

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2019**

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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 2019. The financial statements have been reviewed and approved by the directors based on the recommendation of the Audit Committee.

1. Directors

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

Dr David King	Appointed Director 24/09/2013, <i>Non-executive Director since 31/03/18</i>
Peter Lansom	Appointed Director 24/09/2013, <i>Managing Director since 31/10/2013</i>
Ray Shorrocks	Appointed Director 02/12/13, <i>Non-executive Chairman since 31/03/18</i>
Stephen Kelemen	Appointed Director 31/03/2018, <i>Non-executive Director since 31/03/18</i>
Gordon Grieve	Appointed Director 06/09/2019, <i>Non-executive Director since 06/09/19</i>

2. Principal activities

Galilee Energy Limited (Galilee) is a Brisbane based energy company with a portfolio of assets primarily focussed onshore Australia.

The principal activity of the consolidated entity is oil and gas exploration and production. The foundation asset of the Company is the Glenaras Gas Project located in the Galilee Basin near Longreach in Queensland.

3. Strategy

The Company's strategy is to build a balanced portfolio of short and long term assets in the conventional and unconventional hydrocarbon sector while continuing to focus on commercialising the Glenaras Gas Project.

4. Results from operations

The loss for the year was \$11.450 million (2018: loss of \$10.316 million).

The loss for the year reflects the exploration and evaluation expenditure incurred on the Galilee Basin permit of \$7.754 million in addition to staff costs and overheads attributable to progressing the Glenaras Gas Project (2018 \$10.600 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

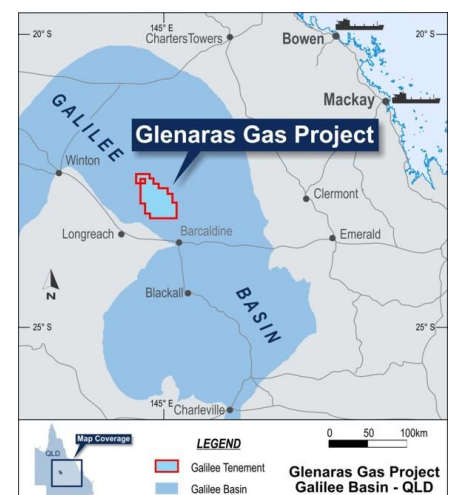
Glenaras Gas Project (ATP 2019) – GLL 100%

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

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

Significant activity was undertaken on the ATP2019 permit during the year with the successful completion of the enhanced Glenaras multi-lateral pilot which included the drilling of the Glenaras 14L, 15L and 16L wells. The lateral pilot (see Figure 2) is now on continuous production with all five wells flowing water at excellent rates. The pilot will be on production for an extended period to de-water and lower the pressure in the surrounding coal to achieve a commercial gas flow.

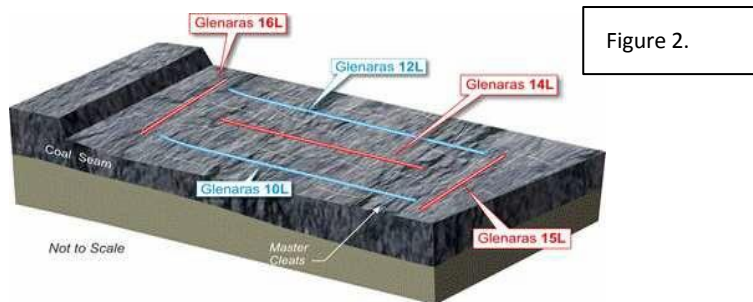
Figure 1.



Directors' Report (continued)

6. Review of operations (continued)

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



Excellent progress has been made by Jemena on stakeholder engagements, government approvals and aerial surveys for the proposed Galilee gas pipeline which would deliver gas produced by Galilee to the east coast market. Jemena has passed significant milestone for the Galilee Gas Pipeline route connecting the Glenaras Gas Project to the east coast gas market with the formal lodgement of the Voluntary Environmental Impact Statement Application and EPBC Act referral with the relevant authorities.

Galilee has a deep commitment to working with community stakeholders in the areas within which we operate. Galilee operates on the basis of mutual respect and co-existence with all of its stakeholders as the key pillar of its community relations with government, landowners and the broader community.

Galilee's strategy is to become a material supplier of gas to the eastern Australian gas market and the east coast gas thematic continues to be a powerful one for the Company. The east coast gas market is structurally short of gas and additional supply is required to meet the market over the intermediate to long term, providing opportunity to Galilee. Over the mid to long term it is highly unlikely that existing gas supply will be sufficient to meet total gas demand on the east coast, resulting in the potential for import parity pricing for both domestic and export gas sales. With coal seam gas ("CSG") production in Queensland increasing significantly over the past few years in response to LNG exports, this is a clear demonstration of the world class quality of Australian CSG and underpins the Company's focus on CSG.

Galilee has expanded its portfolio of gas assets and diversified its position after having been officially granted operatorship and 100% working interest in the exploration permit ATP 2043 in the overlapping Surat and Bowen Basins, effective 1st August 2019 for a term of 6 years. The acreage was made available for tender as part of the Queensland Government's recent release of new petroleum resource areas, designed to stimulate oil and gas exploration in Queensland and provide sustainable benefits to local communities and the broader Queensland economy. ATP 2043 is a 384km², high quality exploration tenure with dual prospectivity within both the world-class Walloon Subgroup CSG fairway and the oil and gas prone eastern flank of the Taroom Trough in the Bowen Basin. This is a continuation of the Company's strategy of maintaining high quality acreage at 100% working interest, with the added advantage of exposure to both conventional and unconventional targets in a different, high quality Basin, proximate to existing infrastructure and with clear channels to market.

Galilee successfully completed two targeted, private placements to sophisticated and institutional investors raising approximately \$18.7 million. The company continues to maintain a strong cash position with no debt.

US Assets

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

Chile

There was no activity for the period and no significant expenditure plans for Chile.

Corporate

On 8 March 2019, the Company relocated to level 6, 167 Eagle Street, Brisbane.

Directors' Report (continued)

7. Significant changes in state of affairs

During the year, the Company successfully completed two share placements raising \$18.7 million to fund its ongoing exploration activities in the Galilee Basin. There were no other significant changes in the Company's activities.

8. Matters subsequent to the end of financial year

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

9. Environmental regulation

The Company conducts its operations in compliance with the Queensland Petroleum and Gas (Production and Safety) Act 2004. Environmental considerations are reviewed with and approved by the Queensland Department of Environment and Science under the Environmental Protection Act 1994. The Company has not recorded any 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. In line with our increased activity, Queensland regulators conducted environmental inspections and audits and no improvement or infringement notices were issued. 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 35,821,667 share options were issued to investors who participated in the two share placements. Further information is included in Note 16, Share Based Payments.

11. Directors and officer's 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 2019, and the numbers of meetings attended by each director were:

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

A = Number of meetings eligible to attend

B = Number of meetings attended

* = Not member of committee

Directors' Report (continued)

14. Information on Directors and Company Secretary

Ray Shorrocks

Non-executive Chairman

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

Other directorships in listed companies – current

Indago Energy Limited	Appointed 12/01/16	
Bellevue Gold Limited (formally Draig Resources Limited)	Appointed 31/12/15	Resigned 09/09/19
Estrella Resources Limited	Appointed 24/06/15	Resigned 30/01/19

Special responsibilities

Chairman

Interest in Galilee Energy Limited shares and options

1,273,886 shares, 800,000 options and 1,000,000 performance rights

Dr David King

Director – Independent Non –executive

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

Other directorships in listed companies – current

Cellmid Ltd	Appointed 18/01/08	
African Petroleum Corporation Ltd	Appointed 01/07/13	
Litigation Capital Management Ltd	Appointed 09/10/15	
Tap Oil Limited	Appointed 18/10/18	
Renergen Ltd	Appointed 06/06/19	

Special responsibilities

Chairman Audit Committee and member Risk Committee

Interest in Galilee Energy Limited shares and options

641,434 shares, 800,000 options and 275,000 performance rights

Stephen Kelemen

Director – Independent Non-executive

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

Other directorships in listed companies – current

Elixir Petroleum Limited	Appointed 06/05/19	
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Special responsibilities

Chairman Risk Committee and member Audit Committee

Interest in Galilee Energy Limited shares and options

120,000 shares and 275,000 performance rights

Directors' Report (continued)

14. Information on Directors and Company Secretary (continued)

Gordon Grieve

Director – Independent Non-executive

Gordon has over 30 years' experience as a solicitor and counsel working with energy and resources companies in Australia and overseas and is the current Chairman of Partners at Piper Alderman, leading both their International and Energy & Resources Groups. Gordon is a skilled advisor in relation to corporate governance and compliance issues, company takeovers and schemes of arrangement and has represented companies and directors on all facets of major corporate transactions and commercial litigation. Gordon guided the growth and development of Eastern Star Gas from start-up through to its acquisition by Santos for \$900 million. Gordon is a Member of The Australian Institute of Company Directors and a member of the Law Society of Queensland and The Law Society of NSW.

Special responsibilities

Member Risk Committee and member Audit Committee

Interest in Galilee Energy Limited shares and options - nil

Peter Lansom

Managing Director

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

Special responsibilities

Managing Director

Interest in Galilee Energy Limited shares and options

5,234,601 shares, 3,500,000 options and 3,200,000 performance rights

Stephen Rodgers

Company Secretary

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

15. Remuneration Report (audited)

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

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

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

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

A Principles used to determine the nature and amount of remuneration

In consultation with external remuneration consultants when required, the Board determines the remuneration policies of the Company, reviews the remuneration of senior management and determines the remuneration of executive directors. Non-executive director remuneration is considered by the Board within the overall limits approved by shareholders. It was not necessary to engage external remuneration consultants during the year.

Directors' Report (continued)

15. Remuneration Report (audited) (continued)

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

Alignment to shareholders' interests:

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

Alignment to program participants' interests:

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

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

Non-executive directors

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

Directors' fees

The 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 \$230,000.

Executive pay

The executive remuneration and reward framework have the following components:

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

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

Base pay and non-monetary benefits

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

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

Short term incentives.

Generally paid in cash and structured, with a focus on delivery of specific short-term objectives aligned with the company's strategies and goals and the executive's 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 may include specific price and/or performance targets that relate to the expected outcomes from strategies that have been given a high level of importance in relation to the future growth of the Company.

Superannuation and long service leave

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

Directors' Report (continued)

15. Remuneration Report (audited) (continued)

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

Relationship between remuneration and Company performance

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

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

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

The table below sets out summary information about the Company's revenues, earnings, and movements in shareholders' wealth for the five years to 30 June 2019:

Item	Unit	2019	2018	2017	2016	2015
Revenue – continuing operations	\$'000s	314	180	194	379	799
Net profit/(loss) before tax	\$'000s	(11,450)	(10,316)	(3,830)	(6,039)	(9,810)
Net profit/(loss) after tax	\$'000s	(11,450)	(10,316)	(3,830)	(6,039)	(9,810)
Basic loss per share	cents	(5.3)	(5.9)	(2.5)	(4.1)	(6.4)
Last traded share price	cents	70.0	71.0	11.0	7.0	11.0
Remuneration -salary and fees	\$'000s	1,529	519	552	607	800

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

B Details of remuneration

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

	Short-term benefits & fees		Termination payments	Post Employment		Share-based Payments Options		Performance Based	%
	Salary & fees	Cash bonus		Super-annuation	Retirement benefits	Performance Rights	Total		
		(*)							
30 June 2019	\$	\$	\$	\$	\$	\$	\$		
Directors									
Dr D King	55,936	-	-	5,314	-	45,613	106,863		43.00%
P Lansom	386,551	100,000	-	20,531	2,844	530,776	1,040,702		61.00%
R Shorrocks	85,616	-	-	8,134	-	181,226	274,976		66.00%
S Kelemen	61,250	-	-	-	-	45,613	106,863		43.00%
Total	589,353	100,000	-	33,979	2,844	803,228	1,529,404		

	Short-term benefits & fees		Termination payments	Post Employment		Share-based Payments		Performance Based	%
	Salary & fees	Cash bonus		Super-annuation	Retirement benefits	Performance Rights	Total		
		(*)							
30 June 2018	\$	\$	\$	\$	\$	\$	\$		
Directors									
Dr D King	62,785	-	-	5,965	-	-	68,750		0.00%
P Lansom	334,117	-	-	20,049	7,468	-	361,634		0.00%
R Shorrocks	71,370	-	-	4,880	-	-	76,250		0.00%
S Kelemen	12,500	-	-	-	-	-	12,500		0.00%
Total	480,772	-	-	30,894	7,468	-	519,134		

(*) Cash bonuses are paid at the discretion of the Board. The cash bonus paid was recognition for the successful execution of the 2018 drilling, completion and testing programme, which was conducted safely, within budget and on schedule.

Directors' Report (continued)

15. Remuneration Report (audited) (continued)

C Service agreement

Remuneration and other terms of employment for the Managing Director are as follows:

Peter Lansom, Managing Director

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

- Contract provides for salary review conducted August 2018 base salary amended to \$410,000 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

Other than a Letter of Appointment confirming the terms of their office, the non-executive directors of the Company do not have any formal service or contracting agreement in place with the Company. Other than the Managing Director and the Board there are no other KMPs.

D Share based compensation

Directors' share options

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

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

Performance rights

During the year, the following performance rights were granted to directors as part of their remuneration.

Director name	No. of rights	Grant date	Expiry date	Assumed vesting date	Share price on grant date	Fair value cents
David King	275,000	19-Dec-18	30-Nov-20	31-Dec-19	54.0	54.0
Peter Lansom	3,200,000	30-Nov-18	30-Nov-20	31-Dec-19	54.0	54.0
Ray Shorrocks	1,000,000	20-Dec-18	30-Nov-20	31-Dec-19	59.0	59.0
Stephen Kelemen	275,000	19-Dec-18	30-Nov-20	31-Dec-19	54.0	54.0
	<u>4,750,000</u>					

Subject to the director remaining an employee the performance rights granted during the year will vest when at least 500PJ of 2P reserves are booked on or before 30 November 2020. The exercise price of the performance rights is nil.

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

Director name	Balance at start	Granted as remuneration	Exercised	Expired	Forfeited	Balance at end
David King	-	275,000	-	-	-	275,000
Peter Lansom	-	3,200,000	-	-	-	3,200,000
Ray Shorrocks	-	1,000,000	-	-	-	1,000,000
Stephen Kelemen	-	275,000	-	-	-	275,000
	-	<u>4,750,000</u>	-	-	-	<u>4,750,000</u>

No performance rights vested during the year and no performance rights were exercisable at 30 June 2019.

Directors' Report (continued)

15. Remuneration Report (audited) (continued)

D Share based compensation (continued)

Performance rights (continued)

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 2019	Balance at beginning of year	Granted as remuneration during the year	Shares acquired	Other changes	Balance at end of year
Directors					
Dr David King	641,434	-	-	-	641,434
Peter Lansom	5,212,601	-	22,000	-	5,234,601
Ray Shorrocks	1,227,886	-	46,000	-	1,273,886
Stephen Kelemen	120,000	-	-	-	120,000
Total Directors	7,201,921	-	68,000	-	7,269,921

F Loans to Key Management Personnel

Nil

G Transactions with Directors or Director related entities

Nil

End of audited Remuneration Report

16. Non-audit services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company are important. Details of the amounts paid or payable to the auditor (BDO Audit Pty Ltd) for audit and non-audit services provided during the year are set out below.

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

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

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

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

	30 Jun 19 \$	30 Jun 18 \$
Non-audit services		
- review of tax effect and preparation of tax return	12,700	11,011

17. Auditor's independence declaration

The auditor's independence declaration is included on Page 12 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

A handwritten signature in black ink, appearing to be 'Ray Shorrocks', written over a horizontal line.

Ray Shorrocks
Chairman
Brisbane, 12 September 2019

Audit Independence Declaration



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DECLARATION OF INDEPENDENCE BY T J KENDALL TO THE DIRECTORS OF GALILEE ENERGY LIMITED

As lead auditor of Galilee Energy Limited for the year ended 30 June 2019, 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 that reads 'T J Kendall'. The signature is written in a cursive style.

T J Kendall
Director

BDO Audit Pty Ltd

Brisbane, 12 September 2019

Consolidated Statement of Profit or Loss & Other Comprehensive Income

for the year ended 30 June 2019

	Note	Consolidated	
		30 Jun 19	30 Jun 18
		\$	\$
Revenue and other income			
Interest received		313,590	179,814
Research and Development tax offset received		-	1,578,045
		<u>313,590</u>	<u>1,757,859</u>
Expenses			
Exploration and evaluation costs	2 (a)	(7,787,158)	(10,495,172)
Employee benefits expense	2 (b)	(2,836,527)	(646,259)
Consulting fees	2 (c)	(284,934)	(275,052)
Business development		(97,365)	(267,511)
Administration expenses	2 (d)	(757,804)	(390,314)
Total expenses		<u>(11,763,788)</u>	<u>(12,074,308)</u>
Loss before income tax		(11,450,198)	(10,316,449)
Income tax benefit/(expense)	3	-	-
Loss for the year		<u>(11,450,198)</u>	<u>(10,316,449)</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		65	291
Total other comprehensive income, net of income tax		<u>65</u>	<u>291</u>
TOTAL COMPREHENSIVE LOSS		<u>(11,450,133)</u>	<u>(10,316,158)</u>
LOSS PER SHARE			
Basic loss per share		<u>5.3</u>	<u>5.9</u>
Diluted loss per share		<u>5.3</u>	<u>5.9</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 2019

	Note	Consolidated	
		30 Jun 19	30 Jun 18
		\$	\$
ASSETS			
Current assets			
Cash and cash equivalents	7	11,543,465	4,916,260
Trade and other receivables	8	334,093	133,022
Total current assets		11,877,558	5,049,282
Non-current assets			
Trade and other receivables	8	1,339,145	1,414,964
Property, plant and equipment	9	91,203	79,176
Total non-current assets		1,430,348	1,494,140
Total assets		13,307,906	6,543,422
LIABILITIES			
Current liabilities			
Trade and other payables	10	1,362,319	3,837,755
Provisions		780,913	38,307
Total current liabilities		2,143,232	3,876,062
Non-current liabilities			
Trade and other payables	10	69,082	63,060
Provisions	11	1,332,748	1,561,178
Total non-current liabilities		1,401,830	1,624,238
Total liabilities		3,545,062	5,500,300
NET ASSETS		9,762,844	1,043,122
EQUITY			
Issued capital	12	83,792,426	65,346,715
Reserves	13	(5,722,094)	(7,446,303)
Accumulated losses		(68,307,488)	(56,857,290)
TOTAL EQUITY		9,762,844	1,043,122

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 2019

	Issued Capital	Accumulated Losses	Non-controlling Interests Elimination Reserve	Foreign Currency Translation Reserve	Share-based Payments Reserve	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2018	65,346,715	(56,857,290)	(7,656,400)	(47,871)	257,968	1,043,122
Loss for the period	-	(11,450,198)	-	-	-	(11,450,198)
Other comprehensive loss	-	-	-	65	-	65
Total comprehensive loss	-	(11,450,198)	-	65	-	(11,450,133)
Contributions of equity net of transaction costs	18,445,711	-	-	-	-	18,445,711
Share-based payments expense	-	-	-	-	1,724,144	1,724,144
	18,445,711	-	-	-	1,724,144	20,169,855
Balance at 30 June 2019	83,792,426	(68,307,488)	(7,656,400)	(47,806)	1,982,112	9,762,844
Balance at 1 July 2017	60,227,574	(46,540,841)	(7,656,400)	(48,162)	243,868	6,226,039
Loss for the period	-	(10,316,449)	-	-	-	(10,316,449)
Other comprehensive loss	-	-	-	291	-	291
Total comprehensive loss	-	(10,316,449)	-	291	-	(10,316,158)
Contributions of equity net of transaction costs	5,119,141	-	-	-	-	5,119,141
Share-based payments expense	-	-	-	-	14,100	14,100
	5,119,141	-	-	-	14,100	5,133,241
Balance at 30 June 2018	65,346,715	(56,857,290)	(7,656,400)	(47,871)	257,968	1,043,122

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 2019

	Consolidated	
	30 Jun 19	30 Jun 18
	\$	\$
Cash flows from operating activities		
Payments for exploration (including GST)	(10,760,398)	(7,198,969)
Research and Development tax offset received	-	1,578,045
Payments to suppliers and employees (including GST)	(2,181,339)	(1,665,086)
GST refunds received	1,003,739	669,925
Interest received	284,568	183,885
Net cash used in operating activities	22 (a) (11,653,430)	(6,432,200)
Cash flows from investing activities		
Payments for property, plant and equipment	(110,958)	(1,429)
Refunds of/(Payments for) bonds and deposits	(54,118)	129,938
Net cash provided by/(used in) investing activities	(165,076)	128,509
Cash flows from financing activities		
Proceeds from issue of shares	18,699,503	5,635,084
Share issue costs	(253,792)	(501,843)
Net cash provided by financing activities	18,445,711	5,133,241
Net Decrease in cash and cash equivalents	6,627,205	(1,170,450)
Cash and cash equivalents at the beginning of the period	4,916,260	6,087,157
Effects of exchange rates on cash	-	(447)
Cash and cash equivalents at the end of the period	11,543,465	4,916,260

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 2019

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 12 September 2019.

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 6, 167 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.

Going concern & judgements

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

The existing cash reserves are considered adequate to fund the planned expenditure for at least 12 months from the date of this report.

New, revised or amending Accounting Standards and Interpretations adopted

A number of new or amended standards became applicable for the current reporting period. In particular, the group has changed its accounting policies as a result of adopting AASB 9 Financial Instruments using the modified retrospective approach. The impact of the adoption of this standard and the new accounting policies are disclosed in the notes to the financial statements. AASB 15 Revenue from Contracts with Customers has been adopted, however, is not applicable to the Group as there is no trading revenue.

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:

Notes to the Consolidated Financial Statements (continued)

1. Significant accounting policies (continued)

Critical accounting estimates and judgements (continued)

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 management's best estimate of the nature, extent and cost of the rehabilitation obligations in the period in which they arise. When deemed necessary, the Group appoints an independent expert to advise on the cost to rehabilitate each well. 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.

At 30 June 2019, the cost of the rehabilitation work required has been based on an independent estimate of the work required to rehabilitate each well. These cost estimates have been indexed at CPI (assumed to be 2.5%) to the future date that the rehabilitation work is expected to be undertaken. The resultant schedule of cash flows is then discounted to obtain a present value of the potential rehabilitation liability. At June 2019, the discount rate used is 18.75%, which is a pre-tax rate based on an estimated cost of capital for the Group of 13%. The calculation assumes that rehabilitation work for all exploration wells will be undertaken in the 2020 financial year. With respect to wells drilled and completed as possible production wells, it is assumed that the rehabilitation will be undertaken in 2030 financial year. The total of the rehabilitation provision at reporting date is \$2,039,527 (current \$759,104 and non-current \$1,280,423)

(2018: non-current \$1,547,000).

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 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 (2018: \$24,098,886) less provisions for impairment of \$24,098,886 (2018: \$24,098,886). The parent entity has also loaned funds to its subsidiaries of \$14,178,557 (2018: \$14,117,731) primarily to fund exploration activities. The parent entity has impaired the carrying amount of loans by \$14,178,557 (2018: \$14,117,731). 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 2019 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 profit or loss and other 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.

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.

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.

Notes to the Consolidated Financial Statements (continued)

1. Significant accounting policies (continued)

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.

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.

Notes to the Consolidated Financial Statements (continued)

1. Significant accounting policies (continued)

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 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 non-financial 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.

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.

Notes to the Consolidated Financial Statements (continued)

1. Significant accounting policies (continued)

Impairment

From 1 July 2018, the Group assesses on a forward looking basis the expected credit loss associated with its debt instruments carried at amortised cost. For trade receivables the Group applies the simplified approach permitted under AASB 9, which requires expected lifetime losses to be recognised from initial recognition. There were no trade receivables at 30 June 2019, thus nil expected credit losses were recognised.

Property, plant and equipment

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). 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.

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.

Notes to the Consolidated Financial Statements (continued)

1. Significant accounting policies (continued)

Provisions (continued)

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.

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

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

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

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

Employee benefits

Short-term obligations

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

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

Other long-term obligations

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

Notes to the Consolidated Financial Statements (continued)

1. Significant accounting policies (continued)

Goods and Services Tax (GST)

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

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

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

New accounting standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 16 Leases (applicable from 1 July 2019)

Nature of change

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

Impact

The standard will affect primarily the accounting for the Group's operating leases. With respect to the lease of office premises at 167 Eagle Street, Brisbane at reporting date the Group would recognise a Right of Use Asset of \$244,896, provision for amortisation of the Right of Use Asset and amortisation expense of \$31,600, interest expense \$309 and a Future Lease Liability of \$221,959.

Date of adoption

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

Notes to the Consolidated Financial Statements (continued)

2. Expenses

	Consolidated	
	30 Jun 19	30 Jun 18
	\$	\$
Loss before income tax includes the following specific expenses:		
(a) Exploration and evaluation expenditure		
Australia	(7,756,413)	(10,600,082)
United States	-	104,910
Chile	<u>(30,745)</u>	-
	<u>(7,787,158)</u>	<u>(10,495,172)</u>
(b) Employee benefits expense		
Other employee benefits expense	(852,306)	(479,227)
Directors' fees	(216,250)	(137,500)
Share based payments expense	(1,724,144)	-
Defined contribution superannuation expense	<u>(43,827)</u>	<u>(29,532)</u>
	<u>(2,836,527)</u>	<u>(646,259)</u>
(c) Contractor and consultants' costs		
Consulting fees	<u>(284,934)</u>	<u>(275,052)</u>
	<u>(284,934)</u>	<u>(275,052)</u>
(d) Other expenses include the following specific items:		
Auditors remuneration		
- auditing or reviewing the financial reports	(47,432)	(34,112)
- taxation services	(12,700)	(11,011)
Occupancy costs		
- Rental expense relating to operating leases - minimum lease rentals	(74,927)	(41,946)
- Other occupancy costs	(4,876)	-
Depreciation	(98,931)	(39,751)
Other administration and office costs	(517,623)	(263,195)
Foreign exchange losses/gains (net)	<u>(1,315)</u>	<u>(299)</u>
	<u>(757,804)</u>	<u>(390,314)</u>

Notes to the Consolidated Financial Statements (continued)

3. Income tax

	Consolidated	
	30 Jun 19	30 Jun 18
Recognised in the statement of profit and loss and other comprehensive income	\$	\$
Current tax benefit	2,820,045	2,394,861
De-recognition of deferred tax losses	(2,820,045)	(2,394,861)
	-	-
Numerical reconciliation of income tax expense to prima facie tax on accounting profit		
Loss before income tax	(11,450,198)	(10,316,449)
Tax at the Australian tax rate of 30% (2018 30%)	3,435,059	3,094,935
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenses	(97,771)	(558,593)
Share-based payments expensed	(517,243)	50,608
Research and development tax offset received	-	473,414
Prior year tax losses converted to research and development tax offset	-	(1,088,309)
Current year tax losses not recognised	(2,820,045)	(1,972,055)
Income tax expense/(credit)	-	-
Deferred tax assets not recognised		
Deferred tax assets have not been recognised in respect of the following items:		
Accrued expenses	8,970	7,327
Employee benefits	36,370	29,208
Other provisions	618,401	464,100
Exploration expenses deductible over 15 years	1,820	-
Capital costs deductible over 5 years	295,027	120,551
Receivables	(12,297)	(3,590)
Net deferred tax assets/(liabilities)	948,291	617,596
De-recognition of net deferred tax assets through profit or loss	(948,291)	(617,596)
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	948,291	617,596
De-recognition of deferred tax assets through profit or loss	(948,291)	(617,596)
Balance at the end of the year	-	-
Unused tax losses		
Income losses		
Australian income losses	62,133,446	52,742,576
US income losses	12,060,233	12,060,233
	74,193,679	64,802,809
Australian capital losses	3,204,839	3,204,839
Total unused tax losses	77,398,518	68,007,648
Potential tax benefit		
Australian losses @ 30%	18,640,034	15,822,773
US Losses @ 40%	4,824,093	4,824,093
Capital losses @ 30%	961,452	961,452

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 2019.

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

	Consolidated	
	30 Jun 19	30 Jun 18
	\$	\$
Short-term employee benefits	589,353	480,772
Cash bonus	100,000	-
Post-employment benefits	33,979	30,894
Long-term employment benefits	2,844	7,468
Share based payments	803,228	-
	1,529,404	519,134

5. Auditor's remuneration

	Consolidated	
	30 Jun 19	30 Jun 18
Remuneration of the auditor of the parent company for:	\$	\$
Audit services		
- Auditing or reviewing the financial statements	47,432	34,112
Non-audit services		
- Tax compliance services	12,700	11,011
	60,132	45,123

6. Earnings per share

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

	Consolidated	
	30 Jun 19	30 Jun 18
(a) Earnings used in calculating basic and diluted earnings per share:	\$	\$
Loss for the year	(11,450,198)	(10,316,449)
Loss used in the calculation of the basic and dilutive earnings per share	(11,450,198)	(10,316,449)
	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	215,629,875	173,960,333
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	215,629,875	173,960,333

Notes to the Consolidated Financial Statements (continued)

7. Cash and cash equivalents

	Consolidated	
	30 Jun 19	30 Jun 18
	\$	\$
Cash at bank and on hand	2,443,465	4,916,260
Deposits at call	9,100,000	-
Cash at bank and on hand	<u>11,543,465</u>	<u>4,916,260</u>

8. Trade and other receivables

	Consolidated	
	30 Jun 19	30 Jun 18
	\$	\$
Current		
Trade receivables	23,371	72
GST receivable	139,796	71,974
Interest receivable	40,989	11,967
Prepayments	-	49,009
Rental bond	129,937	-
	<u>334,093</u>	<u>133,022</u>
Non-Current	\$	\$
Environmental bonds and deposits	1,210,167	1,198,167
Rental bond	128,978	216,797
	<u>1,339,145</u>	<u>1,414,964</u>
	<u>1,673,238</u>	<u>1,547,986</u>

9. Property, plant and equipment

	Consolidated	
	30 Jun 19	30 Jun 18
	\$	\$
Plant and equipment at cost	287,044	209,484
Accumulated depreciation	(204,616)	(146,818)
	<u>82,428</u>	<u>62,666</u>
Office equipment at cost	158,146	144,454
Accumulated depreciation	(149,371)	(127,944)
	<u>8,775</u>	<u>16,510</u>
	<u>91,203</u>	<u>79,176</u>

Notes to the Consolidated Financial Statements (continued)

9 Property, plant and equipment (continued)

Movements in carrying amounts of property, plant and equipment

	Office equipment	Plant and equipment	Total
	\$	\$	\$
Balance, 1 July 2018	16,510	62,666	79,176
Additions	13,692	97,266	110,958
Disposals	-	-	-
Depreciation	(21,427)	(77,504)	(98,931)
Balance, 30 June 2019	<u>8,775</u>	<u>82,428</u>	<u>91,203</u>
	Office equipment	Plant and equipment	Total
	\$	\$	\$
Balance, 1 July 2017	27,975	89,523	117,498
Additions	1,429	-	1,429
Disposals	-	-	-
Depreciation	(12,894)	(26,857)	(39,751)
Balance, 30 June 2018	<u>16,510</u>	<u>62,666</u>	<u>79,176</u>

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 19	30 Jun 18
	\$	\$
Current		
Trade payables	1,124,333	3,690,987
Other payables	131,838	58,469
Employee benefits	<u>106,148</u>	<u>88,299</u>
	<u>1,362,319</u>	<u>3,837,755</u>
Non-Current		
Employee benefits	15,082	9,060
Security bond - sub-lease	<u>54,000</u>	<u>54,000</u>
	<u>69,082</u>	<u>63,060</u>
	<u>1,431,401</u>	<u>3,900,815</u>

Notes to the Consolidated Financial Statements (continued)

11. Provisions

	Consolidated	
	30 Jun 19	30 Jun 18
Current	\$	\$
Restoration & rehabilitation	759,104	-
Obligations under sub-lease	<u>21,809</u>	<u>38,307</u>
	780,913	38,307
Non-current		
Restoration & rehabilitation	1,280,423	1,547,000
Obligations under sub-lease	-	14,178
Lease incentive	<u>52,325</u>	<u>-</u>
	1,332,748	1,561,178
	2,113,661	1,599,485

The amount of restoration and rehabilitation represents the obligation to restore land disturbed during exploration and evaluation activities to the conditions specified in the legislation.

	Consolidated	
	30 Jun 19	30 Jun 18
Movements in carrying amounts of restoration and rehabilitation provision	\$	\$
Balance at the beginning of the year	1,547,000	1,147,000
Increase/(reduction) in amount provided	<u>492,527</u>	<u>400,000</u>
Balance at the end of year	2,039,527	1,547,000

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

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

	Consolidated	
	30 Jun 19	30 Jun 18
Movements in carrying amounts of obligations under sub-lease provision	\$	\$
Balance at the beginning of the year	52,485	85,490
Initial recognition of obligations under sub-lease	-	-
Reduction of rental obligations under sub-lease	<u>(36,271)</u>	<u>(39,983)</u>
Finance charges on unwinding of obligation	5,595	6,978
Balance at the end of year	21,809	52,485

Notes to the Consolidated Financial Statements (continued)

12. Issued capital

	Consolidated			
	30 Jun 19		30 Jun 18	
Ordinary shares	\$		\$	
Ordinary shares - fully paid	85,852,943		67,153,440	
Transaction costs relating to share issues (net of tax)	(2,060,517)		(1,806,725)	
	83,792,426		65,346,715	

	30 Jun 19		30 Jun 18	
	Number of Shares		\$	
Balance at the beginning of the year	189,707,690	152,140,466	65,346,715	60,227,574
Share placement @ 40 cents	14,155,000	-	5,662,000	-
Share placement @ 60 cents	21,666,671	-	13,000,003	-
Options exercised @ 25 cents	150,000	-	37,500	-
Share placement @ 15 cents	-	20,321,070	-	3,048,161
Share rights issue @ 15 cents	-	17,246,154	-	2,586,923
Share issue costs	-	-	(253,792)	(515,943)
Balance at the end of the year	225,679,361	189,707,690	83,792,426	65,346,715

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 19	30 Jun 18
	\$	
Share based payments	1,982,112	257,968
Foreign currency translation	(47,806)	(47,871)
Non-controlling interest elimination reserve	(7,656,400)	(7,656,400)
	(5,722,094)	(7,446,303)

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.

	Non-controlling interest elimination	Foreign currency translation	Share based payments	Total
	\$	\$	\$	\$
Movements in reserves - 2019				
Balance at the beginning of the year	(7,656,400)	(47,871)	257,968	(7,446,303)
Grant of performance rights	-	-	1,724,144	1,724,144
Foreign currency translation	-	65	-	65
Balance at the end of year	<u>(7,656,400)</u>	<u>(47,806)</u>	<u>1,982,112</u>	<u>(5,722,094)</u>
Movements in reserves - 2018				
Balance at the beginning of the year	(7,656,400)	(48,162)	243,868	(7,460,694)
Grant of performance rights	-	-	14,100	14,100
Foreign currency translation	-	291	-	291
Balance at the end of year	<u>(7,656,400)</u>	<u>(47,871)</u>	<u>257,968</u>	<u>(7,446,303)</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	3%	Working interest reduced to 3% after payback.
Galilee Energy Kansas LLC	<ul style="list-style-type: none"> • Key Terms Agreement • Joint Venture Agreement Joint Operating Agreement	25% 50% 75%	Interest earned after: 3D seismic Well 1 to Casing point Well 2 to casing point

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

Notes to the Consolidated Financial Statements (continued)

15. Subsidiaries

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

Name of entity	Country of Incorporation	Class of equity	Equity Holding	
			2019	2018
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 Surat Pty Ltd	Australia	Ordinary	100%	100%
Galilee Energy US LLC	United States	Ordinary	100%	100%
Galilee Energy Texas LLC	United States	Ordinary	100%	100%
Galilee Energy Kansas LLC	United States	Ordinary	100%	100%
Galilee Energy Illinois LLC	United States	Ordinary	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 is as follows:

	Consolidated	
	30 Jun 19	30 Jun 18
Statement of comprehensive income	\$	\$
Share-based payments expense included in employee benefits expense	1,724,144	-
Movements in share-based payments reserve		
Balance at the beginning of the period	257,968	243,868
Share-based payments included in employee benefits expense	1,724,144	-
Share-based payments included in share issue costs	-	14,100
Balance at the end of the period	1,982,112	257,968

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

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.

No share options were granted to employees and contractors as part of their remuneration. During the year 35,821,667 share options were issued to investors who participated in the two share placements. The terms and conditions of the options issued during the year are as follows:

No. of Options Granted	Grant Date	Fair Value (cents)	Exercise Price (cents)	Expiry Date	Vesting Date	No. of Options Exercisable
14,155,000	10-Jul-18	0.0	50.0	18-Nov-19	10-Jul-18	14,155,000
21,666,667	11-Dec-18	0.0	75.0	5-Dec-19	11-Dec-18	21,666,667

Notes to the Consolidated Financial Statements (continued)

16. Share based payments (continued)

Share options (continued)

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

Grant date	Expiry date	Opening balance	Granted during the period	Exercised during the period	Expired during the period	Closing balance	% Vested & Exercisable
18-Nov-16	18-Nov-19	7,600,000	-	-	-	7,600,000	100%
01-Dec-17	31-Dec-19	2,500,000	-	(150,000)	-	2,350,000	100%
10-Jul-18	18-Nov-18	-	14,155,000	-	-	14,155,000	100%
11-Dec-18	05-Dec-19	-	21,666,667	-	-	21,666,667	100%
		10,100,000	35,821,667	(150,000)	-	45,771,667	

The fair value of options issued during the 2019 year is nil. The amount assessed as fair value at grant date of options issued to directors and employees is allocated equally over the period from grant date to vesting date.

During the prior year share issue costs incurred with respect to the share placement and rights issue completed during December 2017 included a bonus payment to Gleneagles for its assistance with the capital raising. The bonus fee 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 fair value of the options issued to Gleneagles was determined as follows:

Options Issued	2,500,000
Capital raising \$	5,635,091
Gross fee %	7.25%
Gross fee \$	408,544
Cash fee paid \$	394,456
Value of options issued \$	14,088
Fair value per option	0.6 cents
Exercise price	25.0 cents

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

Input Variables	Input
Options granted	7,600,000
Grant date	18-Nov-16
Vesting date	18-Nov-16
Exercise period	3 years
Expected exercise date	31-Oct-17
Expected life	0.95 years
Exercise price	12.5 cents
Risk free rate	1.75%
Expected annual volatility	80.00%
Annual rate of dividends	0%
Value per option	2.9 cents

Notes to the Consolidated Financial Statements (continued)

16. Share based payments (continued)

Employee Performance Share Rights

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

The object of the plans is to:

- 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 performance targets.

During the year, the following performance rights were granted to directors and employees as part of their remuneration.

Grant Date	Expiry Date	Assumed Vesting Date	Share Price at Grant Date (cents)	Granted during the year
30-Nov-18	30-Nov-20	31-Dec-19	61.00	4,700,000
19-Dec-18	30-Nov-20	31-Dec-19	54.00	3,750,000
20-Dec-18	30-Nov-20	31-Dec-19	59.00	1,000,000
				9,450,000

Input Variables	Input
Performance rights granted	9,450,000
Grant date	30 Nov 18, 19 Dec 18, 20 Dec 18
Assumed vesting date	31 Dec 19
Exercise period	2 years
Expected exercise date	30 Nov 20
Expected life	2 years
Exercise price	nil
Expected % of performance rights to vest	60%
Risk free rate	1.75%
Expected annual volatility	80.00%
Annual rate of dividends	0%
Value per option	61 cents, 54 cents, 59 cents

Subject to the employee or director remaining in the employment of the Company, the performance rights granted during the year will vest when at least 500PJ of 2P reserves are booked on or before 30 November 2020.

The 2019 exploration program included three additional lateral wells which were drilled successfully and in August 2019 all five wells at the Glenaras Pilot were brought online with the de-watering process underway. An externally certified reserves booking will be possible following the commencement of commercial gas flow rates. The progress of gas flow rates from these wells will be known over future months. The potential exists for a reserves booking by the end of December 2019 and as such there exists the potential for an exercise date for the performance rights of 31 December 2019.

Notes to the Consolidated Financial Statements (continued)

16. Share based payments (continued)

Employee Performance Share Rights (continued)

The following table shows the movement in the number of performance rights granted in the current and prior periods and the balance at 30 June 2019.

Grant date	Expiry date	Opening balance	Granted during the period	Exercised during the period	Expired during the period	Closing balance
30-Nov-18	30-Nov-20	-	4,700,000	-	-	4,700,000
19-Dec-18	30-Nov-20	-	3,750,000	-	-	3,750,000
20-Dec-18	30-Nov-20	-	1,000,000	-	-	1,000,000
		-	9,450,000	-	-	9,450,000

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 19	30 Jun 18
	\$	\$
Assets		
Current assets	11,802,015	4,977,308
Non-current assets	1,453,566	1,481,864
Total assets	13,255,581	6,459,172
Liabilities		
Current liabilities	2,143,232	3,811,936
Non-current liabilities	1,349,505	468,178
Total liabilities	3,492,737	4,280,114
Net assets	9,762,844	2,179,058
Shareholders' Equity		
Issued capital	83,792,426	65,346,715
Reserves	1,982,112	257,968
Accumulated losses	(76,011,694)	(63,425,625)
Total shareholders' equity	9,762,844	2,179,058
Loss for the year	(12,586,069)	(10,319,262)
Total comprehensive loss for the year	(12,586,069)	(10,319,262)

The parent company did not have any contingent liabilities at 30 June 2019 (2018: \$Nil). The parent company has not entered into any guarantees in relation to the debts of its subsidiaries (2018: \$Nil).

18. Contractual commitments

The parent company had no contractual commitments for the acquisition of property, plant and equipment at 30 June 2019 (2018: \$Nil). The parent company has not guaranteed the debts of any subsidiary company (2018: \$Nil), other than through its tax sharing and tax funding agreements.

Notes to the Consolidated Financial Statements (continued)

19. Contingent Liabilities

The directors are not aware of any contingent assets or liabilities for the Group (2018: \$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 19	30 Jun 18
	\$	\$
Operating lease commitments		
Minimum lease payments payable as follows:		
not later than 12 months	96,398	155,400
between 12 months and 5 years	156,757	65,804
	253,155	221,204

Bank guarantees

National Australia Bank have provided bank guarantees totalling \$1,432,806 (June 2018: \$1,520,626) as follows:

The bank guarantees are secured by term deposits.

- \$1,173,891 (June 2018: \$1,173,891) to the State of Queensland in respect of the Group's exploration permits and environmental guarantees; and
- \$258,915 (June 2018: \$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 (2018: \$nil). There are no commitments beyond 30 June 2019.

21. Segment Information

Identification of reportable segments

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

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

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

Notes to the Consolidated Financial Statements (continued)

21. Segment Information (continued)

Segment performance

The following table shows the revenue and exploration and evaluation expenditure information regarding the Group's operating segments for 30 June 2019 and 30 June 2018.

	Australia Qld \$	Illinois \$	United States Texas \$	Kansas \$	South America Chile \$	Total \$
30 June 2019						
Segment Result						
Exploration & evaluation costs	(7,756,413)	-	-	-	(30,745)	(7,787,158)
Segment result before tax	(7,756,413)	-	-	-	(30,745)	(7,787,158)

Reconciliation of segment result to Group loss before tax

Interest revenue						313,590
Other income						-
Employee benefits expense						(2,836,527)
Consulting fees						(284,934)
Business development						(97,365)
Administration expenses						(757,804)
Loss before tax						<u>(11,450,198)</u>

30 June 2018

Segment Result

Exploration & evaluation costs	(10,600,082)	-	104,910	-	-	(10,495,172)
Segment result before tax	(10,600,082)	-	104,910	-	-	(10,495,172)

Reconciliation of segment result to Group loss before tax

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

Notes to the Consolidated Financial Statements (continued)

22. Notes to the Statement of Cash Flows

	Consolidated	
	30 Jun 19	30 Jun 18
(a) Reconciliation of cash flow from operations	\$	\$
Loss for the period	(11,450,198)	(10,316,449)
Depreciation	98,931	39,751
Share-based payments	1,724,144	-
Net exchange differences	65	738
Changes in operating assets and liabilities		
Decrease in trade and other receivables	(120,143)	(39,856)
Decrease in trade payables and accruals	(2,493,285)	3,485,117
Decrease/(Increase) in prepayments and deposits paid	49,009	(5,098)
(Decrease)/Increase in provisions	538,047	403,597
	(11,653,430)	(6,432,200)

23. Events occurring after balance date

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

24. Related party transactions

Parent entity

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

Subsidiaries

Interests in subsidiaries are set out in note 15.

Key management personnel

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

Terms and conditions

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

Transactions with controlled entities

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

- Loans advanced to subsidiaries; and
- Investments in subsidiaries

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

Notes to the Consolidated Financial Statements (continued)

25. Financial risk management

Overview

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

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

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

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

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

	Consolidated	
	30 Jun 19	30 Jun 18
	\$	\$
Financial Assets		
Cash and cash equivalents	11,543,465	4,916,260
	11,543,465	4,916,260
Financial Liabilities		
Trade and other payables	1,256,171	3,749,456
	1,256,171	3,749,456

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 2018.

Interest rate sensitivity	Profit or Loss		Equity	
	2% increase	2% decrease	2% increase	2% decrease
2019 - Consolidated	\$	\$	\$	\$
Cash and cash equivalents and restricted cash	230,869	(230,869)	230,869	(230,869)
2018 - Consolidated				
Cash and cash equivalents and restricted cash	98,325	(98,325)	98,325	(98,325)

Credit risk

The Group is exposed to significant credit risk through its cash and cash equivalents. At 30 June 2019, the Group had \$2.433 million excluding term deposits (2018: \$4.916 million) in accounts with the National Australia Bank.

Liquidity risk

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

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

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

Liquidity risk	<1 year	>3 years	Total	Carrying
			Contractual Cash Flows	Amount
Consolidated - 30 June 2019	\$	\$	\$	\$
Trade and other payables	1,256,171	54,000	1,310,171	1,310,171
Consolidated - 30 June 2018				
Trade and other payables	3,749,456	54,000	3,803,456	3,803,456

Notes to the Consolidated Financial Statements (continued)

25 Financial risk management (continued)

Foreign exchange risk

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

	2019	2018
	USD	USD
Financial Liabilities		
Trade and other payables	-	1,212

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 2019, 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				
2019	\$	\$	\$	\$
US dollar	-	-	-	-
2018				
US dollar	121	(121)	121	(121)

Fair value estimation

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

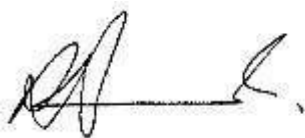
Directors' declaration

The directors of the Company declare that:

1. The financial statements, comprising the consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity and accompanying notes are in accordance with the Corporations Act 2001 and:
 - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (b) Give a true and fair view of the consolidated entity's financial position as at 30 June 2019 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.



Ray Shorrocks
Chairman

Brisbane, 12 September 2019

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 2019, 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 2019 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 the 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 considered 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 to determine whether there is consistency with management's intention and stated business and operational objectives. Checking the mathematical accuracy of the cash flow forecasts. Performing sensitivity analysis, on the cash flow forecast provided to determine if the Group has sufficient funds to continue as a going concern for the next 12 months.

Other information

The directors are responsible for the other information. The other information comprises the information contained in directors' report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the annual report, which is expected to be made available to us after that date.

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

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

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

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



Responsibilities of the directors for the Financial Report

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

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

Auditor's responsibilities for the audit of the Financial Report

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

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

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

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 5 to 10 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Galilee Energy Limited, for the year ended 30 June 2019, 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

T J Kendall

Director

Brisbane, 12 September 2019