2012 interim financial report

for the half-year ended 31 December 2011

Galilee Energy Limited
ABN 11 064 957 419
and controlled entities

Contents

Directors report

In accordance with a resolution of the Board, the directors present their report on the consolidated entity ("Galilee" or "Company") consisting of Galilee Energy Limited and the entities it controlled at the end of or during the half-year ended 31 December 2011. The financial statements have been reviewed and approved by the directors based on the recommendation of the Audit Committee.

Directors

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

Steven J Koroknay

(Chairman since 21 June 2010)

Director since 2008

Rino Camarri

Director since 2010

L Cam Rathie AM

Director since 2010

Review of operations

Strategy

The company continues to pursue it's strategy to develop the Galilee Gas Project into a commercial gas field and to grow the company through hydrocarbon development opportunities.

Results from operations

The loss from continuing operations after tax for the half-year is $ 4,546,499 (2010: loss of $1,065,335: an increase $ 3.475 million. This was largely due to the continued exploration program in ATP 529P. The September and December Quarterly Reports provide details of the activities during the period.

Coal Seam Gas - Australia

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

ATP 529P is held in a 50/50 joint venture with AGL Energy Limited (AGL) under which AGL is the operator. ATP 799P is wholly owned and operated by Galilee.

ATP 529P (Galilee 50%, AGL 50% and operator)

ATP 529P (75 blocks) is located approximately 80 km northwest of the Barcaldine gas fired power station.

AGL farm-in

In July 2007 Galilee successfully completed a drilling and testing program at Rodney Creek-8. Subsequent to this, in July 2008, the company signed a farm-in agreement with AGL. AGL committed to spend $37 million over 2 years to undertake an exploration and development program.

The first stage of the AGL program in ATP 529P was the Glenaras five spot production pilot and the construction of a 12 hectare fully lined dam compliant with EPA specifications. The wells were drilled and completed employing various techniques of fraccing and under-reaming. Pumps were installed and early stages of dewatering commenced in December 2009. During the course of 2010 operations in the Galilee Basin were severely impacted by bad weather that restricted access for supply vehicles and maintenance equipment, and significantly interrupted the dewatering program. Dewatering operations have recommenced with encouraging early signs. Stage 2 of the AGL farm-in comprised 540 km of 2D seismic acquisition and a seven core hole exploration program. The seismic program was completed in late 2009. The first two of the core holes, Muttaburra-1 and Vera Park-1, were drilled in late 2009. Crossmore South-1, Laugharne Creek-1, Mt Myth-1 and Acacia-1 were drilled during 2010. The final hole, Stockholm-1 was spudded in August 2010 however coring operations were interrupted by access issues from wet weather conditions. The rig was released and the well remains suspended. Cores were obtained from the first six holes and despatched for analysis. The wells were then plugged and abandoned as planned.

In October 2011 the first gas discovery for the Galilee Gas Project was announced. Glenaras 6, part of the Glenaras close-spaced five-spot production pilot, started to flow at a steady rate of approximately 54 Mscf per day for a period of four days before the well was temporarily shut down for maintenance. The geological significance of this gas flow is that it constitutes the first measurement of a stabilised gas flow from a coal seam gas pilot in the Galilee Basin.

The $37 million spend by AGL to earn its 50% interest in the ATP 529P tenement is complete. AGL and Galilee are now joint venture partners (50/50) – AGL is the operator.

Joint venture

Galilee and AGL have approved a 2012 work program and budget of $20 million ($10 million each). The program objective is to complete a maiden reserve estimate by June 2012 and provide enough additional data to allow a second pilot.

The joint venture work program will focus on:

- continuing the current Glenaras 5 spot production pilot through to June 12
- developing and testing a suite of beneficial use for produced water
- developing a second pilot.

ATP 799P (Galilee 100%)

ATP 799P (40 blocks) is adjacent to and immediately north of ATP 529P.

An exploration program of two core holes was undertaken late 2009/early 2010. Preliminary results from the program have confirmed that the coals present in the Rodney Creek region extend across the exploration area into ATP 799P. Analysis of data from the two core holes drilled has confirmed gas composition and gas content levels. The results are consistent with typical results reported across the basin.

A $6 million four-year work program was submitted in February 2010. Activities for 2012 will be based on the intellectual property gained from exploration and analysis conducted in ATP 529P.

Corporate

No matters or circumstances have arisen since 31 December 2011 that have significantly affected, or may significantly affect the Group's operations in future financial years the results of those operations or the state of affairs in future financial years.

Auditor's independence declaration

The auditor's independence declaration is included on Page 6 of the interim financial report for the half-year.

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

On behalf of the Directors

Steven J Koroknay
Chairman

Brisbane
20 February 2012

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DECLARATION OF INDEPENDENCE BY CRAIG JENKINS TO THE DIRECTORS OF GALILEE ENERGY LIMITED

As lead auditor for the review of Galilee Energy Limited for the half-year ended 31 December 2011, I declare that to the best of my knowledge and belief, there have been:

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

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

C R JENKINS
Director
BDO Audit (QLD) Pty Ltd

Brisbane, 20 February 2012

Galilee Energy Limited

Consolidated Statement of Comprehensive Income
for the half-year ended 31 December 2011

	Note	Consolidated 31 Dec 11 $	31 Dec 10 $
Continuing operations			
Revenue	2	**1,209,401**	378,930
Exploration and evaluation expenses			
Proportionate share of exploration and evaluation expenditure in joint venture	3	**(4,400,518)**	-
Consulting fees		**(41,481)**	(52,945)
Contractors		**-**	(12,278)
Depreciation and amortisation		**(568)**	(15,408)
Other		**(53,562)**	(12,344)
		(4,496,129)	(92,975)
Administration expenses			
Employee benefits expense		**(430,448)**	(354,092)
Directors' remuneration		**(87,501)**	(286,677)
Consulting fees		**(457,907)**	(357,329)
Administration expenses		**(283,915)**	(448,282)
		(1,259,771)	(1,446,380)
Total expenses		**(5,755,900)**	(1,539,355)
Profit/(Loss) before income tax		**(4,546,499)**	(1,160,425)
Income tax benefit/(expense)		**-**	95,090
Profit/(loss) from continuing operations after tax		**(4,546,499)**	(1,065,335)
Discontinued operations			
Profit from discontinued operations after tax	5	**-**	770,936
Profit/(loss) for the period		**(4,546,499)**	(294,399)
Other comprehensive income			
Currency translation differences for the period, net of tax		**-**	(721,227)
Total comprehensive income/(loss) for the period		**(4,546,499)**	(1,015,626)
Earnings/(loss) per share from continuing operations			
Basic earnings per share		(0.03)	-
Diluted earnings per share		(0.03)	(0.01)
Earnings/(loss) per share from discontinued operations			
Basic earnings per share		-	0.01
Diluted earnings per share		-	0.01
Earnings/(loss) per share for profit/(loss) for the year			
Basic earnings per share		(0.03)	(0.01)
Diluted earnings per share		(0.03)	(0.01)

The accompanying notes form part of these financial statements.

Galilee Energy Limited

Consolidated Statement of Financial Position
as at 31 December 2011

	Note	Consolidated	
		31 Dec 11	30 Jun 11
		$	$
ASSETS			
Current assets			
Cash and cash equivalents		**35,745,031**	40,227,005
Trade and other receivables	4	**1,074,196**	1,106,318
Total current assets		**36,819,227**	41,333,323
Non-current assets			
Trade and other receivables	4	**701,785**	701,775
Property, plant and equipment		**137,873**	151,795
Total non-current assets		**839,658**	853,570
Total assets		**37,658,885**	42,186,893
LIABILITIES			
Current liabilities			
Trade and other payables		**674,272**	691,149
Total current liabilities		**674,272**	691,149
Non-current liabilities			
Trade and other payables		**19,484**	23,379
Provisions		**405,617**	372,132
Total non-current liabilities		**425,101**	395,511
Total liabilities		**1,099,373**	1,086,660
Net assets		**36,559,512**	41,100,233
EQUITY			
Issued capital	6	**60,227,574**	60,227,574
Reserves		**(6,741,487)**	(6,747,265)
Accumulated losses		**(16,926,575)**	(12,380,076)
Total equity		**36,559,512**	41,100,233

The accompanying notes form part of these financial statements.

Galilee Energy Limited

Consolidated Statement of Changes in Equity

for the half-year ended 31 December 2011

	Issued Capital $	Accumulated Losses $	Change in Proportionate Interests Reserve $	Foreign Currency Translation Reserve $	Share-based Payments Reserve $	Total $
Balance at 1 July 2011	60,227,574	(12,380,076)	(7,656,400)	-	909,135	41,100,233
Profit/(Loss) from continuing operations for the period	-	(4,546,499)	-	-	-	(4,546,499)
Profit/(Loss) from discontinued operations for the period	-	-	-	-	-	-
Other comprehensive income/(loss), net of income tax	-	-	-	-	-	-
Total comprehensive income/(loss)	-	(4,546,499)	-	-	-	(4,546,499)
Shares issue costs during the period	-					-
Share-based payments expense					5,778	5,778
Balance at 31 December 2011	60,227,574	(16,926,575)	(7,656,400)	-	914,913	36,559,512
Balance at 1 July 2010	60,349,304	(33,810,342)	(7,656,400)	(459,975)	618,918	19,041,505
Profit/(Loss) from continuing operations for the period	-	(1,065,335)	-	-	-	(1,065,335)
Profit/(Loss) from discontinued operations for the period	-	770,936	-	-	-	770,936
Other comprehensive income/(loss), net of income tax	-	-	-	(721,227)	-	(721,227)
Total comprehensive income/(loss)	-	(294,399)	-	(721,227)	-	(1,015,626)
Share issue costs	(19,987)	-	-	-	-	(19,987)
Share-based payments expense	-	-	-	-	184,983	184,983
Balance at 31 December 2010	60,329,317	(34,104,741)	(7,656,400)	(1,181,202)	803,901	18,190,875

The accompanying notes form part of these financial statements.

Galilee Energy Limited

Consolidated Statement of Cash Flows
for the half-year ended 31 December 2011

	Note	Consolidated 31 Dec 11 $	31 Dec 10 $
Cash flows from operating activities			
Receipts from customers (including GST)		**-**	12,287,709
Payments to suppliers and employees (including GST)		**(5,704,902)**	(11,395,635)
Other revenue		**4,350**	-
Interest received		**1,218,578**	461,012
Interest paid		**-**	-
Net cash provided by/(used in) operating activities		**(4,481,974)**	1,353,086
Cash flows from investing activities			
Payments for property, plant and equipment		**-**	(711,673)
Payments for intangibles		**-**	18,619
Proceeds from disposal of property, plant and equipment		**-**	775,642
Refunds of/(Payments for) bonds and deposits		**-**	22,081
Net cash provided by investing activities		**-**	104,669
Cash flows from financing activities			
Proceeds from issue of shares		**-**	-
Share issue expenses		**-**	-
Repayments of borrowings		**-**	(1,066,728)
Net cash provided by/(used in) financing activities		**-**	(1,066,728)
Net increase/(decrease) in cash and cash equivalents		**(4,481,974)**	391,027
Cash and cash equivalents at the beginning of the period		**40,227,005**	11,374,507
Effects of exchange rate changes on cash and cash equivalents		**-**	(160,118)
Cash and cash equivalents at the end of the period		**35,745,031**	11,605,416

The accompanying notes form part of these financial statements.

1 Basis of Preparation

These general purpose interim financial statements for the half-year ended 31 December 2011 have been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB134: Interim Financial Reporting.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Galilee Energy Limited and its controlled entities (the Group). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2011, together with any public announcements made during the following half-year.

The same accounting policies and methods of computation that were used in the annual financial statements for the year ended 30 June 2011 have been applied in this interim financial report, except in relation to the matters discussed below.

Cash and cash equivalents: An amount of $60,833 representing environmental bonds has been re-classified as a non-current Trade and other receivables. As a consequence the comparative balances as at 30 June 2011 have been re-classified.

2 Revenue from continuing operations

	2011	2010
	$	**$**
Interest received or receivable	**(1,201,843)**	378,930
Sundry income	**(7,558)**	-
Total revenue from continuing operations	**(1,209,401)**	378,930

3 Significant items

The Group has a 50% interest in a joint venture with AGL Energy Ltd as a result of a farmin arrangement. When the joint venture reaches the appropriate stage, the Group's shares of the assets, liabilities, revenue and expenses of jointly controlled operations will be included in the appropriate line items of the consolidated financial statements, until then the Group's contributions to the joint venture are being expensed. The expenses for the reporting period were $4,400,518.

4 Trade and other receivables

	31 Dec 11	30 Jun 11
	$	**$**
CURRENT		
Trade receivables	**8,479**	9,530
Interest receivable	**257,668**	274,403
Other receivables	**800,881**	800,881
Prepayments	**7,168**	21,504
	1,074,196	1,106,318
NON-CURRENT		
Environmental bonds and deposits	**701,785**	701,775

Material uncertainty regarding recoverability of other receivables:

Included in Other Receivables – Current of $1,074,196 (30 June 2011: $1,106,318) is an amount of $800,881 receivable from the purchaser of Eastern Resources Group Limited (ERG). This amount relates to the purchase price adjustment for the sale of the consolidated entity's investment in ERG. This amount is currently disputed by the purchaser and is subject to arbitration, the outcome of which is uncertain. The dispute has arisen as the purchaser included items in the purchase price adjustment that are not identified in the Share Purchase Agreement. The directors are strongly of the view that this amount is recoverable, consequently no adjustment has been made in the financial statements. Should the consolidated entity receive an unfavourable outcome from the arbitration process and/or any subsequent litigation, Other Receivables of $800,881 or some proportion thereof may not be recoverable.

5 Discontinued Operations

The New Zealand coal mining operation was sold in March 2011 and was classified as a discontinued operation in the financial statements to 31 December 2010 and to 30 June 2011. The financial performance was presented in the notes to the accounts for those reporting periods. The financial performance to the reporting date is as follows:

	31 Dec 11	31 Dec 10
	$	$
Revenue	-	12,532,883
Other income	-	2,400,000
	-	14,932,883
Expenses		
Mine operation expenses (excl depreciation and amortisation)	-	8,463,814
Depreciation and amortisation	-	723,716
Finance costs	-	122,063
Expenses of discontinued IPO	-	2,708,273
Other expenses	-	1,824,428
Total expenses	-	13,842,294
Profit before income tax	-	1,090,589
Income tax expense	-	319,653
Profit from discontinued operations after tax	-	770,936
Cash flows from discontinued operations		
Net cash inflow from operating activities	-	2,673,895
Net cash inflow from investing activities	-	(292,461)
Net cash inflow/(outflow) from financing activities	-	(2,991,371)
Net cash increase generated by discontinued operations	-	(609,937)

6 Issued Capital

No shares or options were granted during the period or the comparative period.

The following share rights were issued for zero consideration:

No of rights	Expiry	Vesting condition GLL share price
1,000,000	1/03/13	0.3675
1,000,000	1/03/14	0.4900
1,000,000	1/03/15	0.6125

The rights are subject to a continuous employment condition and expire in whole or in part on the nominated expiry dates. The total value of the share rights granted is $66,974 of which $5,778 has been expensed 31 December 2011.

7 Contingent Liabilities

The Groups contingent assets and liabilities have not changed materially from the financial statements to 30 June 2011.

8 Events After the End of the Interim Period

No events of a significant or material nature have occurred since the end of the interim financial period.

9 Operating Segments

(i) Segment performance

	Exploration & Evaluation (Australia) $	Coal Mining NZ (discontinued) $	Intragroup Eliminations $	Total Group $
Six months ended 31 December 2011				
Revenue from external customers	1,209,401	-	-	1,209,401
Expenses				
Mine operation expenses	-	-	-	-
Exploration and evaluation expenses	(4,496,129)	-	-	(4,496,129)
Administration expenses	(1,259,771)	-	-	(1,259,771)
Total expenses	(5,755,900)	-	-	(5,755,900)
Segment profit/(loss) for the period before tax	(4,546,499)	-	-	(4,546,499)
Income tax expense/(benefit)	-	-	-	-
Profit/(loss) for the period	(4,546,499)	-	-	(4,546,499)
Six months ended 31 December 2010				
Revenue from external customers	693,817	14,932,883	(314,887)	15,311,813
Expenses				
Mine operation expenses	-	(9,109,546)	-	(9,109,546)
Exploration and evaluation expenses	(92,975)	(1,267,270)	-	(1,360,245)
Administration expenses	(1,446,380)	(3,780,365)	314,887	(4,911,858)
Total expenses	(1,539,355)	(14,157,181)	314,887	(15,381,649)
Segment profit/(loss) for the period before tax	(845,538)	775,702	-	(69,836)
Income tax expense/(benefit)	(95,090)	319,653	-	224,563
Profit/(loss) for the period	(750,448)	456,049	-	(294,399)

(ii) Segment assets

	Exploration & Evaluation (Australia) $	Coal Mining NZ (discontinued) $	Intragroup Eliminations $	Total Group $
31 December 2011				
Segment assets	37,658,885	-	-	37,658,885
30 June 2011				
Segment assets	42,186,893	-	-	42,186,893

Directors' declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 8 to 15 are in accordance with the *Corporations Act 2001*, including:

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

(ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the half-year ended on that date; and

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

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

Steven J Koroknay
Chairman

Brisbane
20 February 2012

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Galilee Energy Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Galilee Energy Limited, which comprises the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Galilee Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and

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

Significant Uncertainty Regarding the Recoverability of Other Receivables

Without modification of our conclusion, we draw attention to note 4 describing the uncertainty relating to the recoverability of Other Receivables of $800,881 owed to the consolidated entity. This amount relates to the purchase price adjustment for the sale of the consolidated entity's investment in Eastern Resources Group Limited. This amount is currently disputed by the purchaser and is subject to arbitration, the outcome of which is uncertain at this time. The dispute between the vendor (ie. consolidated entity) and purchaser has arisen as Eastern Resources Group Limited has incurred a tax liability prior to completion date for the sale, however tax liabilities were not explicitly identified in the Share Purchase Agreement as an item that would impact the purchase price adjustment. The Other Receivable recognised by the consolidated entity has not been adjusted for any potential tax liability incurred by Eastern Resources Group Limited. Should the consolidated entity receive an unfavourable outcome from the arbitration process and/or any subsequent litigation, Other Receivables of $800,881 or some proportion thereof may not be recoverable. No adjustment has been made in the financial statements should Other Receivables of $800,881 or any proportion thereof not be recovered by the consolidated entity.

BDO Audit (QLD) Pty Ltd

BDO

C R JENKINS

Director

Brisbane, 20 February 2012