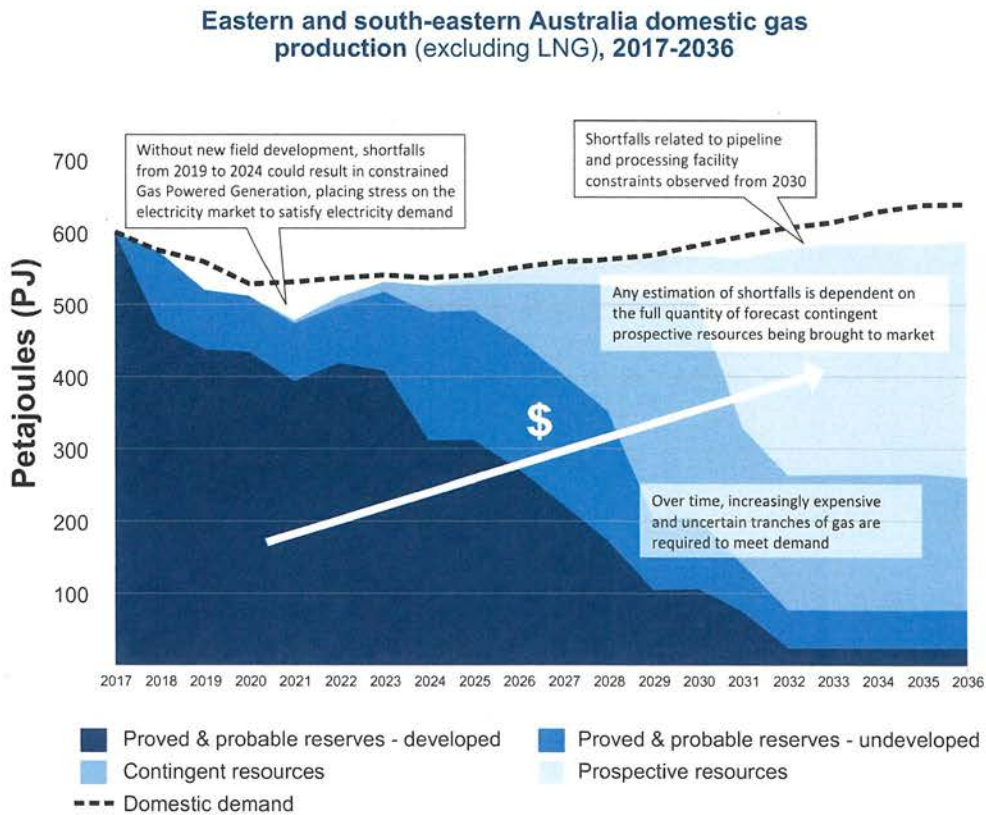


Figure 6

MANAGING DIRECTOR'S REPORT

Jemena Memorandum of Understanding

In October 2017, the Company announced the signing of a binding MOU with Jemena to work together to deliver the Galilee Energy's Glenaras Gas Project in the Galilee Basin in central Queensland to the east coast domestic market.

The agreement fast-tracks Jemena's plans to build a new pipeline delivering gas produced by Galilee Energy to the east coast and means Jemena will begin engaging with local communities, conducting field surveys and completing pipeline design concept works (Figure 7):

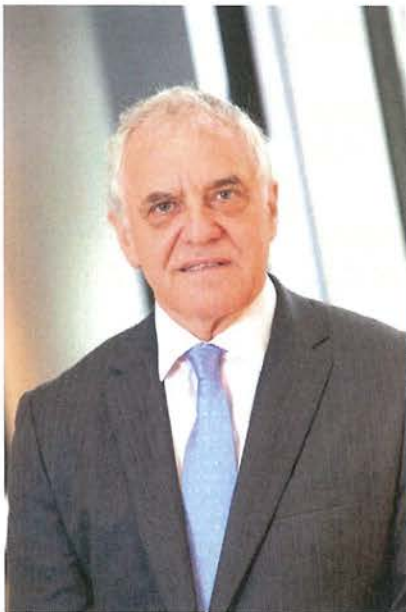
These early planning works will be undertaken concurrently with the new multi-lateral pilot with the objective that both Jemena and Galilee Energy will be ready to proceed to front end engineering and design (FEED) on both pipeline and field development in 2019.



Galilee Energy is now well placed to deliver in 2018 on its primary objective of converting a large portion of the Glenaras Gas Project Resource into Reserves and the Galilee Basin can be a significant contributor to the Eastern Australian gas market and consequently building sustainable shareholder returns.

Board of Directors

*Aligned with shareholders
... Focused on results*



Dr David King
Non-executive Director



Ray Shorrocks
Non-executive Director



Peter Lansom
Managing Director

MANAGEMENT

Don Langdon B.Com, FICA, FAICD.

Chief Financial Officer - Part Time

Appointed: Chief Financial Officer on 1 September 2014.

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

Stephen Rodgers LLB.

Company Secretary - Part Time

Appointed: Company Secretary on 1 September 2014.

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

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

General Manager - Operations

Appointed: General Manager - Operations on 1 November 2014.

Mr Ryan has over 20 years experience in petroleum engineering, drilling, production operations, energy transmission and distribution, power generation and coal mining sectors in Australia and Ireland. Gerard has worked for Oil Company of Australia, Origin Energy, Ireland's Bord Gáis Éireann, Eastern Star Gas, BHP Mitsubishi Alliance (BMA) and Senex Energy. He was until recently COO for Eastern Star Gas. Gerard has experience in all aspects of oil and gas exploration with particular emphasis in operations and production optimisation.

Jenny Langdon

Administration Manager

Appointed: Administration Manager on 30 August 2010.

Ms Langdon has over 30 years management experience, having owned and operated a number of successful automotive and commercial property management entities. Jenny has served on state and national industry committees, convened national conferences and co-wrote the industry's environmental management handbook. She has also advocated and liaised on behalf of the industry with State Government. Jenny has experience in all facets of business management and has been a member of Galilee's administration since 2007.

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

Consulting Geoscientist

Mr Edgar is currently working on contract with Galilee Energy supporting exploration activities, with a particular emphasis on building the exploration portfolio in Chile. Ashley is a geologist with 30 years' experience in conventional and unconventional oil and gas. He has held several senior positions in exploration, development and new ventures, including heading up E&P Geoscience Onshore for Origin Energy, and more recently as Executive GM of Exploration and New Ventures for Eastern Star Gas, Non-Executive Director of Orion Petroleum and Exploration Advisor to Comet Ridge.

CORPORATE GOVERNANCE

Corporate Governance Overview Statement

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

The Board is pleased to report that during the year ending 30 June 2017 the Company's corporate governance practices and policies have substantially accorded with those outlined in the ASX Corporate Governance Council's Principles and Recommendations (3rd Edition) ("ASX Recommendations" or "ASX Guidelines"), except as outlined in the Company's annual Corporate Governance Statement. Even where there is a deviation from the recommendations the Company continues to review and update its policies and practices in order that these keep abreast of the growth of the Company, the broadening of its activities, current legislation and good practice.

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

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

A copy of Galilee Energy's 2017 Corporate Governance Statement, which provides detailed information about governance and a copy of Galilee Energy's Appendix 4G which sets out the Company's compliance with the recommendations in the 3rd Edition of the ASX Recommendations is available on the corporate governance section of the Company's website at:

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

Directors' Report

In accordance with a resolution of the Board, the directors present their report on the consolidated entity ("Galilee" or "Company") consisting of Galilee Energy Limited and the entities it controlled at the end of or during the year ended 30 June 2017. The financial statements have been reviewed and approved by the directors based on the recommendation of the Audit Committee.

1. Directors

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

Dr David King *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 Director Appointed 02/12/13*

2. Principal activities

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

The principal activity of the consolidated entity is oil and gas exploration and production. The foundation asset of the Company is the development of coal seam gas in the Galilee Basin near Longreach in Queensland. The Company also holds prospects in the USA and is progressing applications in South America.

3. Strategy

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

4. Results from operations

The loss for the year was \$3.830 million (2016: \$6.038 million).

The loss for the year reflects the exploration and evaluation expenditure incurred on the Galilee Basin permit of \$3.817 million. The major component of the prior year loss was the exploration expenditure on the Galilee Basin permit of \$3.088 million and in the US amounting to \$1.701 million.

5. Dividends

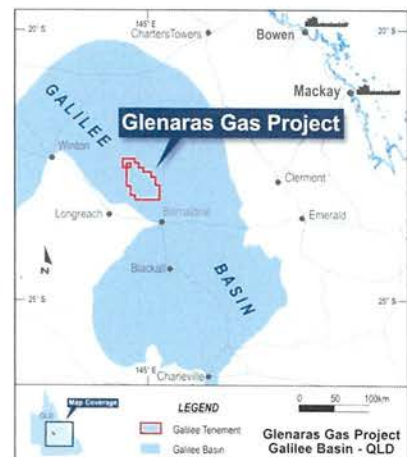
No dividends were paid to members during the financial year. Since the end of the financial year, the directors have not recommended the payment of any dividend.

6. Review of operations

Glenaras Gas Project (ATP 2019) – GLL 100%

The Company's flagship Glenaras Gas Project lies within the highly prospective ATP2019 permit, in western Queensland's Galilee Basin. The permit covers an area of approximately 4000 km² and is 100% owned and operated by Galilee Energy Limited (Figure 1).

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



Directors' Report (continued)

6. Review of Operations (continued)

During the year the Company undertook significant activity on the ATP2019 permit which included the successful drilling of a lateral well. Since the completion of the lateral in the 3rd quarter of 2016 excellent quality data has been collected during the production phase including gas and water production data. This extensive production data along with key pressure data from the surrounding vertical wells Glenaras 2, 4 and 6 has strengthened understanding of the reservoir and provided a clear path forward for the commercialisation of the asset.

A new pilot is being planned as a multi-lateral pilot, with three evenly spaced parallel laterals drilled perpendicular to master cleat orientation.

The Company is currently tendering for the drilling and completion work. Drilling is planned prior to 31 December 2017 however timing is subject to obtaining all relevant approvals, rig and equipment availability and assessment of forecast weather conditions.

US Assets

As previously announced following the Company's strategic review conducted in December 2015, no additional exploration activities are currently being undertaken in the US. There are no significant expenditure plans within the US portfolio.

Chile

Late last year Galilee completed its evaluation and study of the Coal Seam Gas (CSG) potential in the Southern Magallanes Basin in Chile. In June 2015 Galilee submitted an application to the Chilean government for an application over an area of almost 6,000 sq.km. During August 2015, Galilee presented the exploration program to the government, and is now working to negotiate the terms of the CEOP (exploration permit) to cover the area.

Corporate

To further reduce overhead costs on 31 December 2016, the Company sub-leased the office at 235 Edward Street and downsized to smaller premises.

7. Significant changes in state of affairs

The Company's focus is on its exploration program in the Galilee Basin. There were no other significant changes in the Company's activities.

8. Matters subsequent to the end of financial year

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years.

9. Environmental regulation

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

10. Options

During the year 5,100,000 options were issued to directors as part of their remuneration. The options were granted and vested on 18 November 2016 and have an expiry date of 18 November 2019. Further information on these options is shown in the Remuneration Report section of this report.

Directors' Report (continued)

11. Directors and officers insurance

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

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

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

12. Proceedings on behalf of the Company

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

13. Meetings of directors

The number of meetings of the Company's board of directors and of the audit committee during the year ended 30 June 2017, and the numbers of meetings attended by each director were:

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

A = Number of meetings attended

B = Number of meetings eligible to attend

= Not member of committee

14. Information on Directors and Company Secretary

Dr David King

Chairman – Independent Non –executive

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

Other directorships in listed companies – current

Cellmid Ltd Appointed 18/01/08

African Petroleum Corporation Ltd Appointed 01/07/13

Litigation Capital Management Ltd Appointed 09/10/15

Special responsibilities

Chairman and Finance and Audit Committee

Interest in Galilee Energy Limited shares and options

583,121 shares and 800,000 options

Directors' Report (continued)

13. Information on Directors and Company Secretary (continued)

Peter Lansom

Managing director

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

Special responsibilities

Managing Director

Interest in Galilee Energy Limited shares and options

4,738,728 shares, 3,500,000 options and 600,000 performance rights

Ray Shorrocks

Non-executive Director

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

Other directorships in listed companies – current

Patersons Securities Limited	Appointed 01/10/07
Indago Energy Limited	Appointed 12/01/16
Draig Resources Limited	Appointed 31/12/15
International Goldfields Limited	Appointed 8/9/16
Estrella Resources Limited	Appointed 24/06/15

Special responsibilities

Chairman Finance and Audit Committee

Interest in Galilee Energy Limited shares and options

685,363 shares and 800,000 options

Stephen Rodgers

Company Secretary

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

Directors' Report (continued)

14. Remuneration Report (audited)

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

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation

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

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

A Principles used to determine the nature and amount of remuneration

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

Alignment to shareholders' interests:

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

Alignment to program participants' interests:

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

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

Non-executive directors

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

Directors' fees

The current base remuneration was last reviewed on 17 May 2010 with effect from 1 July 2010. The chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration. In accordance with the provisions of Listing Rule 10.11 of the Official Listing Rules of the ASX Limited, a meeting of shareholders held on 27 November 2009 approved the sum of \$600,000 per annum to be the total aggregate annual remuneration payable to non-executive Directors of the Company. The current total of non-executive director remuneration is \$124,866.

Directors' Report (continued)

14. Remuneration Report (audited) (continued)

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

Executive pay

The executive remuneration and reward framework has the following components:

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

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

Base pay and non-monetary benefits

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

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

Short term incentives.

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

Share-based payments

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

Superannuation and long service leave

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

Relationship between remuneration and Company performance

Other than as described in D below (options) there is no direct link between the remuneration of the key management personnel and Company performance. The Company is currently focused on the exploration stage across its projects. Consequently, opportunities for broad performance based incentives are limited.

Given that remuneration must be commercially reasonable to attract the right calibre of directors and executives, there can be no direct link between remuneration, Company performance and shareholder wealth at the Company's current stage of development.

The Company issues options to provide an incentive for directors and key management personnel to align their interests with the medium to long term interests of shareholders.

Directors' Report (continued)

14. Remuneration Report (audited) (continued)

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

Relationship between remuneration and Company performance (continued)

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 2017:

Item	Unit	2017	2016	2015	2014	2013
Revenue – continuing operations	\$'000s	194	379	799	1,103	1,593
Net profit/(loss) before tax	\$'000s	(3,830)	(6,039)	(9,810)	(2,601)	(6,496)
Net profit/(loss) after tax	\$'000s	(3,830)	(6,039)	(9,810)	(2,601)	(6,496)
Basic loss per share	cents	(2.5)	(4.1)	(6.4)	(1.7)	(4.3)
Last traded share price	cents	11.0	7.0	11.0	13.0	13.0
Remuneration	\$'000s	552	607	800	1,112	926

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

B Details of remuneration

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

30 June 2017	Short-term benefits & fees			Post Employment		Share-based Payments	Total	% Performance Based
	Salary & fees	Non-cash benefits	Termination payments	Super-annuation	Retirement benefits	Options Performance Rights		
Directors	\$	\$	\$	\$	\$	\$	\$	
Dr D King	42,808	-	-	4,067	-	23,371	70,246	33.27%
P Lansom	290,202	-	-	19,615	1,512	115,317	426,646	27.03%
R Shorrocks	28,538	-	-	2,711	-	23,371	54,620	42.79%
Total	361,548	-	-	26,393	1,512	162,059	551,512	

30 June 2016	Short-term benefits & fees			Post Employment		Share-based Payments	Total	% Performance Based
	Salary & fees	Non-cash benefits	Termination payments	Super-annuation	Retirement benefits	Performance Rights		
Directors	\$	\$	\$	\$	\$	\$	\$	
Dr D King	34,247	-	-	3,253	-	-	37,500	
P Lansom	275,123	-	-	19,308	3,531	26,576	324,538	8.19%
P Bilston (resigned 31 March 2016)	199,505	-	-	14,481	-	6,470	220,456	2.93%
R Shorrocks	22,831	-	-	2,169	-	-	25,000	
Total	531,706	-	-	39,211	3,531	33,046	607,494	

The key management personnel of Galilee Energy Limited and of the Group includes the directors of the Company.

C Service agreements

Remuneration and other terms of employment for key management personnel:

Peter Lansom, Managing Director

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

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

Directors' Report (continued)

14. Remuneration Report (audited) (continued)

D Share based compensation

Directors' share options

During the year, the following share options were granted to the Directors: The options which were issued to Directors as part of their remuneration, have a term of three years and vested on grant date.

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

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

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

Performance rights

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

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

The balance of performance rights on issue at 30 June 2016 and the movements during the year are as follows:

Name	Balance at start	Granted as remuneration	Exercised	Expired	Forfeited	Balance at end
P Lansom	1,800,000	-	-	(600,000)	-	1,200,000
P Bilston	1,650,000	-	-	(550,000)	(1,100,000)	-
	3,450,000	-	-	(1,150,000)	(1,100,000)	1,200,000

Refer to Note 16 for further information regarding performance rights.

E Key Management Personnel shareholdings

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

30 June 2017	Balance at beginning of year	Granted as remuneration during the year	Shares acquired	Other changes	Balance at end of year
Directors					
Dr David King	446,666	-	-	-	446,666
Peter Lansom	4,596,728	-	-	-	4,596,728
Ray Shorrocks	570,000	-	-	-	570,000
Total Directors	5,613,394	-	-	-	5,613,394

End of audited remuneration report

Directors' Report (continued)

15. Non-audit services

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

Details of the amounts paid or payable to the auditor (BDO Audit Pty Ltd) for audit and non-audit services provided during the year are set out below.

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

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

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

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

	30 Jun 17	30 Jun 16
	\$	\$
Non-audit services		
- Tax consulting and compliance services	13,200	16,940

16. Auditor's independence declaration

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

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

On behalf of the Directors



Dr David King

Chairman

Brisbane, 28 September 2017

GALILEE ENERGY LIMITED
AUDITOR'S DECLARATION OF INDEPENDENCE



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Brisbane QLD 4000
GPO Box 457 Brisbane QLD 4001
Australia

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

As lead auditor of Galilee Energy Limited for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

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

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

A handwritten signature in black ink, appearing to be 'A J Whyte', written over a circular scribble.

A J Whyte
Director

BDO Audit Pty Ltd

Brisbane: 28 September 2017

Consolidated Statement of Profit or Loss & Other Comprehensive Income

for the year ended 30 June 2017

	Note	Consolidated	
		30 Jun 17	30 Jun 16
		\$	\$
Revenue and other income			
Interest received		193,943	378,967
Research and Development tax offset received		1,404,773	-
		<u>1,598,716</u>	<u>378,967</u>
Expenses			
Exploration and evaluation costs	2 (a)	(3,836,032)	(4,941,716)
Employee benefits expense	2 (b)	(754,063)	(555,992)
Consulting fees	3 (c)	(103,065)	(166,099)
New project evaluation and analysis		(199,541)	(225,987)
Administration expenses	2 (d)	(536,111)	(527,547)
Total expenses		<u>(5,428,812)</u>	<u>(6,417,341)</u>
Loss before income tax		(3,830,096)	(6,038,374)
Income tax benefit/(expense)	3	-	-
Loss for the year		<u>(3,830,096)</u>	<u>(6,038,374)</u>
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		2,170	(31,736)
Total other comprehensive income, net of income tax		<u>2,170</u>	<u>(31,736)</u>
TOTAL COMPREHENSIVE LOSS		<u>(3,827,926)</u>	<u>(6,070,110)</u>
LOSS PER SHARE			
		Cents	Cents
Basic loss per share		<u>2.5</u>	<u>6.5</u>
Diluted loss per share		<u>2.5</u>	<u>6.5</u>

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

Consolidated Statement of Financial Position

as at 30 June 2017

	Note	Consolidated	
		30 Jun 17	30 Jun 16
		\$	\$
ASSETS			
Current assets			
Cash and cash equivalents	7	6,087,157	9,479,013
Trade and other receivables	8	88,068	79,361
Total current assets		6,175,225	9,558,374
Non-current assets			
Trade and other receivables	8	1,544,902	1,534,202
Property, plant and equipment	9	117,498	101,208
Total non-current assets		1,662,400	1,635,410
Total assets		7,837,625	11,193,784
LIABILITIES			
Current liabilities			
Trade and other payables	10	319,309	224,105
Provisions		36,834	-
Total current liabilities		356,143	224,105
Non-current liabilities			
Trade and other payables	10	59,788	3,805
Provisions	11	1,195,655	1,147,000
Total non-current liabilities		1,255,443	1,150,805
Total liabilities		1,611,586	1,374,910
NET ASSETS		6,226,039	9,818,874
EQUITY			
Issued capital	12	60,227,574	60,227,574
Reserves	13	(7,460,694)	(7,675,838)
Accumulated losses		(46,540,841)	(42,732,862)
TOTAL EQUITY		6,226,039	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 year ended 30 June 2017

	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	-	(3,830,096)	-	-	-	(3,830,096)
Other comprehensive loss	-	-	-	2,170	-	2,170
Total comprehensive loss	-	(3,830,096)	-	2,170	-	(3,827,926)
Share-based payments expense	-	-	-	-	235,091	235,091
Transfers	-	22,117	-	-	(22,117)	-
	-	22,117	-	-	212,974	235,091
Balance at 30 June 2017	60,227,574	(46,540,841)	(7,656,400)	(48,162)	243,868	6,226,039
Balance at 1 July 2015	60,227,574	(37,712,318)	(7,656,400)	(18,596)	1,015,678	15,855,938
Loss for the period	-	(6,038,374)	-	-	-	(6,038,374)
Other comprehensive loss	-	-	-	(31,736)	-	(31,736)
Total comprehensive loss	-	(6,038,374)	-	(31,736)	-	(6,070,110)
Share-based payments expense	-	-	-	-	33,046	33,046
Transfers	-	1,017,830	-	-	(1,017,830)	-
	-	1,017,830	-	-	(984,784)	33,046
Balance at 30 June 2016	60,227,574	(42,732,862)	(7,656,400)	(50,332)	30,894	9,818,874

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

Consolidated Statement of Cash Flows

for the year ended 30 June 2017

	Consolidated	
	30 Jun 17	30 Jun 16
	\$	\$
Cash flows from operating activities		
Payments for exploration	(3,752,039)	(4,751,389)
Research and Development tax offset received	1,404,773	-
Payments to suppliers and employees (including GST)	(1,206,713)	(1,308,667)
Interest received	207,411	473,990
Net cash used in operating activities	(3,346,568)	(5,586,066)
Cash flows from investing activities		
Payments for property, plant and equipment	(87,658)	(114,576)
Refunds of/(Payments for) bonds and deposits	43,300	(846,813)
Net cash used in investing activities	(44,358)	(961,389)
Net Decrease in cash and cash equivalents	(3,390,926)	(6,547,455)
Cash and cash equivalents at the beginning of the period	9,479,013	16,016,462
Effects of exchange rates on cash	(930)	10,006
Cash and cash equivalents at the end of the period	6,087,157	9,479,013

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

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

1. Significant accounting policies

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

General information

These financial statements include the consolidated financial statements and Notes of Galilee Energy Limited (the Company) and its controlled entities (Galilee Energy or "the Group"). Galilee Energy Limited is a for-profit entity for the purpose of preparing the financial statements. The financial statements were approved for issue by the Directors on 27 September 2017.

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

Level 36, 123 Eagle Street
BRISBANE QLD 4000

Principal activities

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

Basis of preparation

Compliance with accounting standards

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

Historical cost convention

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

Going concern & judgements

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

New, revised or amending Accounting Standards and Interpretations adopted

The group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current reporting period. The adoption of the new and revised standards had no effect on the amounts reported in the current and prior periods.

Notes to the Consolidated Financial Statements (continued)

1. Significant accounting policies (continued)

Critical accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement when applying the group's accounting policies. These estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the group and that are believed to be reasonable under present circumstances.

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

Provision for rehabilitation

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

Estimates are made for rehabilitation based on the level of disturbance known at each balance date. These estimates are then costed at future rates. The calculation assumes that rehabilitation will occur in one years' time. The carrying amount of the rehabilitation provision at balance date is \$1,147,000 (2016: \$1,147,000).

Joint arrangements

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

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

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

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

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

Loans to and investments in subsidiaries

The parent entity has recorded its investments in subsidiaries at cost of \$24,098,886 (2016: \$24,098,886) less provisions for impairment of \$24,098,886 (2016:\$24,098,886). The parent entity has also loaned funds to its subsidiaries of \$14,278,437 (2016: \$14,426,464) primarily to fund exploration activities. The parent entity has impaired the carrying amount of loans by \$14,278,437 (2016: \$14,426,464). The impairment of the investments and loans has been based on the underlying net assets of the subsidiaries. In future periods, as the exploration activities progress on the various areas of interest, and with changes in other market conditions, the carrying amounts of investments and loans may need to be reassessed in line with the net asset position of the subsidiaries or as otherwise appropriate.

Notes to the Consolidated Financial Statements (continued)

1. Significant accounting policies (continued)

Parent entity information

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

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Galilee Energy Limited ("company" or "parent entity") as at 30 June 2017 and the results of all subsidiaries for the year then ended. Galilee Energy Limited and its subsidiaries together are referred to in these financial statements as the "consolidated entity".

Subsidiaries

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

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

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

Joint arrangements

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

Joint operations

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

Joint Ventures

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

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

Foreign currency translation

Functional and presentation currency

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

Notes to the Consolidated Financial Statements (continued)

1. Significant accounting policies (continued)

Foreign currency translation (continued)

Transactions and balances

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

Group companies

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

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

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments are recognised in other comprehensive income.

When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

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

Revenue recognition

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

Sale of goods

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

Interest income

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

Government grants

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

Notes to the Consolidated Financial Statements (continued)

1. Significant accounting policies (continued)

Research and development

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

Income tax

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

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

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

Notes to the Consolidated Financial Statements (continued)

1. Significant accounting policies (continued)

Income tax (continued)

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

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group.

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

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 20). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight line basis over the period of the lease.

Business combinations

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

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

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

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

Impairment of assets

Financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows, which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Notes to the Consolidated Financial Statements (continued)

1. Significant accounting policies (continued)

Cash and cash equivalents

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

Trade and other receivables

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

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in profit or loss.

Financial instruments

Initial recognition and measurement

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

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

Classification and subsequent measurement

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

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

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

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

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

Notes to the Consolidated Financial Statements (continued)

1. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Held-to-maturity investments

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

Available-for-sale financial assets

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

Fair value

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

Impairment

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

Financial guarantees

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

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

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

Notes to the Consolidated Financial Statements (continued)

1. Significant accounting policies (continued)

Financial instruments (continued)

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

De-recognition

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

Property, plant and equipment

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

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

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

The following rates of depreciation are used:

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

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

Exploration and evaluation expenditure

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

Trade and other payables

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

Notes to the Consolidated Financial Statements (continued)

1. Significant accounting policies (continued)

Provisions

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

Rehabilitation

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

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

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

Employee benefits

Short-term obligations

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

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

Other long-term obligations

The liability for long service leave and annual leave which is not expected to be settled wholly within 12 months after the end of the reporting period in which the employees render the related service is recognised in the non-current provision for employee benefits. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match, as closely as possible, the expected timing of cash flows.

Retirement benefit obligations

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

Notes to the Consolidated Financial Statements (continued)

1. Significant accounting policies (continued)

Employee benefits (continued)

Share-based equity settled benefits

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

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

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

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

Issued capital

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

If the entity reacquires its own equity instruments, e.g. as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled.

No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

Earnings per share

Basic earnings per share

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

Diluted earnings per share

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

Goods and Services Tax (GST)

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

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

Notes to the Consolidated Financial Statements (continued)

1. Significant accounting policies (continued)

Goods and Services Tax (GST) (continued)

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.

New accounting standards and interpretations for application in future periods

A number of Australian Accounting Standards and Interpretations have been issued or amended but are not yet mandatory for the 30 June 2017 annual reporting period and have not been early adopted by the Group for the preparation of these financial statements. The Group's assessment of the impact of these new or amended Standards and Interpretations, most relevant to the Group, are set out below:

AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (applicable to annual reporting periods beginning on or after 1 January 2018 as deferred by AASB 2015-10: Amendments to Australian Accounting Standards – Effective Date of Amendments to AASB 10 and AASB 128)

This Standard amends AASB 10: Consolidated Financial Statements and clarifies the accounting treatment where a parent loses control over a subsidiary that is not a "business" as defined by AASB 3 to an associate or joint venture and requires that:

- a gain or loss (including any amounts in other comprehensive income) be recognised only to the extent of the unrelated investor's interest in that associate or joint venture;
- the remaining gain or loss be eliminated against the carrying amount of the investment in that associate or joint venture; and
- any gain or loss arising from remeasuring the remaining investment in the former subsidiary at fair value also be recognised only to the extent of the unrelated investor's interest in the associate or joint venture. The remaining gain or loss should be eliminated against the carrying amount of the remaining investment.

The application of AASB 2014-10 will result in a change of accounting policies for transactions between an investor and its associate or joint venture where the sale or contribution of assets results in a loss of control of a subsidiary that is a business in accordance with AASB 3. Previously, in these circumstances, any gains or losses were only recognised to the extent of the unrelated investor's interest. The accounting will now depend on whether the sold/contributed assets constitute a business or an asset. If the activities and assets acquired/sold constitute a business, the acquisition/sale will then be accounted for in accordance with AASB 3.

AASB 15-Revenue from Contracts with Customers (applicable to annual reporting periods beginning on or after 1 January 2018 as deferred by AASB 2015-8: Amendments to Australian Accounting Standards – Effective Date of AASB 15)

This standard establishes a comprehensive framework for determining whether, how much and when revenue is recognised. With some exceptions e.g. leases and insurance contracts, AASB 15 applies to all contracts with customers. The core principle is that an entity should recognise revenue when the various performance obligations included in the contract are satisfied. This means that revenue will be recognised when control of the goods or services is transferred rather than on the transfer of risks and rewards as is currently the case under IAS 18 Revenue. It is not expected that there will be any impact on the Group.

Notes to the Consolidated Financial Statements (continued)

1. Significant accounting policies (continued)

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

AASB 9 Financial Instruments and associated Amending Standards (applicable to annual reporting periods beginning on or after 1 January 2018)

This standard provides guidance on the classification and measurement of financial assets and financial liabilities. The standard is not applicable until 1 January 2018 but is available for early adoption. AASB 9 permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Upon realisation the accumulated changes in fair value are not recycled to profit or loss. Currently, in accordance with AASB 139 Financial Instruments: Recognition and Measurement, a gain or loss on an available-for-sale financial asset is recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses until the financial asset is derecognised. At that time, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.

The de-recognition rules have been transferred from AASB 139 Financial Instruments: Recognition and Measurement and have not been changed. The full impact of this standard is yet to be fully assessed, but adoption of this standard from 1 January 2018 is not expected to have a material impact on the Group. The Group has not yet decided when to adopt AASB 9.

The adoption of the various Australian Accounting Standards and Interpretations and IFRSs on issue but not yet effective will not impact the Group's accounting policies. However, the pronouncements may result in changes to information currently disclosed in the financial statements. The Group does not intend to adopt any of these pronouncements before their effective dates

AASB 16-Leases (applicable to annual reporting periods beginning on or after 1 January 2019)

When effective this Standard will replace AASB 17-Leases and related interpretations. AASB 16 will introduce a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases. The main changes introduced by the new Standard are as follows:

- Recognition of a right-to-use asset and liability for all leases (excluding short-term leases with terms less than 12 months and leases relating to low value assets);
- Depreciation of right-to-use assets in line with AASB 16: Property, Plant and Equipment in profit or loss and unwinding of the liability in principal and interest components;
- Inclusion of variable lease payments that depend on an index or a rate in the initial measurement of the lease liability using the index or rate at the commencement date;
- Application of a practical expedient to permit a lessee to elect not to separate non-lease components and instead account for all components as a lease; and
- Inclusion of additional disclosure requirements.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108 or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

Although the directors anticipate that the adoption of AASB 16 will impact the Group's financial statement, it is impractical at this stage to provide a reasonable estimate of such impact.

Notes to the Consolidated Financial Statements (continued)

2. Expenses

		Consolidated	
		30 Jun 17	30 Jun 16
		\$	\$
Loss before income tax includes the following specific expenses:			
(a)	Exploration and evaluation expenditure		
	Australia	(3,816,652)	(3,088,638)
	United States	(5,896)	(1,733,666)
	Chile	(13,484)	(119,412)
		<u>(3,836,032)</u>	<u>(4,941,716)</u>
(b)	Employee benefits expense		
	Other employee benefits expense	(411,748)	(428,368)
	Directors' fees	(78,125)	(62,500)
	Share based payments expense	(235,091)	(33,046)
	Defined contribution superannuation expense	(29,099)	(32,078)
		<u>(754,063)</u>	<u>(555,992)</u>
(c)	Contractor and consultants costs		
	Consulting fees	(103,065)	(166,099)
		<u>(103,065)</u>	<u>(166,099)</u>
(d)	Other expenses include the following specific items:		
	Auditors remuneration		
	- auditing or reviewing the financial reports	(42,842)	(46,847)
	- taxation services	(17,886)	(15,440)
	Occupancy costs		
	- Rental expense relating to operating leases - minimum lease rentals	(174,777)	(138,600)
	- Other occupancy costs	(5,548)	(7,702)
	Depreciation	(71,368)	(68,286)
	Other administration and office costs	(223,546)	(250,539)
	Foreign exchange losses/gains (net)	(144)	(133)
		<u>(536,111)</u>	<u>(527,547)</u>

Notes to the Consolidated Financial Statements (continued)

3. Income tax

	Consolidated	
	30 Jun 17	30 Jun 16
	\$	\$
(a) Recognised in the statement of profit and loss and other comprehensive income		
Current tax benefit	583,784	4,123,622
De-recognition of deferred tax losses	(583,784)	(4,123,622)
	-	-
(b) Numerical reconciliation of income tax expense to prima facie tax on accounting profit		
Loss before income tax	(3,830,096)	(6,038,373)
Tax at the Australian tax rate of 30% (201630%)	1,149,029	1,811,512
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenses	(401,065)	-
Share-based payments expensed	(70,527)	(9,914)
Research and development tax offset received	421,432	-
Prior year tax losses converted to research and development tax offset	(936,517)	-
Current year tax losses not recognised	(162,352)	(1,801,598)
Income tax expense/(credit)	-	-
(c) Deferred tax assets not recognised		
Deferred tax assets have not been recognised in respect of the following items:		
Accrued expenses	7,347	7,779
Employee benefits	12,156	13,251
Other provisions	344,100	167,100
Capital costs deductible over 5 years	77,227	49,342
Receivables	(4,811)	(8,852)
Net deferred tax assets/(liabilities)	436,019	228,620
De-recognition of net deferred tax assets through profit or loss	(436,019)	(228,620)
Net deferred tax asset not recognised	-	-
Movement in deferred tax assets/(liabilities)		
Balance at the beginning of the year	-	-
(Charged)/credited to profit or loss	436,019	228,620
De-recognition of deferred tax assets through profit or loss	(436,019)	(228,620)
Balance at the end of the year	-	-
(d) Unused tax losses		
Income losses		
Australian income losses	45,083,852	43,840,670
US income losses	12,170,481	12,163,752
	57,254,333	56,004,422
Australian capital losses	3,204,839	3,204,839
Total unused tax losses	60,459,172	59,209,261
Potential tax benefit		
Australian losses @ 30%	13,525,156	13,152,201
US Losses @ 40%	4,868,192	4,865,501
Capital losses @ 30%	961,452	961,452
	19,354,800	18,979,154

Notes to the Consolidated Financial Statements (continued)

4. Interests of Key Management personnel

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Group's Key Management Personnel for the year ended 30 June 2017.

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

	Consolidated	
	30 Jun 17	30 Jun 16
	\$	\$
Short-term employee benefits	361,548	531,706
Post-employment benefits	26,393	39,211
Long-term employment benefits	1,512	3,531
Share -based payments	162,059	33,046
	551,512	607,494

5. Auditor's remuneration

	Consolidated	
	30 Jun 17	30 Jun 16
Remuneration of the auditor of the parent company for:	\$	\$
Audit services		
- Auditing or reviewing the financial statements	44,866	45,768
Non-audit services		
- Tax compliance services	13,200	16,940
	58,066	62,708

6. Earnings per share

	Consolidated	
	30 Jun 17	30 Jun 16
(a) Earnings used in calculating basic and diluted earnings per share:	\$	\$
Loss for the year	3,822,588	1,991,980
Loss used in the calculation of the basic and dilutive earnings per share	3,822,588	1,991,980
	Number	Number
(b) Weighted average number of ordinary shares used as the denominator		
Weighted average number of ordinary shares used in calculating basic earnings per share	152,140,466	152,140,466
Adjustments for the calculation of diluted earnings per share:		
Options/performance rights	-	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	152,140,466	152,140,466

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

Notes to the Consolidated Financial Statements (continued)

7. Cash and cash equivalents

	Consolidated	
	30 Jun 17	30 Jun 16
	\$	\$
Cash at bank and on hand	2,387,157	3,079,013
Deposits at call	3,700,000	6,400,000
Cash at bank and on hand	<u>6,087,157</u>	<u>9,479,013</u>

8. Trade and other receivables

	Consolidated	
	30 Jun 17	30 Jun 16
	\$	\$
Current		
Trade receivables	28,119	11,363
Interest receivable	16,038	29,506
Prepayments	43,911	38,492
	<u>88,068</u>	<u>79,361</u>
Non-Current	\$	\$
Environmental bonds and deposits	1,198,167	1,187,467
Rental bond	346,735	346,735
	<u>1,544,902</u>	<u>1,534,202</u>
	<u>1,632,970</u>	<u>1,613,563</u>

9. Property, plant and equipment

	Consolidated	
	30 Jun 17	30 Jun 16
	\$	\$
Plant and equipment at cost	209,484	122,875
Accumulated depreciation	(119,961)	(63,709)
	<u>89,523</u>	<u>59,166</u>
Office equipment at cost	143,025	145,411
Accumulated depreciation	(115,050)	(103,369)
	<u>27,975</u>	<u>42,042</u>
	<u>117,498</u>	<u>101,208</u>

Notes to the Consolidated Financial Statements (continued)

9 Property, plant and equipment (continued)

Movements in carrying amounts of property, plant and equipment

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

	Buildings & leasehold improvements	Office equipment	Plant and equipment	Total
	\$	\$	\$	\$
Balance, 1 July 2015	26,486	28,432	-	54,918
Additions	(10,734)	22,141	103,169	114,576
Disposals	-	-	-	-
Depreciation	(15,687)	(8,531)	(44,068)	(68,286)
Balance, 30 June 2016	65	42,042	59,101	101,208

Non-current assets pledged as security

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

10. Trade and other payables

	Consolidated	
	30 Jun 17	30 Jun 16
	\$	\$
Current		
Trade payables	180,179	95,878
Other payables	84,160	87,865
Employee benefits	54,970	40,362
	319,309	224,105
Non-Current		
Employee benefits	5,788	3,805
Security bond - sub-lease	54,000	-
	59,788	3,805
	379,097	227,910

Notes to the Consolidated Financial Statements (continued)

12. Issued capital

	Consolidated			
	30 Jun 17		30 Jun 16	
Ordinary shares	\$		\$	
Ordinary shares - fully paid	61,518,356		61,518,356	
Transaction costs relating to share issues (net of tax)	(1,290,782)		(1,290,782)	
	<u>60,227,574</u>		<u>60,227,574</u>	

Movements in ordinary shares	30 Jun 17		30 Jun 16	
	Number of Shares		\$	
Balance at the beginning of the year	<u>152,140,466</u>	152,140,466	<u>60,227,574</u>	60,227,574
Balance at the end of the year	<u>152,140,466</u>	152,140,466	<u>60,227,574</u>	60,227,574

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands, every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

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

Capital Management

Management controls the capital of the Group to ensure that it can fund its operations and continue as a going concern. The Group's capital comprises equity as described in the statement of financial position supported by financial assets. There are no externally imposed capital requirements.

Management manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. Responses to these changes include management of debt levels and share issues. There have been no changes in the strategy since the prior year.

13. Reserves

	Consolidated	
	30 Jun 17	30 Jun 16
	\$	\$
Share based payments	243,868	30,894
Foreign currency translation	(48,162)	(50,332)
Non-controlling interest elimination reserve	<u>(7,656,400)</u>	<u>(7,656,400)</u>
	<u>(7,460,694)</u>	<u>(7,675,838)</u>

Share based payments reserve

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

Foreign currency translation reserve

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

Notes to the Consolidated Financial Statements (continued)

13 Reserves (continued)

Non-controlling interest's elimination reserve

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

	Share based payments	Foreign currency translation	Non-controlling interest elimination	Total
	\$	\$	\$	\$
Movements in reserves - 2017				
Balance at the beginning of year	30,894	(50,332)	(7,656,400)	(7,675,838)
Grant of performance rights	235,091	-	-	235,091
Transfers	(22,117)	-	-	(22,117)
Foreign currency translation	-	2,170	-	2,170
Balance at the end of year	<u>243,868</u>	<u>(48,162)</u>	<u>(7,656,400)</u>	<u>(7,460,694)</u>
Movements in reserves - 2016				
Balance at the beginning of year	1,015,678	(18,596)	(7,656,400)	(6,659,318)
Grant of performance rights	33,046	-	-	33,046
Transfers	(1,017,830)	-	-	(1,017,830)
Foreign currency translation	-	(31,736)	-	(31,736)
Balance at the end of year	<u>30,894</u>	<u>(50,332)</u>	<u>(7,656,400)</u>	<u>(7,675,838)</u>

14. Interest in joint operation

Subsidiary	Agreement	Interest	Comment
Galilee Energy Texas LLC	Hoffer-Klimitchek Area Lavaca County Participation Agreement and Joint Operating Agreement	35%	Working interest reduced to 28% after payback.
Galilee Energy Kansas LLC	<ul style="list-style-type: none"> Key Terms Agreement Joint Venture Agreement Joint Operating Agreement 	25% 50% 75%	Interest earned after: 3D seismic Well 1 to Casing point Well 2 to casing point
Galilee Energy Illinois LLC	<ul style="list-style-type: none"> Deed of Novation & Agreement Illinois Basin Prospect Area Participation Agreement Joint Operating Agreement 	75%	Acquired Spinifex Petroleum Inc interest and earn 75% interest in each project by funding 100% of first well dry hole cost.

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

Notes to the Consolidated Financial Statements (continued)

15. Subsidiaries

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

Name of entity	Country of Incorporation	Class of equity	Equity Holding	
			2017	2016
Galilee Resources Pty Ltd	Australia	Ordinary	100%	100%
Beaconsfield Energy Development Pty Ltd	Australia	Ordinary	100%	100%
Capricorn Energy Pty Ltd	Australia	Ordinary	100%	100%
Galilee Energy US LLC	United States	Ordinary	100%	100%
Galilee Energy Texas LLC	United States	Ordinary	100%	100%
Galilee Energy Illinois LLC	United States	Ordinary	100%	100%
Galilee Energy Kansas LLC	United States	Ordinary	100%	100%
Galilee Energy Chile SpA	Chile	Ordinary	100%	100%

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

16. Share based payments

Share-based payments expense

The share based payments expense included in the financial statement with respect to Options issued during the year and Performance Rights already issued in prior years is as follows:

	Consolidated	
	30 Jun 17	30 Jun 16
	\$	\$
Options issued during the year	222,026	-
Performance rights issued in prior years	13,068	33,046
	235,094	33,046

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

Employee share options

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

The amount assessed as fair value at grant date is allocated equally over the period from grant date to vesting date. Fair values at grant date are determined using the Black-Scholes method of valuation that takes into account the exercise price, the terms of the option, the vesting and market related criteria, the impact of dilution, the non-tradable nature of the option, the share price at grant date and the risk of the underlying share and the risk free interest rate for the term of the option.

Notes to the Consolidated Financial Statements (continued)

16. Share based payments (continued)

The following table shows the number and movements of share options granted to the Directors and one employee during the year.

Grant date	Expiry date	Opening balance	Granted as remuneration	Exercised	Expired	Closing balance	% Vested & Exercisable
18-Nov-16	18-Nov-19	-	7,600,000	-	-	7,600,000	100%

No options were on issue or granted during the year ended 30 June 2016.

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

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

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

The following table lists the inputs to the model used to value the share options granted during the year.

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

Employee Performance Share Rights

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

The object of the plans is to:

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

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

Notes to the Consolidated Financial Statements (continued)

16. Share based payments (continued)

During the year, no performance rights were granted to employees or contractors. The following table shows the number and movements of performance rights during the year and on issue at 30 June 2017:

Grant date	Expiry date	Opening balance	Granted	Exercised	Expired	Forfeited	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

The following table shows the number and movements of performance rights during the year and on issue at 30 June 2016:

Grant date	Expiry date	Opening balance	Granted	Exercised	Expired	Forfeited	Closing balance
20-Nov-14	1-Dec-15	1,150,000	-	-	(1,150,000)	-	-
20-Nov-14	1-Dec-16	1,150,000	-	-	-	(550,000)	600,000
20-Nov-14	1-Dec-17	1,150,000	-	-	-	(550,000)	600,000
		3,450,000	-	-	(1,150,000)	(1,100,000)	1,200,000

Details of the terms and conditions of performance rights currently issued are as follows:

Issue No	No. of Rights	Service Period		Vesting Date	Grant Date	Fair Value	Performance Condition
		From	To				
Tranche 3	1,150,000	1-Jul-14	31-Dec-17	31-Dec-17	20-Nov-14	4.2 cents	Share price 35 cents

All performance rights granted in prior years vest subject to a market condition in addition to the employee/contractor satisfying a service condition relating to the completion of a specified period of employment/engagement. The market condition required is a share price hurdle which is to be achieved at each vesting date.

The fair value of performance rights is measured at grant date and is determined using a binomial or Black-Scholes pricing model that takes into account the term of the performance right, 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 performance right.

Where the performance rights are granted subject only to service conditions and non-market performance conditions, in accordance with the relevant accounting standard, it is assumed that the service condition will be met and the Galilee Energy Limited share price at grant date is used to determine the fair value of the performance rights issued. The non-market performance conditions are taken into account based on the number of performance rights that actually vest. Where the performance rights are granted subject to a market condition in addition to the service condition, the pricing model also takes into account the probability that the market condition will be satisfied/not satisfied during the term of the performance rights e.g. "monte carlo" simulation technique.

Notes to the Consolidated Financial Statements (continued)

16. Share based payments (continued)

Employee Performance Share Rights (continued)

The following table lists the inputs used to value the performance rights currently issued.

INPUT VARIABLES	Tranche 3
Grant date	20-Nov-14
Share price at grant date (cents)	14.00
Exercise price (cents)	0.00
Share price hurdle @ vesting date (cents)	35.00
Vesting date	1-Dec-17
Term (years)	3.03
Risk free interest rate	2.85%
Expected share price volatility	50.00%
Annual rate of dividends:	0%

17. Parent company information

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

Galilee Energy Limited	30 Jun 17	30 Jun 16
	\$	\$
Assets		
Current assets	7,330,082	12,693,775
Non-current assets	476,233	449,243
Total assets	7,806,315	13,143,018
Liabilities		
Current liabilities	338,581	212,294
Non-current liabilities	102,655	-
Total liabilities	441,236	212,294
Net assets	7,365,079	12,930,724
Shareholders' Equity		
Issued capital	60,227,574	60,227,574
Reserves	243,868	30,894
Accumulated losses	(53,106,363)	(47,327,744)
Total shareholders' equity	7,365,079	12,930,724
Loss for the year	(5,800,736)	(3,212,922)
Total comprehensive loss for the year	(5,800,736)	(3,212,922)

The parent company did not have any contingent liabilities at 30 June 2017 (2016: \$Nil). The parent company has not entered into any guarantees in relation to the debts of its subsidiaries (2016: \$Nil).

Notes to the Consolidated Financial Statements (continued)

18. Contractual commitments

The parent company had no contractual commitments for the acquisition of property, plant and equipment at 30 June 2017 (2016: \$Nil). The parent company has not guaranteed the debts of any subsidiary company (2016: \$Nil), other than through its tax sharing and tax funding agreements.

19. Contingent Liabilities

The directors are not aware of any contingent assets or liabilities for the Group (2016: \$Nil).

20. Commitments

Operating lease commitments

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

	Consolidated	
	30 Jun 17	30 Jun 16
	\$	\$
Operating lease commitments		
Minimum lease payments payable as follows:		
not later than 12 months	149,423	143,676
between 12 months and 5 years	208,044	370,627
	357,467	514,303

Bank guarantees

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

The bank guarantees are secured by term deposits.

- \$1,173,891 (June 2016: \$1,173,891) to the State of Queensland in respect of the Group's exploration permits and environmental guarantees; and
- \$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.

Exploration expenditure

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

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

Commitments in the United States of America and South America in the next 12 months are \$nil (2016: \$nil). There are no commitments beyond 30 June 2017.

Notes to the Consolidated Financial Statements (continued)

21. Segment Information

Identification of reportable segments

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

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

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

Segment performance

The following table shows the revenue and exploration and evaluation expenditure information regarding the Group's operating segments for 30 June 2017 and 30 June 2016.

	Australia Qld	Illinois	United States Texas	Kansas	South America Chile	Total
	\$	\$	\$	\$	\$	\$
30 June 2017						
Segment Result						
Research and Development tax offset	-	-	-	-	-	-
Exploration & evaluation costs	(3,816,652)	(10,767)	4,871	-	(13,484)	(3,836,032)
Segment result before tax	(3,816,652)	(10,767)	4,871	-	(13,484)	(3,836,032)
Reconciliation of segment result to Group loss before tax						
Interest revenue						193,943
Other income						1,404,773
Employee benefits expense						(754,063)
Consulting fees						(103,065)
Business development						(199,541)
Administration expenses						(536,111)
Loss before tax						(3,830,096)
30 June 2016						
Segment Result						
Segment Revenue	-	-	-	-	-	-
Exploration & evaluation costs	(3,088,633)	(11,509)	(1,686,328)	(35,833)	(119,413)	(4,941,716)
Segment result before tax	(3,088,633)	(11,509)	(1,686,328)	(35,833)	(119,413)	(4,941,716)
Reconciliation of segment result to Group loss before tax						
Interest revenue						378,967
Other income						-
Employee benefits expense						(555,992)
Consulting fees						(166,099)
Business development						(225,987)
Administration expenses						(527,547)
Loss before tax						(6,038,374)

Notes to the Consolidated Financial Statements (continued)

21. Notes to the Statement of Cash Flows

	Consolidated	
	30 Jun 17	30 Jun 16
(a) Reconciliation of cash flow from operations	\$	\$
Loss for the period	(3,830,096)	(6,038,375)
Depreciation	71,368	68,286
Share-based payments	235,091	33,046
Gain on sale of property, plant and equipment	-	-
Net exchange differences	3,100	(41,742)
<i>Changes in operating assets and liabilities</i>		
Decrease in trade and other receivables	(3,288)	92,974
Decrease in trade payables and accruals	80,596	(232,030)
(Increase) in prepayments and deposits paid	(5,419)	84,060
Decrease in provisions	102,080	447,715
	<u>(3,346,568)</u>	<u>(5,586,066)</u>

(b) Non-cash financing and investing activities

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

22. Events occurring after balance date

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

23. Related party transactions

Parent entity

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

Subsidiaries

Interests in subsidiaries are set out in note 15.

Key management personnel

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

Terms and conditions

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

Transactions with controlled entities

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

- Loans advanced to subsidiaries; and
- Investments in subsidiaries

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

Notes to the Consolidated Financial Statements (continued)

24. Financial risk management

Overview

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

This note presents information about the Group's exposure to each of the above risks, its objectives, policies and processes for measuring and managing risk. Other than the foreign currency risks associated with the USA exploration program, there have been no significant changes since the previous financial year to the exposure or management of these risks.

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

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

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

	Consolidated	
	30 Jun 17	30 Jun 16
Financial Assets	\$	\$
Cash and cash equivalents	6,087,157	9,479,013
Trade and other receivables	1,632,970	1,613,563
	<u>7,720,127</u>	<u>11,092,576</u>
Financial Liabilities		
Trade and other payables	319,309	224,105
	<u>319,309</u>	<u>224,105</u>

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

Specific financial risk exposures and management are summarised below.

Interest rate risk

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

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

Notes to the Consolidated Financial Statements (continued)

25 Financial risk management (continued)

Interest rate sensitivity

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

A sensitivity of 2% interest rate has been selected as this is considered reasonable given the current market conditions. A 2% movement in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2016.

	Profit or Loss		Equity	
	2% increase	2% decrease	2% increase	2% decrease
2017 - Consolidated	\$	\$	\$	\$
Cash and cash equivalents and restricted cash	121,743	(121,743)	121,743	(121,743)
2016 - Consolidated				
Cash and cash equivalents and restricted cash	189,580	(189,580)	189,580	(189,580)

Credit risk

The Group is exposed to significant credit risk through its cash and cash equivalents. At 30 June 2017, the Group had \$6.087 million (2016: \$9.388 million) in accounts with the National Australia Bank and The Bank of Texas.

Liquidity risk

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

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

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

	<1 year	>3 years	Total Contractual Cash Flows	Carrying Amount
Consolidated - 30 June 2017	\$	\$	\$	\$
Trade and other payables	264,339	54,000	318,339	318,339
Consolidated - 30 June 2016				
Trade and other payables	224,105	-	224,105	224,105

Notes to the Consolidated Financial Statements (continued)

25 Financial risk management (continued)

Foreign exchange risk

Foreign exchange risk arises from financial assets and liabilities denominated in a currency that is not the operating entity's functional currency. The Group's reporting currency is Australian dollars (AUD). At reporting date, the Group had the following financial assets or liabilities in any US dollars:

	2017	2016
	USD	USD
Financial Assets	\$	\$
Cash and cash equivalents	-	58,923
Trade and other receivables	-	3,345
Financial Liabilities		
Trade and other payables	4,316	4,253

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

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

Based on financial instruments held at 30 June 2017, had the Australian dollar strengthened/weakened by 10% the Group's profit or loss and equity expressed in Australian dollars would be impacted as follows:

	Profit or Loss		Equity	
	10% Increase	10% Decrease	10% Increase	10% Decrease
Foreign currency rate sensitivity				
2017	\$	\$	\$	\$
US dollar	431	(431)	431	(431)
2016				
US dollar	426	(426)	(5,802)	5,802

Fair value estimation

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

Directors' declaration

The directors of the Company declare that:

1. The financial statements, comprising the 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 2017 and of its performance for the year ended on that date.
2. The Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.
3. In the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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



Dr David King
Chairman

Brisbane, 28 September 2017

INDEPENDENT AUDITOR'S REPORT

To the members of Galilee Energy Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Galilee Energy Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

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

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

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

Key audit matters

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

Going Concern

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

Other information

The directors are responsible for the other information. The other information comprises the information contained in directors’ report for the year ended 30 June 2017, but does not include the financial report and our auditor’s report thereon, which we obtained prior to the date of this auditor’s report, and the annual report, which is expected to be made available to us after that date.

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

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

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

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



Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the Financial Report

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

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

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

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included on pages 5 to 8 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Galilee Energy Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

BDO Audit Pty Ltd

BDO

A J Whyte

Director

Brisbane, 28 September 2017

SHAREHOLDER INFORMATION

Securities on issue

The Company has the following securities on issue:

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

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

As at 30 September 2017

Range	Total holders	Units	% of Issued Capital
1 - 1,000	112	39,823	0.03
1,001 - 5,000	371	1,286,060	0.85
5,001 - 10,000	258	2,158,073	1.42
10,001 - 100,000	414	14,413,869	9.47
100,001 - 9,999,999,999	171	134,242,641	88.24
Rounding			-0.01
Total	1,394	152,140,466	100.00

The number of shareholders holding less than a marketable parcel (minimum \$500.00 at 12c per share) is 366.

(b) 20 largest shareholders as of 7 October 2015.

Rank	Name	Units	% of Units
1.	ECARLATE PTY LTD	18,342,608	12.06
2.	SLADE TECHNOLOGIES PTY LTD <EMBRY FAMILY SUPERFUND A/C>	6,550,000	4.31
3.	BECAMAL PTY LTD <GORDON SMITH FAMILY A/C>	5,520,945	3.63
4.	MR A EDGAR + MS T BAINBRIDGE <EDGAR FAMILY SUPER FUND A/C>	4,630,165	3.04
5.	MR P BILSTON + MRS S BILSTON <BILSTON FAMILY S/F A/C>	4,380,165	2.88
6.	TDF PROPERTIES PTY LTD <THE TDF PROPERTY A/C>	4,200,000	2.76
7.	JADE SECURITIES PTY LTD <BEK UNIT A/C>	4,000,000	2.63
8.	SCINTILLA STRATEGIC INVESTMENTS LIMITED	3,750,000	2.46
9.	MR CRAIG GRAEME CHAPMAN <NAMPAC DISCRETIONARY A/C>	3,188,593	2.10
10.	MACLANS SUPERANNUATION HOLDCO PTY LTD	3,000,000	1.97
11.	VENTURIN NOMINEES PTY LIMITED	2,996,337	1.97
12.	SPINITE PTY LTD	2,544,371	1.67
13.	INVIA CUSTODIAN PTY LIMITED <PACIFIC ROAD PROVIDENT A/C>	2,363,382	1.55
14.	MACLANS SERVICES PTY LTD <MACLANS SUPER FUND A/C>	1,738,728	1.14
15.	PACIFIC TUG PTY LTD <THE KYTHERA UNIT A/C>	1,698,984	1.12
16.	NOVASC PTY LTD <BELLIS AUSTRALIA S/F A/C>	1,445,899	0.95
17.	MR PHILIP WILLIAM COOPER	1,441,353	0.95
18.	MR R WILSON + MRS S WILSON <THE WILSON S/F A/C>	1,362,582	0.90
19.	DR HANS-JURGEN BECK	1,314,286	0.86
20.	MR KEVIN CAIRNS + MRS CATHERINE CAIRNS <CAIRNS FAMILY SUPER>	1,200,000	0.79
Totals: Top 20 holders of FULLY PAID ORDINARY SHARES (TOTAL)		75,668,398	49.74

SHAREHOLDER INFORMATION

Securities on issue (continued)

(c) Substantial shareholders

The following have disclosed substantial shareholder notices to the Company.

Name	Units	% of Units
ECARLATE PTY LTD	18,342,608	12.06

(d) Voting rights

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

- (i) **Ordinary Shares**
On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.
- (ii) **Options**
Holders of unlisted Options or Performance Rights have no voting rights in respect to such securities until such options are exercised or performance rights vest. However, the shares that issue upon the exercise of the Options or the satisfaction of the conditions attaching to the Performance Rights will rank pari passu with the then existing issued fully paid ordinary shares.

(e) Share Buy-backs

There is no current on-market buy-back.

(f) Restricted securities

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

(g) Options/Performance Rights details

The number of beneficial holders of Performance Rights and Options total 4.


Unquoted Options/Performance Rights are held as follows:

Employee performance rights

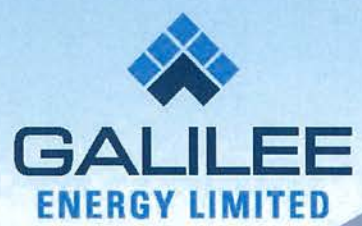
Tranche 1	600,000	Share price vesting point 35 cents
Unlisted Options		
Tranche 1	7,600,000	Exercisable at 12.5 cents.

Tenement Interests

Australia	Galilee Energy Limited	Queensland	ATP 2019	100% Galilee Energy Limited
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GALILEE
ENERGY LIMITED





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