CONSOLIDATED FINANCIAL STATEMENTS
FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

Galilee Energy Limited
ABN 11 064 957 419
and controlled entities

Contents

Directors' report

In accordance with a resolution of the Board, the directors present their report on the consolidated entity ("Galilee" or "Company") consisting of Galilee Energy Limited and the entities it controlled at the end of or during the half-year ended 31 December 2017.

Directors

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

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

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

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

Principal Activities

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

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

Results from operations

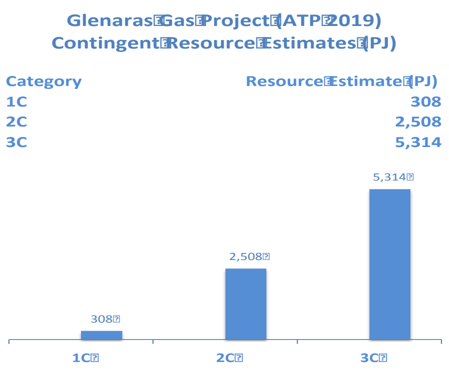
The loss for the half-year ended 31 December 2017 was $1,212,687 (31 December 2016: $3,709,918). The material components of the loss relate to exploration expenditure on the Glenaras pilot operations amounting to $510,011.

Review of Operations

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

The Company's primary focus remains the flagship Glenaras Gas Project ("Project") in the highly prospective ATP2019 permit ("Permit") strategically located in western Queensland's Galilee Basin. The Permit covers an area of approximately 4000 km2 and is 100% owned and operated by Galilee Energy Limited.

The Project contains a significant, independently derived and certified coal seam gas Contingent Resource within the Betts Creek coals as follows:



The Contingent Resource estimation was undertaken by MHA Petroleum Consultants LLC (MHA) in September 2015. The Project has the 2nd largest volumes of remaining uncontracted gas resources on the east coast of Australia.

In October 2017 Galilee announced it had signed a binding agreement with Jemena to work together towards agreed development milestones that will fast-track plans to deliver Galilee Energy gas to the east coast market. Jemena are progressing works and have established a project team who are preparing to award surveying, environmental and cultural heritage work and pipeline development with the aim of delivering gas to Barcaldine by 2020.

Multi-Lateral Pilot

Design work for the new multi-lateral pilot has been completed. The pilot will be a three well lateral pilot located in an area approximately equidistant between the previous Glenaras and Rodney Creek pilots. The area is known for consistently good coal development in the R3 to R5 coal layers, of which one coal layer will be the primary target. The first lateral will include a pilot vertical hole drilled to assess coal quality, sand isolation and permeability in order to select the optimal coal target. Once this is selected, the three lateral wells will be separately drilled through this target coal.

Contracting and procurement for the programme is well advanced, all major contracting services have been identified and key long lead items have been secured. Pending weather and final contracting, the drilling programme is expected to commence in March 2018 and will be approximately a 6-week campaign. The wells will then be completed and put on production to enable the dewatering process.

Directors' report (continued)

Review of Operations (continued)

A 3-D representation of the three wells is provided as Figure 1 below:

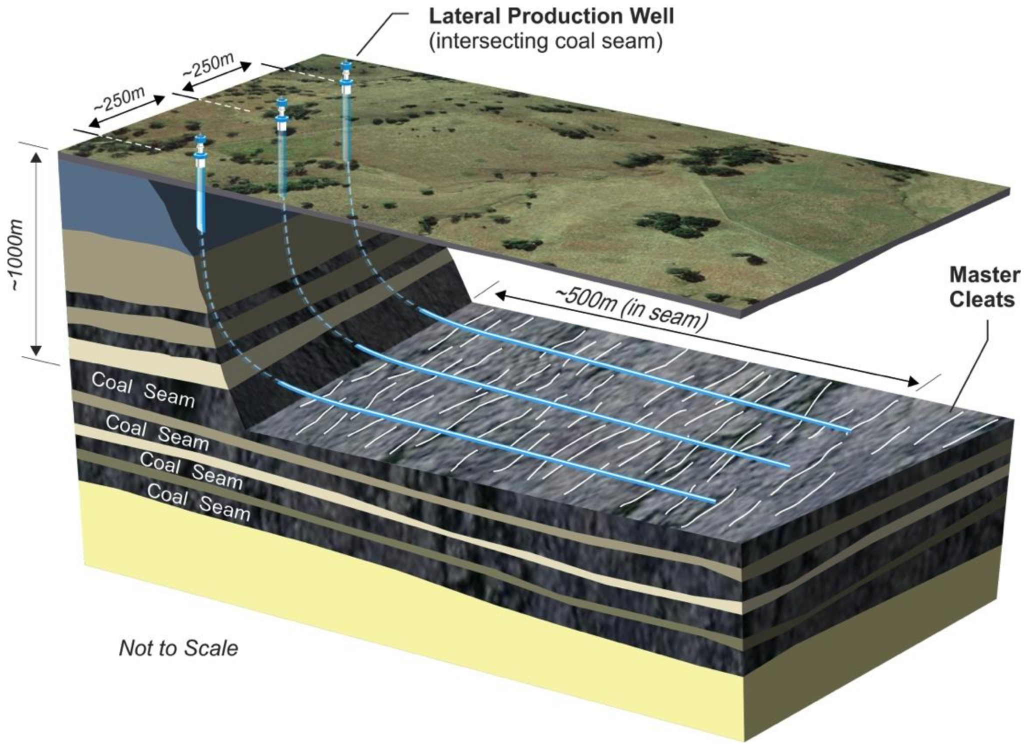


Figure 1: 3-D representation

Lavaca County - Texas Gulf Coast

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

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

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

Chile

The Company completed its evaluation and study of the Coal Seam Gas (CSG) potential in the Southern Magallanes Basin in Chile late 2015. Galilee has submitted a draft application to the Chilean government for an exploration permit application (CEOP) over an area of almost 6,000 sq.km. The Chilean government provided a positive response to the application and we are currently working with the government to clarify certain elements of our bid. This exciting opportunity will continue to be nurtured at minimal cost.

Auditor's independence declaration

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

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

On behalf of the Directors

Dr David King
Chairman
Brisbane, 14 March 2018

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

As lead auditor of Galilee Energy Limited for the half-year ended 31 December 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 review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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

A J Whyte
Director

BDO Audit Pty Ltd

Brisbane, 14 March 2018

Consolidated Statement of Profit or Loss & Other Comprehensive Income

for the half-year ended 31 December 2017

	Consolidated	
	31 Dec 17	31 Dec 16
	$	$
Revenue		
Interest received	78,962	110,607
	78,962	110,607
Expenses		
Exploration and evaluation costs	(405,614)	(2,950,898)
Employee benefits expense	(303,084)	(437,572)
Contractors' & consulting fees	(213,051)	(52,211)
Professional fees	(22,561)	(42,660)
Corporate expenses	(51,559)	(45,015)
Occupancy costs	(20,700)	(197,589)
New project evaluation and analysis	(158,811)	-
Administration expenses	(97,216)	(77,946)
Depreciation	(19,053)	(16,634)
Total expenses	(1,291,649)	(3,820,525)
Loss before income tax	(1,212,687)	(3,709,918)
Income tax benefit/(expense)	-	-
Loss for the year	(1,212,687)	(3,709,918)
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	1,223	2,928
Total other comprehensive income, net of income tax	1,223	2,928
Total comprehensive loss	(1,211,464)	(3,706,990)
Loss per share	Cents	Cents
Basic loss per share	0.78	2.45
Diluted loss per share	0.78	2.45

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

Consolidated Statement of Financial Position
as at 31 December 2017

	Note	Consolidated 31 Dec 17 $	Consolidated 30 Jun 17 $
Assets			
Current assets			
Cash and cash equivalents		10,121,236	6,087,157
Trade and other receivables	5	97,607	88,068
Total current assets		10,218,843	6,175,225
Non-current assets			
Trade and other receivables	5	1,414,964	1,544,902
Property, plant and equipment		99,874	117,498
Total non-current assets		1,514,838	1,662,400
Total assets		11,733,681	7,837,625
Liabilities			
Current liabilities			
Trade and other payables	6	303,205	319,309
Provisions	7	37,597	36,834
Total current liabilities		340,802	356,143
Non-current liabilities			
Trade and other payables	6	67,381	59,788
Provisions	7	1,177,682	1,195,655
Total non-current liabilities		1,245,063	1,255,443
Total liabilities		1,585,865	1,611,586
Net assets		10,147,816	6,226,039
Equity			
Issued capital	8	65,346,715	60,227,574
Reserves		(7,445,371)	(7,460,694)
Accumulated losses		(47,753,528)	(46,540,841)
Total equity		10,147,816	6,226,039

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

Consolidated Statement of Changes in Equity
for the half-year ended 31 December 2017

	Issued Capital	Accumulated Losses	Non-controlling Interests Elimination Reserve	Foreign Currency Translation Reserve	Share-based Payments Reserve	Total
	$	$	$	$	$	$
Balance at 1 July 2017	60,227,574	(46,540,841)	(7,656,400)	(48,162)	243,868	6,226,039
Loss for the period	-	(1,212,687)	-	-	-	(1,212,687)
Other comprehensive loss	-	-	-	1,223	-	1,223
Total comprehensive loss	-	(1,212,687)	-	1,223	-	(1,211,464)
Transactions with owners in their capacity as owners						
Contributions of equity net of transaction costs	5,119,141	-	-	-	-	5,119,141
Share-based payments expense	-	-	-	-	14,100	14,100
	5,119,141	-	-	-	14,100	5,133,241
Balance at 31 December 2017	65,346,715	(47,753,528)	(7,656,400)	(46,939)	257,968	10,147,816
Balance at 1 July 2016	60,227,574	(42,732,862)	(7,656,400)	(50,332)	30,894	9,818,874
Loss for the period	-	(3,709,918)	-	-	-	(3,709,918)
Other comprehensive loss	-	-	-	2,928	-	2,928
Total comprehensive loss	-	(3,709,918)	-	2,928	-	(3,706,990)
Transactions with owners in their capacity as owners						
Share-based payments expense	-	-	-	-	230,864	230,864
Transfers	-	22,117	-	-	(22,117)	-
	-	22,117	-	-	208,747	230,864
Balance at 31 December 2016	60,227,574	(46,420,663)	(7,656,400)	(47,404)	239,641	6,342,748

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

Consolidated Statement of Cash Flows
for the half-year ended 31 December 2017

	Consolidated	
	31 Dec 17	31 Dec 16
	$	$
Cash flows from operating activities		
Payments to suppliers and employees (including GST)	(720,476)	(499,754)
Payments for exploration	(559,344)	(2,873,915)
Interest received	55,351	80,601
Other revenue	(2,479)	-
Net cash used in operating activities	(1,226,948)	(3,293,068)
Cash flows from investing activities		
Payments for property, plant and equipment	(1,429)	(83,938)
Refunds of/(Payments for) bonds and deposits	129,938	(10,700)
Net cash provided by investing activities	128,509	(94,638)
Cash flows from financing activities		
Proceeds from issue of shares	5,635,084	-
Share issue costs	(501,843)	-
Net from financing activities	5,133,241	-
Net Decrease in cash and cash equivalents	4,034,802	(3,387,706)
Cash and cash equivalents at the beginning of the period	6,087,157	9,479,013
Effects of exchange rates on cash	(723)	(1,199)
Cash and cash equivalents at the end of the period	10,121,236	6,090,108

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

Notes to the Consolidated Financial Statements
for the half-year ended 31 December 2017

1. Principal Activities

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

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

2. Basis of preparation

The interim consolidated financial statements (the interim financial statements) are for the six months ended 31 December 2017 and are presented in Australian Dollar ($AUD) which is the functional currency of the Parent Company. The interim financial statements are a general purpose financial report prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standard AASB 134: *Interim Financial Reporting*. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 134 “Interim Financial Reporting”.

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

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

3. Significant accounting policies

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

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

4. Segment Information

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

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

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

Notes to the Consolidated Financial Statements
for the half-year ended 31 December 2017

4. Segment Information (continued)

Segment performance
The following table shows the revenue and exploration and evaluation expenditure information regarding the Group's operating segments for 31 December 2017 and 31 December 2016.

	Australia		United States		South America	
	Qld	Illinois	Texas	Kansas	Chile	Total
	$	$	$	$	$	$
31 December 2017						
Segment Result						
Segment Revenue	-	-	-	-	-	-
Exploration & evaluation costs	(510,011)	-	104,397	-	-	(405,614)
Segment result before tax	(510,011)	-	104,397	-	-	(405,614)
Reconciliation of segment result to Group loss before tax						
Interest revenue						78,962
Employee benefits expense						(303,084)
Consulting fees						(213,051)
Professional fees						(22,561)
Corporate expenses						(51,559)
Occupancy costs						(20,700)
New project evaluation and analysis						(158,811)
Administration expenses						(97,216)
Depreciation						(19,053)
Loss before tax						(1,212,687)
31 December 2016						
Segment Result						
Segment Revenue	-	-	-	-	-	-
Exploration & evaluation costs	(2,941,610)	(7,441)	4,848	-	(6,695)	(2,950,898)
Segment result before tax	(2,941,610)	(7,441)	4,848	-	(6,695)	(2,950,898)
Reconciliation of segment result to Group loss before tax						
Interest revenue						110,607
Employee benefits expense						(437,572)
Contractors' & consulting fees						(52,211)
Professional fees						(42,660)
Corporate expenses						(45,015)
Occupancy costs						(197,589)
Administration expenses						(77,946)
Depreciation						(16,634)
Loss before tax						(3,709,918)

Notes to the Consolidated Financial Statements
for the half-year ended 31 December 2017

5. Receivables

	Consolidated	
	31 Dec 17	30 Jun 17
Current	$	$
Trade receivables	39,825	28,119
Interest receivable	39,649	16,038
Prepayments	18,133	43,911
	97,607	88,068
Non-Current		
Environmental bonds and deposits	1,198,167	1,198,167
Rental bond	216,797	346,735
	1,414,964	1,544,902
	1,512,571	1,632,970

6. Trade and other payables

	Consolidated	
	31 Dec 17	30 Jun 17
Current	$	$
Trade payables	188,057	180,179
Other payables	53,441	84,160
Employee benefits	61,707	54,970
	303,205	319,309
Non-Current		
Employee benefits	13,381	5,788
Security bond - sub-lease	54,000	54,000
	67,381	59,788
	316,586	379,097

7. Provisions

	Consolidated	
	31 Dec 17	30 Jun 17
Current	$	$
Obligations under sublease	37,597	36,834
	37,597	36,834
Non-Current		
Obligations under sublease	30,682	48,655
Rehabilitation & restoration	1,147,000	1,147,000
	1,177,682	1,195,655
	1,215,279	1,232,489

Notes to the Consolidated Financial Statements
for the half-year ended 31 December 2017

8. Issued Capital

	Consolidated	
	31 Dec 17	30 Jun 17
	$	$
Ordinary shares - fully paid	67,153,440	61,518,356
Share issue transaction costs (net of tax)	(1,806,725)	(1,290,782)
	65,346,715	60,227,574

Movements in ordinary shares	31 Dec 17	30 Jun 17	31 Dec 17	30 Jun 17
	Number of Shares		$	$
Balance at the beginning of the period	152,140,466	152,140,466	60,227,574	60,227,574
Share placement @ 15 cents	20,321,070	-	3,048,161	-
Share rights issue @ 15 cents	17,246,154	-	2,586,923	-
Share issue costs	-	-	(515,943)	-
Balance at the end of the period	189,707,690	152,140,466	65,346,715	60,227,574

9. Share based payments

The following table shows the share based payments expense during the half-year with respect to performance rights and share options and the movements in the Share-Based Payments Reserve during the half-year.

	Consolidated	
	31 Dec 17	31 Dec 16
Statement of comprehensive income	$	$
Share based payments expense included in employee benefits expense	-	(230,864)
Movements in share based payments reserve		
Balance at the beginning of the period	243,868	30,894
Share based payments included in employee benefits expense	-	230,864
Share based payments included in share issue costs	14,100	-
Rights/options expired of forfeited transferred to issued capital	-	(22,117)
Balance at the end of the period	257,968	239,641

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

The following table shows the movement in the number of performance rights granted in prior periods and the balance at 31 December 2017.

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

Notes to the Consolidated Financial Statements
for the half-year ended 31 December 2017

9. Share based payments (continued)

The following table shows the movements of share options during the half-year and on issue at 31 December 2017.

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

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

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

The fair value of share options issued during the half-year is measured at grant date and is determined by reference to the fair market value of the services provided. The fair market value of the capital raising services provided by Gleneagles has been assessed at $408,556 of which comprised a cash payment of $394,456 and $14,100 representing the value of the share options issued.

10. Contingent liabilities

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

11. Commitments

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

	Consolidated	
	31 Dec 17	30 Jun 17
Operating lease commitments	**$**	$
Minimum lease payments payable as follows:		
not later than 12 months	**152,363**	149,423
between 12 months and 5 years	**144,770**	208,044
	297,133	357,467

Bank guarantees
National Australia Bank Limited have provided a bank guarantees totalling $1,390,688 (June 2017: $1,520,626) as follows:

- $1,173,891 (June 2017: $1,173,891) to the State of Queensland in respect of the Group's exploration permits and environmental guarantees;
- $216,797 (June 2017: $346,735) to the landlord of the Brisbane office premises to support the Group's obligations under the lease of the Edward Street, Brisbane premises.

The bank guarantees are secured by term deposits.

Notes to the Consolidated Financial Statements
for the half-year ended 31 December 2017

11. Commitments (continued)

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

With respect to permit ATP 2019, at 31 December 2017 the Group has met all of the exploration commitments under the current work programme. This permit has been renewed and is granted to 30 November 2020. As the exploration commitments had been met, no additional exploration expenditure is required

In the case of the United States of America and Chile there are no commitments beyond 31 December 2017.

12. Events occurring after balance date

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

Directors' declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 4 to 13 are in accordance with the *Corporations Act 2001*, including:

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

(ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the half-year ended on that date; and

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

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

Dr David King
Chairman
Brisbane, 14 March 2018

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Galilee Energy Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the half-year financial report of Galilee Energy Limited (the Company) and its subsidiaries (the Group), which comprises the statement of financial position as at 31 December 2017, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year then ended, notes comprising a statement of significant accounting policies and other explanatory information, and the directors' declaration.

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

A. Giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the half-year ended on that date; and

B. Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Directors' responsibility for the Half-Year Financial Report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2017 and its performance for the half-year ended on that date and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

BDO Audit Pty Ltd

BDO

Anthony Whyte

Director

Brisbane, 14 March 2018