GALILEE
ENERGY LIMITED

ASX/MEDIA ANNOUNCEMENT 13 September 2012

Galilee releases annual financial report for FY 2012

Galilee Energy Limited (ASX:**GLL**) ("Galilee") today released the company's annual financial report for financial year 2012. The loss for FY 2012 of $6.2 million reflects the expenditure of funds on the ATP 529P joint venture with AGL Energy Limited and work undertaken on ATP 799P whereas the FY 2011 profit resulted from the one-off sale of the company's New Zealand coal business.

During the year the Company, through JV partner and operator AGL Energy, continued the management of the Glenaras Pilot at the Galilee Gas Project (ATP 529P 50%). The first resource estimation for 100% of the Galilee Gas Project showed a Contingent Resource of 259 PJ of 2C covering 450 km2 of 5,929 km2. Since then the project has undergone several gas flow tests and wells have undergone a number of workovers. In May 2012 the Pilot flowed 1,170 mscf of gas. The pilot has been extended to November 2012.

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About Galilee

Galilee Energy Limited (ASX: **GLL**) is an emerging energy company with coal seam gas interests in Australia.

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

The Galilee Gas Project, ATP 529P, is held in a 50/50 joint venture with AGL Energy Limited (AGL, ASX: **AGK**) under which AGL is the operator. ATP 799P is wholly owned and operated by Galilee. In June 2011 the joint venture announced its first Contingent Resource estimate of 259 petajoules (PJ) of 2C and 1,090 PJ of 3C Resources (technically recoverable) from 450km2 of ATP529P, centered on the Glenaras pilot. The pilot is undergoing gas flow testing, having produced 1,170 mscf in May 2012.

Galilee has an experienced board and management with collective track records in growing junior resource companies. It is actively pursuing growth through hydrocarbon development opportunities.

2012 financial report

for the year ended 30 June 2012

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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 2012.

Directors

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

Steven J Koroknay
Non-executive Chairman

L Cam Rathie AM
Non-executive Director

Rino Camarri
Non-executive Director

Principal Activities

During the year the continuing activities of the consolidated entity were the exploration and development of coal seam methane (gas) in the Galilee Basin near Longreach in Queensland. The company also continued to seek growth and expansion through the acquisition of hydrocarbon projects.

Business strategies and prospects

Develop the Galilee Gas Project into a commercial gas field - the current program includes a reserves development campaign and a pilot step-out drilling program. Continue to pursue growth through hydrocarbon development opportunities.

Financial position

Total comprehensive income for the year was ($6,261,081) (2011: $21,890,241) and the loss for the year was $6,261,081 (2011: $21,430,266). The 2011 result was due to the profit on the sale of the company's subsidiary Eastern Resources Group, completed March 2011.

The loss from continuing operations after tax for the year is $6,261,081 (2011: loss of $4,433,521): a decrease $1.710 million. This was largely due to the expenditure on the Galilee gas Project to operate the Glenaras Pilot and complete three core holes on ATP 529P.

Through the financial year the company's activities largely involved the payment of expenses related to the management of the Galilee Gas Project, evaluation of acquisition opportunities and the investment of cash. The activities precipitated the following key changes to the company's financial position - a decrease in cash of $6.487 million, working capital decrease of $6.560 million and a decrease in net assets of $6.120 million, whilst liabilities reduced by $0.390 million.

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.

Review of operations

During the year the Company, through JV partner and operator AGL Energy, continued the management of the Glenaras Pilot at the Galilee Gas Project (ATP 529P 50%). The first resource estimation for 100% of the Galilee Gas Project showed a Contingent Resource of 259 PJ of 2C covering 450 km^2 of 5,929 km^2. Since then the project has undergone several gas flow tests and wells have undergone a number of workovers. In May 2012 the Pilot flowed 1,170 mscf of gas. The pilot has been extended to November 2012.

After a geology and geophysical study of ATP 799P the board approved a plan to drill one exploration well, from the five proposed well locations, acquire 100km of 2D seismic and complete associated geological and geophysical studies in 2012.

Galilee is actively pursuing growth through hydrocarbon development acquisitions. During the year the company evaluated a number of onshore oil and gas opportunities predominantly in Australia. Galilee continues to assess a number of opportunities.

Significant changes in state of affairs

During 2012 there were no significant changes in the companies activities as it chose to focus on the exploration and development of hydrocarbons including coal seam gas and conventional oil and gas.

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 could significantly affect the operations of the Company, the result of those operations or the state of affairs of the Company in future financial years.

Environmental regulation

The Company's operations are governed by environmental regulations under the laws of the Commonwealth of Australia and of the State of Queensland. Operations are conducted in compliance with the *Queensland Petroleum Act* and the *Mineral Resources Act*. Environmental considerations are reviewed with and approved by the Queensland Department of Environment and Resource Management and Environmental Protection Authority. The Company has not reported any material breaches of any of its environmental licence conditions nor has it been notified of any material environmental breaches by any government agency during the year.

Directors and officers insurance

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

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

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

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. The Company was not a party to any such proceedings during the year.

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 2012, and the numbers of meetings attended by each director were:

Name	Meetings of Directors		Meetings of Audit committee	
	A	B	A	B
S Koroknay	13	13		
L Rathie	13	13	4	4
R Camarri	13	13	4	4

A = Number of meetings attended, B = Number of meetings eligible to attend

Information on Directors

Steven J Koroknay

Chairman – Independent Non-executive

Mr Koroknay has more than 30 years experience in the international oil and gas industry, initially with Esso Australia, where he became Technical Manager of their upstream activities in Australia, and later with Bridge Oil Limited where he rose to Executive Director - Resources. Mr Koroknay founded Anzon Energy and Anzon Australia, companies engaged in oil and gas development and production. Mr Koroknay was a non-executive director and chairman of CIM Resources, a coal mining company in the Gloucester Basin, New South Wales. He also consulted to Transfield in respect of their coal seam gas assets in Queensland.

Mr Koroknay has a bachelor's degree in Engineering (Civil Eng) from Sydney University and holds professional memberships bearing the following post-nominal: FAICD, FIEA.

Special responsibilities

Chairman

Interest in shares and options

125,000 shares in Galilee Energy Limited
2,000,000 options over ordinary shares in Galilee Energy Limited

Lester Cam Rathie AM

Independent Non-executive Director

Mr Rathie has extensive experience in operational aspects of oil, gas and coal seam gas. He was previously in management roles with BHP Petroleum following a career in geological and well services. He was Managing Director of Upstream Petroleum and CEO of AGR Asia Pacific. Mr Rathie acted as Operations Manager for Sunshine Gas in its initial conventional gas and CSG exploration in the Surat and Bowen basins, providing the engineering and field teams for these projects. Mr Rathie was awarded the Order of Australia Medal in the Queen's Birthday Honours List 2010 for services to the oil and gas industry.

Special responsibilities

Member - audit committee

Interest in shares and options

100,000 shares in Galilee Energy Limited
2,000,000 options over ordinary shares in Galilee Energy Limited

Rino Camarri

Independent Non-executive Director

Mr Camarri was previously Non-executive Chairman of Galilee Resources Limited. Mr Camarri has extensive experience in banking, funds management and general finance, with specialised banking experience concentrated on commercial business and property portfolio management. Mr Camarri is currently Financial Controller of Ekco Investments Pty Ltd.

Special responsibilities

Chairman – audit committee

Interest in shares and options

235,536 shares in Galilee Energy Limited

Bill Lyne

Joint Company Secretary

Mr Lyne is the principal of Australian Company Secretary Service, providing company secretarial, compliance and governance services to companies. He is secretary of a number of other public companies in Australia and overseas, including some involved in mining exploration and production.

Mr Lyne has a bachelor's degree in commerce (Econ) from the University of New South Wales and holds professional memberships bearing the following post-nominal: CA, FCIS, FAICD, FFIN.

Simon Brodie

Joint Company Secretary

Simon Brodie has over 22 years experience with a strong resources focus including as CFO and company secretary for several listed gold and base metals producers including roles as a Director of Bellamel Mining Limited and Iberian Resources Limited. Simon has experience in growing listed juniors into production and has led several successful takeovers.

Mr Brodie has a bachelor's degree in accounting from the Queensland University of Technology and holds professional memberships bearing the following post-nominal: CPA, ACIS, ACSA, ICD.

Other directorships in listed companies - current

Name	*Company*	*Commenced*
Steven J Koroknay	Cue Energy Limited	09/10/09
Steven J Koroknay	Metgasco Limited	19/01/10

Other directorships in listed companies – past three years

Name	*Company*	*Period*
Steven J Koroknay	Innamincka Petroleum Limited	15/05/08 – 24/06/2011

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

A Principles used to determine the nature and amount of remuneration

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.

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

Alignment to shareholders' interests:

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

Alignment to program participants' interests:

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

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. At the company's Annual General Meeting (AGM) on 25/11/2008 it was resolved that qualifying non-executive directors be granted directors' share options as part of their remuneration package. Further options were approved for non-executive directors at the AGM of 27/11/2009. Details of the options are disclosed in the section providing information on directors.

Directors' fees

The current base remuneration was last reviewed on 17th May 2010 with effect from 1 July 2010. The chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration.

Remuneration consultants

The company did not engage remuneration consultants during the year.

Remuneration Report (audited) (continued)

Executive pay

The executive remuneration and reward framework has the following components:

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

The combination of these comprises the executive's total remuneration. The Company reviewed its long-term equity-linked performance incentives for executives during the year and issued three million performance rights as disclosed in the section providing information on executives.

A Principles used to determine the nature and amount of 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.

There are no guaranteed base pay increases included in any senior executives' contracts.

Share-based payments

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

Superannuation and long service leave

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

Relationship between remuneration and company performance

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

Given that remuneration must be commercially reasonable to attract the right calibre of directors and executives, there can be no direct link between remuneration, company performance and shareholder wealth at the company's current stage of development. The company issues options to provide an incentive for directors and key management personnel to align their interests with the medium to long term interests of shareholders.

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 2012:

Item	Unit	2012	2011	2010	2009	2008
Revenue – continuing operations	$'000s	2,237	1,022	265	20,570	6,157
Net profit/(loss) before tax - continuing operations	$'000s	(6,261)	(4,571)	(8,379)	(1,909)	(5,421)
Net profit(loss) after tax	$'000s	(6,261)	21,430	1,598	(2,447)	(4,313)
Basic earnings/(loss) per share	cents	(4.1)	14.1	1.5	(3.3)	1.5
Last traded share price	cents	13.5	19.0	17.5	29.5	26.6

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 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.

The key management personnel of Galilee Energy Limited and of the Group includes the directors of the company as listed above and Glenn Haworth, Chief Executive Officer and Simon Brodie, Chief Financial Officer.

B Details of remuneration (continued)

Name	Short-term benefits: Salary and fees $	Short-term benefits: Non-cash benefits $	Termination payments $	Post-employment benefits: Super-annuation $	Post-employment benefits: Retirement benefits $	Share-based Payments equity settled Options $	Total $	% paid as options %
2012								
Non-executive directors								
S J Koroknay	66,667	-	-	8,333	-	-	75,000	-
R Camarri	50,000	-	-	-	-	-	50,000	-
L C Rathie	136,944	-	-	5,556	-	-	142,500	-
Other key management personnel								
G Haworth	389,705	-	-	15,775	-	13,867	419,347	3.3%
S Brodie	268,390	-	-	15,775	-	9,245	293,411	3.2%
Totals	911,706	-	-	45,439	-	23,112	980,257	

Name	Short-term benefits: Salary and fees $	Short-term benefits: Non-cash benefits $	Termination payments $	Post-employment benefits: Super-annuation $	Post-employment benefits: Retirement benefits $	Share-based Payments equity settled Options $	Total $	% paid as options %
2011								
Non-executive directors								
S J Koroknay	68,807	-	-	6,193	-	145,109	220,109	65.9%
R Camarri	50,000	-	-	-	-	-	50,000	-
L C Rathie	103,622	-	-	4,128	-	145,108	252,858	57.4%
C G Smith (resigned 13/11/10)	49,729	-	-	3,558	-	-	53,287	-
Other key management personnel								
G Haworth	356,491	-	-	15,200	-	-	371,691	-
S Brodie (appointed 17/1/11)	118,443	-	-	7,598	-	-	126,041	-
S Aarons (retrenched 31/5/11)	157,481	-	172,587	13,088	-	-	343,156	-
Totals	**904,573**	**-**	**172,587**	**49,765**	**-**	**290,217**	**1,417,143**	

Options issued to directors

No options were issued to directors in 2012.

Grant Date	Grant number	Exercise Price	Expiry date	Vesting date	Number vested at 30 Jun 11	Value per option at grant date	Total value	% paid as options
Director		$					$	%
2010								
S J Koroknay								
27 Nov 09	1,000,000	$0.80	3 Dec 12	3 Dec 10	1,000,000	$0.1126	112,600	33.1%
27 Nov 09	1,000,000	$0.87	3 Dec 12	3 Dec 11	-	$0.1148	114,800	16.9%
L C Rathie								
27 Nov 09	1,000,000	$0.80	3 Dec 12	3 Dec 10	1,000,000	$0.1126	112,600	22.9%
27 Nov 09	1,000,000	$0.87	3 Dec 12	3 Dec 11	-	$0.1148	114,800	11.7%

There are no specific performance conditions to be met for the granting and vesting of options.
No amounts are paid or payable on the granting of options.
Number of options vested during the year: 2,000,000 (2010:42,000,000).
Options exercisable at 30 June 2012: 4,000,000 (2011 6,000,000).
Options can be exercised at any time between vesting and expiry.

Remuneration Report (audited) (continued)

C Service agreements

Remuneration and other terms of employment for key management personnel are set out below.

Directors

Each of the directors is appointed to an open-ended agreement commencing on the date of appointment. Key terms of the agreements are:

- Directors fees inclusive of superannuation are $50,000 p.a, and $75,000 p.a. for the Chairman
- Entitled to invoice the company for consultancy work outside the scope of director's duties
- The required notice period on termination is one month by either party
- There are no termination benefits.

Glenn Haworth, Chief Executive Officer

Term of agreement – three years commencing 1 September 2010

- Base salary of $408,095 including superannuation
- Salary rate is reviewed annually in line with a performance review
- The required notice period on termination is three months by either party
- There are no termination benefits.

Simon Brodie, Chief Financial Officer

Term of agreement – open-ended agreement commencing 17 January 2011

- Base salary of $286,000 including superannuation.
- Salary rate is reviewed annually in line with a performance review
- The required notice period on termination is three months by either party
- The agreement provides for nine months payment for termination under certain conditions.

D Share based compensation

Directors share options

No options were granted as remuneration during the year. The options granted in the period ended 30 June 2009 remained outstanding as at 30 June 2012. There were no options exercised, forfeited or lapsed during the year that were granted as remuneration in prior periods.

Performance rights were issued to executives of the company – details are set out in the table below. There are no service or specific performance measures associated with the rights.

The Board's current policy does not allow directors and executives to limit their risk exposure in relation to equities or options without the approval of the Board.

At the date of this report the following options and performance rights were outstanding:

Number	Issue date	Expiry date	Exercise price
Options			
1,000,000	27/11/2009	4/12/2012	$0.24
2,000,000	27/11/2009	4/12/2012	$0.80
2,000,000	27/11/2009	4/12/2012	$0.87
Performance rights			
1,000,000	24/10/2011	1/03/2013	Nil: Vests on share price of 36.75 cents
1,000,000	24/10/2011	1/03/2014	Nil: Vests on share price of 49.00 cents
1,000,000	24/10/2011	1/03/2015	Nil: Vests on share price of 61.25 cents

During the year the following performance rights were issued to executives included in KMP:

Number	Grant date	Expiry date	Vesting date	Total value
Glenn Haworth				
600,000	25/10/2011	1/03/2013	1/03/2013	16,200
600,000	25/10/2011	1/03/2014	1/03/2014	13,200
600,000	25/10/2011	1/03/2015	1/03/2015	10,800
Simon Brodie				
400,000	25/10/2011	1/03/2013	1/03/2013	10,800
400,000	25/10/2011	1/03/2014	1/03/2014	8,800
400,000	25/10/2011	1/03/2015	1/03/2015	7,200

All performance rights were issued for nil consideration, have an exercise price of nil and at 30 June 2012 no rights had vested. Value per option at grant date were - first tranche $0.027, second tranche $0.022 and third tranche $0.018.

End of audited remuneration report

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 and/or 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 services provided by the auditor of the parent company, its related practices and non-related audit firms.

Auditor’s independence declaration

The auditor’s independence declaration is included on Page 11 of the financial report for the year.

Signed in accordance with a resolution made pursuant to s298(2) of the *Corporations Act 2001*.

On behalf of the Directors

Steven J Koroknay
Chairman

Brisbane
13 September 2012

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DECLARATION OF INDEPENDENCE BY C R JENKINS TO THE DIRECTORS OF GALILEE ENERGY LIMITED

As lead auditor of Galilee Energy Limited for the year ended 30 June 2012, 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 audit; and
- any applicable code of professional conduct in relation to the audit.

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

C R JENKINS

Director

BDO Audit Pty Ltd

Brisbane, 13 September 2012

Consolidated Statement of Comprehensive Income

for the year ended 30 June 2012

	Note	2012 $	2011 $
Continuing operations			
Revenue	2	**2,237,373**	1,022,023
Exploration and evaluation expenses			
Proportionate share of exploration and evaluation expenditure in joint venture	1(h)	**(6,054,894)**	(1,697,464)
Consulting fees		**(78,158)**	(65,858)
Contractors		**-**	(12,278)
Depreciation		**(1,134)**	(20,542)
Other		**(100,006)**	(468,037)
	3	**(6,234,192)**	(2,264,179)
Administration expenses			
Employee benefits expense		**(843,650)**	(1,007,750)
Directors' remuneration		**(175,000)**	(491,161)
Consulting fees		**(686,507)**	(324,579)
Depreciation		**(24,216)**	(33,171)
Finance costs		**-**	(10,551)
General administration expenses		**(534,889)**	(1,461,590)
	3	**(2,264,262)**	(3,328,802)
Profit/(loss) before income tax		**(6,261,081)**	(4,570,958)
Income tax benefit/(expense)	5	**-**	137,437
Profit/(loss) from continuing operations after tax		**(6,261,081)**	(4,433,521)
Discontinued operations			
Profit from discontinued operations after tax	6	**-**	25,863,787
Profit/(loss) for the year		**(6,261,081)**	21,430,266
Other comprehensive income, net of tax			
Currency translation differences	4	**-**	459,975
Total comprehensive income for the year		**(6,261,081)**	21,890,241

	Note	Cents	Cents
Earnings/(loss) per share from continuing operations			
Basic earnings per share	9	**(4.1)**	(2.9)
Diluted earnings per share	9	**(4.1)**	(2.9)
Earnings per share from discontinued operations			
Basic earnings per share	9	**-**	17.0
Diluted earnings per share	9	**-**	17.0
Earnings/(loss) per share for profit/(loss) for the year			
Basic earnings per share	9	**(4.1)**	14.1
Diluted earnings per share	9	**(4.1)**	14.1

The accompanying notes form part of these financial statements.

Consolidated Statement of Financial Position

As at 30 June 2012

	Note	**2012 $**	2011 $
ASSETS			
Current assets			
Cash and cash equivalents	10	**33,801,104**	40,227,005
Trade and other receivables	11	**1,032,710**	1,106,318
Total current assets		**34,833,814**	41,333,323
Non-current assets			
Trade and other receivables	11	**712,510**	701,775
Property, plant and equipment	14	**130,924**	151,795
Total non-current assets		**843,434**	853,570
Total assets		**35,677,248**	42,186,893
LIABILITIES			
Current liabilities			
Trade and other payables	15	**370,350**	691,149
Total current liabilities		**370,350**	691,149
Non-current liabilities			
Trade and other payables	15	**23,831**	23,379
Provisions	16	**420,803**	372,132
Total non-current liabilities		**444,634**	395,511
Total liabilities		**814,984**	1,086,660
Net assets		**34,862,264**	41,100,233
EQUITY			
Issued capital	17	**60,227,574**	60,227,574
Reserves	28	**(6,724,153)**	(6,747,265)
Accumulated losses		**(18,641,157)**	(12,380,076)
Total equity		**34,862,264**	41,100,233

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity
for the year ended 30 June 2012

	Issued Capital	Accumulated Losses	Foreign currency translation reserve	Non-controlling interest elimination 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**
Loss for the year		**(6,261,081)**				**(6,261,081)**
Other comprehensive income			**-**			**-**
Total comprehensive income	**-**	**(6,261,081)**	**-**	**-**	**-**	**(6,261,081)**
Shares issued during the year	**-**					**-**
Share-based payments expense for the year					**23,112**	**23,112**
Balance at 30 June 2012	**60,227,574**	**(18,641,157)**	**-**	**(7,656,400)**	**932,247**	**34,862,264**
Balance at 1 July 2010	60,349,304	(33,810,342)	(459,975)	(7,656,400)	618,918	19,041,505
Profit for the year		21,430,266				21,430,266
Other comprehensive income			459,975			459,975
Total comprehensive income	-	21,430,266	459,975	-	-	21,890,241
Transaction costs (net of tax)	(121,730)					(121,730)
Share-based payments expense for the year					290,217	290,217
Balance at 30 June 2011	60,227,574	(12,380,076)	-	(7,656,400)	909,135	41,100,233

The accompanying notes form part of these financial statements.

Consolidated Statement of Cash Flows
for the year ended 30 June 2012

	Note	**2012** **$**	2011 $
Cash flows from operating activities			
Receipts from customers		**-**	16,872,640
Payments to suppliers and employees		**(8,717,882)**	(16,593,835)
Payments for preparation of prospectus		**-**	(2,825,818)
Other revenue		**(8,013)**	374,610
Interest received		**2,322,230**	774,373
Interest paid		**-**	(410,800)
Net cash outflow from operating activities	23	**(6,403,665)**	(1,808,830)
Cash flows from investing activities			
Net cash inflow from sale of subsidiary company	6	**-**	31,981,760
Payments for property, plant and equipment			(651,166)
Proceeds from disposal of property, plant and equipment	14	**(11,501)**	766,192
(Payments for) bonds and deposits		**(10,735)**	-
Net cash (outflow) inflow from investing activities		**(22,236)**	32,096,786
Cash flows from financing activities			
Proceeds from issue of shares by parent company		**-**	-
Share issue expenses		**-**	-
Repayments of borrowings		**-**	(1,418,186)
Net cash (outflow) inflow from financing activities		**-**	(1,418,186)
Net increase (decrease) in cash and cash equivalents		**(6,425,901)**	28,869,770
Cash and cash equivalents at the beginning of the financial year		**40,227,005**	11,374,507
Effects of exchange rate changes on cash and cash equivalents		**-**	(17,272)
Cash and cash equivalents at the end of the financial year	10	**33,801,104**	40,227,005

Non-cash investing and financing activities	24		

The accompanying notes form part of these financial statements.

Index to Notes

1 Summary of 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. The financial report comprises the consolidated financial statements for Galilee Energy Limited and its subsidiaries ("Group"). The financial report is presented in Australian dollars.

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

Galilee Energy Limited
ABN 11 064 957 419
Level 2, 895 Ann St
Fortitude Valley QLD 4006.

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report, which is not part of this financial report.

The financial statements were authorised for issue by the directors on **30 August 2012**. The Company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the company. All press releases, financial reports and other information are available on our website: www.galilee-energy.com.au.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards (including Australian Accounting Interpretations) of the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001.* The Group is a for-profit entity for financial reporting purposes.

(i) Compliance with IFRS

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial report of Galilee Energy Limited complies with International Financial Reporting Standards

(ii) Historical cost convention

(iii) Critical accounting estimates and judgements

The preparation of financial statements in conformity with Australian Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 1(v).

(b) Principles of consolidation

(i) Subsidiaries

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. A list of controlled entities is contained in Note 13 to the Financial Statements.

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Galilee Energy Limited (''company'' or ''parent company'') as at 30 June 2012 and the results of all subsidiaries for the year then ended. Galilee Energy Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group companies 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.

(ii) Joint ventures – Jointly controlled assets

The proportionate interests in the assets, liabilities and expenses of a joint venture activity have been incorporated in the financial statements under the appropriate headings. Details of the joint venture are set out in note 12.

(c) Foreign currency translation

(i) 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.

(ii) 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.

(iii) Group companies

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

- assets and liabilities for the statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

- income and expenses for the statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, 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.

(d) Revenue recognition

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

(i) Sale of goods

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

(ii) 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.

(iii) Dividends

Dividends are recognised as revenue when the right to receive payment is established.

(e) Income tax

The income tax expense or revenue for the period 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

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.

(e) Income tax (continued)

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

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. Details about the tax funding agreement are disclosed in note 5(g).

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.

(f) 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.

(g) 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 assess the financial assets and liabilities assumed for appropriate classification and designation in accordance with contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date.

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

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

(h) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other 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.

(i) 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 that are 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.

(j) 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.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in profit or loss.

(k) Financial Instruments

Initial recognition and measurement

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

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

Classification and subsequent measurement

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

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

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

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

(i) Financial assets at fair value through profit or loss

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

(ii) Loans and receivables

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

(iii) Held-to-maturity investments

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

(k) Financial Instruments (continued)

(iv) Available-for-sale financial assets

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

(v) Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Derivative instruments

The Group designates certain derivatives as either:

(a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
(b) hedges of highly probable forecast transactions (cash flow hedges).

At the inception of the transaction the relationship between hedging instruments and hedged items, as well as the Group's risk management objective and strategy for undertaking various hedge transactions is documented.

Assessments, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items, are also

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of comprehensive income, together with any changes in the fair value of hedged assets or liabilities that are attributable to the hedged

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss. Amounts accumulated in the hedge reserve in equity are reclassified to profit or loss in the periods when the hedged item will affect profit or loss.

Fair value

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

Impairment

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

Financial guarantees

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

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

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

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

Derecognition

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

(l) Property, plant and equipment

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

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

Mine development expenditure is carried forward in the statement of financial position at cost less accumulated amortisation. It relates to construction within the mine site of roads, railheads, and other developments which will be used in the mining operation in future financial years. Mine development costs are amortised over the estimated useful life of the asset, which in some cases is equivalent to the estimated economic life of the mine. Other mine development expenditure is expensed when 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

Buildings and leasehold improvements	2% - 30%
Motor vehicles	15% - 30%
Mining infrastructure	Units of use
Plant and equipment	4% - 50%
Leased plant and equipment	Units of use

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

(m) Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of the acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Any balance is subject to impairment testing in accordance with the Group's policy per Note 1(i).

(n) Exploration and evaluation expenditure

Exploration and evaluation expenditure is charged against profit or loss in the accounting period in which it is incurred.

(o) 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.

(p) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed as incurred.

(q) 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.

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.

(r) Employee benefits

(i) Employee benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. Those cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

(ii) Retirement benefit obligations

Contributions to defined contribution superannuation plans are expensed when incurred.

(iii) Share-based equity settled benefits

The Group provides benefits to employees in the form of share-based payment transactions, whereby employees render services in exchange for shares or options over shares ("equity-settled transactions").

The fair value of options granted to employees and consultants are recognised as an employee benefit expense with a corresponding increase in equity (share option reserve). The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options. Fair value is determined by an independent valuer using a Black-Scholes option pricing model. In determining fair value, no account is taken of any performance conditions other than those related to the share price of Galilee Energy Ltd ("market conditions"). The cumulative expense recognised between grant date and vesting date is adjusted to reflect the directors' best estimate of the number of options that will ultimately vest because of internal conditions of the options, such as the employees having to remain with the Group until vesting date, or such that employees are required to meet internal sales targets.
No expense is recognised for options that do not ultimately vest because internal conditions were not met. An expense is still recognised for options that do not ultimately vest because a market condition was not met.

Where the terms of options are modified, the expense continues to be recognised from grant date to vesting date as if the terms had never been changed. In addition, at the date of the modification, a further expense is recognised for any increase in fair value of the transaction as a result of the change.

Where options are cancelled, they are treated as if vesting occurred on cancellation and any unrecognised expenses are taken immediately to profit or loss. However, if new options are substituted for the cancelled options and designated as a replacement on grant date, the combined impact of the cancellation and replacement options are treated as if they were a modification.

(s) 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

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.

(t) Earnings per share

(i) 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.

(ii) 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.

(u) 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

(v) Critical accounting estimates and judgements

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 entity and that are believed to be reasonable under the circumstances.

(i) Rehabilitation Provision

Estimates are made for rehabilitation based on the level of disturbance known at each balance date. These estimates are then costed at future rates and discounted back to present value. The level of rehabilitation depends on the requirements of the mining licence for each area of interest.

The rehabilitation provision has been calculated by the JV operator AGL Energy limited. The calculation assumes that rehabilitation will occur in five years time. Costs have been discounted at the appropriate bond rate. The carrying amount of the rehabilitation provision at balance date is $411,003 (2011: $362,332)

(w) Accounting Standards issued not yet effective

The following new or amended accounting standards and interpretations have been issued, but are not mandatory for the financial year ended 30 June 2012. They have not been adopted in preparing the financial statements for the year ended 30 June 2012 and are expected to impact the group in the period of initial application. In all cases the group intends to apply these standards from the application date as indicated in the table below.

AASB 9 - Financial Instruments

This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2015 and completes phase I of the IASB's project to replace IAS 39 (being the international equivalent to AASB 139 'Financial Instruments: Recognition and Measurement'). This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. To be classified and measured at amortised cost, assets must satisfy the business model test for managing the financial assets and have certain contractual cash flow characteristics. All other financial instrument assets are to be classified and measured at fair value. This standard allows an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income, with dividends as a return on these investments being recognised in profit or loss. In addition, those equity instruments measured at fair value through other comprehensive income would no longer have to apply any impairment requirements nor would there be any ‘recycling’ of gains or losses through profit or loss on disposal. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity’s own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. The consolidated entity will adopt this standard from 1 July 2015 but the impact of

AASB 10 Consolidated Financial Statements
This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns (e.g. dividends, remuneration, returns that are not available to other interest holders including losses) from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity. A reporting entity has power when it has rights (e.g. voting rights, potential voting rights, rights to appoint key management, decision making rights, kick out rights) that give it the current ability to direct the activities that significantly affect the investee's returns (e.g. operating policies, capital decisions, appointment of key management). The consolidated entity will not only have to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes. The adoption of this standard from 1 July 2013 may have an impact where the consolidated entity has a holding of less than 50% in an entity, has de facto control, and is not currently consolidating that entity.

AASB 11 Joint Arrangements- Deferred tax: recovery of underlying assets
This standard is applicable to annual reporting periods beginning on or after 1 January 2013. The standard defines which entities qualify as joint ventures and removes the option to account for joint ventures using proportional consolidation. Joint ventures, where the parties to the agreement have the rights to the net assets will use equity accounting. Joint operations, where the parties to the agreements have the rights to the assets and obligations for the liabilities will account for the assets, liabilities, revenues and expenses separately, using proportionate consolidation. The adoption of this standard from 1 July 2013 will not have

(w) Accounting Standards issued not yet effective (continued)

AASB 12 Disclosure of Interests in Other Entities
This standard is applicable to annual reporting periods beginning on or after 1 January 2013. It contains the entire disclosure requirement associated with other entities, being subsidiaries, associates and joint ventures. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation – Special Purpose Entities'. The adoption of this standard from 1 July 2013 will significantly increase the amount of disclosures required to be given by the consolidated entity such as significant judgements and assumptions made in determining whether it has a controlling or non-controlling interest in another entity and the type of non-controlling interest and the nature and risks involved.

AASB 2011-4 - Amendments to Remove individual Key Management Personnel Disclosure Requirement

These amendments are applicable to annual reporting periods beginning on or after 1 July 2013, with early adoption not permitted. They amend AASB 124 'Related Party Disclosures' by removing the disclosure requirements for individual key management personnel ('KMP'). The adoption of these amendments from 1 July 2013 will remove the duplication of information relating to individual KMP in the notes to the financial statements and the directors report. As the aggregate disclosures are still required by AASB 124 and during the transitional period the requirements may be included in the Corporations Act or other legislation, it is expected that the amendments will not have a material impact on the consolidated entity.

AASB 2011-7 - Amendments to Consolidation and Joint Arrangements Standards
The amendments are applicable to annual reporting periods beginning on or after 1 January 2013. The amendments make numerous consequential changes to a range of Australian Accounting Standards and Interpretations, following the issuance of AASB 10, AASB 11, AASB 12 and revised AASB 127 and AASB 128. The adoption of these amendments from 1 July 2013 will not have a material impact on the consolidated entity.

AASB 2011-9 - Amendments to Presentation of Items of Other Comprehensive Income

These amendments are applicable to annual reporting periods beginning on or after 1 July 2012. The amendments requires grouping together of items within other comprehensive income on the basis of whether they will eventually be 'recycled' to the profit or loss (reclassification adjustments). The change provides clarity about the nature of items presented as other comprehensive income and the related tax presentation. The adoption of the revised standard from 1 July 2012 will impact the consolidated entity's presentation of its statement of comprehensive income.

AASB 2011-12 - Amendments arising from Interpretation 20 - Stripping costs in the production Phase of a Surface Mine

This interpretation and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2013 The Interpretation clarifies when production stripping costs should lead to the recognition of an asset and how that asset should be initially and subsequently measured. The Interpretation only deals with waste removal costs that are incurred in surface mining activities during the production phase of the mine. The adoption of the interpretation and the amendments from 1 July 2013 will not have a material impact on the consolidated entity.

2 Revenue from continuing operations

	2012 $	2011 $
Interest received or receivable	**2,225,267**	908,123
Sundry income	**12,106**	113,900
Total revenue from continuing operations	**2,237,373**	1,022,023

3 Expenses of continuing operations

	2012 $	2011 $
Includes the following specific expenses:		
Exploration and evaluation		
Proportionate share of exploration and evaluation expenditure in joint venture (refer note 1(h))	**6,054,894**	1,697,464
Depreciation of plant and equipment	**1,134**	20,542
Administration		
Depreciation		
Buildings and leasehold improvements	**6,049**	8,740
Motor vehicles	**-**	2,116
Plant and equipment	**18,167**	22,315
	24,216	33,171
Net Loss/(Gain) on disposals of property, plant and equipment	**7,021**	2,819
Share based payments expense	**23,112**	290,217
Rental expense relating to operating leases - minimum lease payments	**154,576**	169,656
Defined contribution superannuation expense	**40,091**	48,141

4 Other comprehensive income

	2012 $	2011 $
Reclassification adjustment on disposal of foreign subsidiary (note 6(b))	**-**	574,874
Foreign currency translation adjustment for the year	**-**	(114,899)
Net gain/(loss) on foreign currency translation	**-**	459,975

5 Income tax

		2012 $	2011 $
(a)	**Income tax expense/(benefit)**		
	Current tax	**(1,866,011)**	-
	Adjustments for deferred tax of prior periods	**(5,178)**	3,931
	De-recognition of deferred tax assets	**5,178**	(141,368)
	De-recognition of deferred tax losses	**1,866,011**	
		-	(137,437)
	Deferred income tax expense/(benefit) included in income tax expense/(benefit) comprises:		
	Decrease/(Increase) in deferred tax assets	**(23,911)**	151,732
	Increase/(Decrease) in deferred tax liabilities	**29,089**	(682,018)
	Decrease in deferred tax liabilities due to transfer to discontinued operation	**-**	388,918
		5,178	(141,368)

5 Income tax (continued)

(b) Numerical reconciliation of Income tax expense/(benefit) to prima facie tax payable:

	2012 $	2011 $
Profit/(loss) from continuing operations before income tax	**(6,261,081)**	(4,570,958)
Tax at the Australian tax rate of 30% (2011: 30%)	**(1,878,324)**	(1,371,287)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible expenses	**317**	1,023
Non-deductible depreciation	**-**	2,622
Non-deductible share based payments	**6,934**	87,065
Current year tax losses not recognised	**1,866,011**	987,554
Recognised directly in equity	**(28,143)**	(41,497)
De-recognition of net deferred tax assets	**33,205**	193,152
Adjustments for deferred tax of prior periods	**-**	3,931
Income tax expense/(benefit)	**-**	(137,437)

(c) Deferred tax assets/liabilities

The balance comprises temporary differences attributable to:

	2012 $	2011 $
Amounts recognised in profit or loss		
Accrued expenses	**9,633**	10,467
Employee benefits	**14,813**	11,528
Provision for lease make-good expense	**2,940**	2,940
Lease fitout allowance	**4,677**	7,014
Black hole expenses	**117,011**	112,892
Receivables	**(53,232)**	(82,320)
Provision for rehabilitation	**-**	108,700
Unrealised exchange gains	**(2,443)**	(164,724)
	93,399	6,497
Amounts recognised directly in equity		
Share issue expenses less amortisation	**52,090**	121,730
	145,489	128,227
De-recognition of net deferred tax assets through profit or loss	**(93,399)**	(6,497)
De-recognition of net deferred tax assets from equity	**(52,090)**	(121,730)
Deferred tax assets/(liabilities)	**-**	-

(d) Movements in deferred tax assets/(liabilities)

	2012 $	2011 $
Opening balance at 1 July	**-**	(402,060)
Charged/(credited) to profit or loss - continuing operations	**147,932**	141,369
Charged/(credited) to profit or loss - discontinued operations	**-**	203,074
Deferred tax liability disposed on sale of foreign subsidiary	**-**	185,844
De-recognition of deferred tax assets through profit or loss	**(95,842)**	(6,497)
De-recognition of deferred tax assets from equity	**(52,090)**	(121,730)
Closing balance at 30 June	**-**	-

(e) Franking credits

The Group has no franking credits available (2011: nil).

(f) Tax losses

	2012 $	2011 $
Unused tax losses for which no deferred tax asset has been recognised	35,691,163	29,471,127
Potential tax benefit at 30%	10,707,349	8,841,338

Petroleum Resource Rent Tax:

On 19 March, 2012, the Australian Government passed through the Senate, the Petroleum Resource Rent Tax 2012, with application to certain profits arising from petroleum extracted in Australia. In broad terms, the tax is imposed on a project-by-project basis. This tax applies to upstream mining operations only, and the effective rate of Petroleum Resource Rent Tax is 22.5%.

This tax is considered to be an "income tax" for the purposes of AASB 112.

Certain transition measures are contained in the legislation which can give rise to deductions in future years by adopting fair value, for Petroleum Resource Rent Tax purposes.

5 Income tax (continued)

Petroleum Resource Rent Tax: (Continued)

Affected entities have until 31 December 2013, to exercise an election to adopt fair value as opposed to cost, in determining their future deductions.

The Group is not in the production phase yet and is currently below the taxable threshold. Accordingly, the Group has not yet exercised its election, nor have fair value modelling and valuations been performed. Thus, the Group is not yet able to determine any potential increase in the balance of deferred tax assets that may otherwise arise should the Group elect by 31 December 2013 to adopt the fair value basis in determining future tax deductions.

6 Discontinued operations

(a) Profit from discontinued operations after tax

The group's wholly owned New Zealand coal mining operation, Eastern Resources Group Limited (ERG) was sold on 18th March 2011, and has been classified as a discontinued operation. The financial performance of the discontinued operation to the date of sale was as follows:

	2012 $	2011 $
Revenue		
Coal sales	-	11,384,528
Freight and service revenue	-	6,352,745
Interest and sundry income	-	335,784
	-	18,073,057
Expenses		
Mine operating expenses (excl depreciation and amortisation)	-	11,789,391
Depreciation	-	641,272
Amortisation	-	560,930
Loss on disposal of plant and equipment	-	211,586
Exploration and evaluation expenses	-	1,148,431
Selling and administration expenses	-	3,680,649
Finance costs	-	164,489
	-	18,196,748
Profit from discontinued operation before income tax	-	(123,691)
Income tax (benefit)/expense attributable to discontinued operations	-	(157,312)
Profit/(loss) from discontinued operation after income tax	-	33,621

(b) Gains on sales of discontinued operations

	2012 $	2011 $
Consideration received/receivable:		
Received in cash - sale consideration, net of selling costs (note 6 (f))	-	33,053,130
Receivable in cash - sale consideration (note 11)	-	800,881
Consideration received/receivable	-	33,854,011
Carrying amount of net assets sold	-	7,448,971
Reclassification adjustment on disposal of foreign subsidiary (note 4)	-	574,874
	-	8,023,845
Gains on sales before income tax	-	25,830,166
Income tax expense (note 6 (g))	-	-
Gains on sales after income tax	-	25,830,166

6 Discontinued operations (continued)

(c) Profit from discontinued operations

Profit/(loss) from discontinued operation after income tax	-	33,621
Gain on sale of New Zealand coal mining operation	-	25,830,166
Profit from discontinued operations after tax	-	25,863,787

(d) Cash flows from discontinued operations

Net cash inflow from operating activities	-	791,877
Net cash inflow from investing activities	-	26,968,741
Net cash inflow/(outflow) from financing activities	-	(2,877,829)
Net cash increase generated by discontinued operations	-	24,882,789

(e) Assets and liabilities of the discontinued New Zealand coal mining operation as at 18 March 2011:

Cash and cash equivalents	-	1,071,370
Trade and other receivables	-	4,370,500
Inventory	-	939,141
Overburden in advance	-	605,630
Property, plant and equipment	-	5,544,918
Non-current receivables	-	165,485
Intangible assets	-	2,076,977
Total assets	-	14,774,021
Trade creditors	-	3,267,133
Borrowings	-	2,880,800
Current and deferred tax liabilities	-	208,204
Provisions	-	819,151
Employee benefits	-	149,762
Total liabilities	-	7,325,050
Net assets	-	7,448,971

(f) Consideration received in cash consists of:

	2012 $	2011 $
Consideration received for sale of foreign subdisiary	-	28,486,139
Consideration received in settlement of intercompany loan	-	4,723,123
Selling costs incurred	-	(156,132)
	-	33,053,130
Cash disposed of with subsidiary	-	(1,071,370)
Net cash received (note 6 (b))	-	31,981,760

(g) Gain on sale of discontinued operations

The sale of ERG is largely capital gains tax exempt as ERG qualified as an active foreign business. ERG's active assets represented 87% of all assets and capital gains tax is only payable on 13% of the gain. The Company's existing tax losses offset this gain. As the Group has not recognised carried forward tax losses, no net tax expense has been recognised on the consumption of these tax losses.

7 Interests of Key Management Personnel (KMP)

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 2012.

The totals of remuneration paid to KMP of the Group during the year are as follows:

	2012	2011
	$	$
Short-term employee benefits	**911,706**	904,573
Post-employment benefits	**45,439**	49,766
Share-based equity settled payments	**23,112**	290,217
Termination benefits	**-**	172,587
	980,257	1,417,143

There are no other long-term benefits.

KMP options and rights holdings

The number of options/rights over ordinary shares held by each KMP of the Group during the financial year is as follows:

	Balance at the start of the year	Granted as remuneration	Options / Rights Exercised	Other Changes	Balance at the end of the year	Total vested	Vested and exercisable	Vested and unexercisable
2012								
S J Koroknay	2,000,000	-	-	-	2,000,000	2,000,000	-	2,000,000
L C Rathie	2,000,000	-	-	-	2,000,000	2,000,000		2,000,000
G Haworth (rights)	-	1,800,000	-	-	1,800,000	-	-	-
S C Brodie (rights)	-	1,200,000	-	-	1,200,000	-	-	-
2011								
S J Koroknay	2,000,000	-	-	-	2,000,000	1,000,000	-	1,000,000
L C Rathie	2,000,000	-	-	-	2,000,000	1,000,000	-	1,000,000

KMP shareholdings

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

Ordinary shares	Balance at the start of the year	Shares acquired during the year	Other * changes during the year	Balance at the end of the year
2012				
S J Koroknay	125,000	-	-	125,000
L C Rathie	100,000	-	-	100,000
R Camarri	235,536	-	-	235,536
WA Parker *(ceased employment 30 Sep 2011)*	20,000	-	(20,000)	-
2011				
S J Koroknay	125,000	-	-	125,000
L C Rathie	-	100,000	-	100,000
R Camarri	235,536	-	-	235,536
S Aarons *(retrenched 31st May 2011)*	171,625	-	(171,625)	-
WA Parker	20,000	-	-	20,000

There were no shares held nominally by key management personnel (2011: Nil)
There were no shares granted as compensation or on exercise of options previously granted as compensation (2011: Nil)

* "Other" changes occurred because when people leave the company they are no longer classed as KMPs.

Other KMP transactions

There have been no other transactions involving equity instruments other than those described in the tables above. For details of other transactions with KMP, refer to Note 26: Related party transactions.

8 Auditors' remuneration

	2012 $	2011 $
Remuneration of the auditor of the parent company for:		
Auditing or reviewing the financial reports	**52,132**	118,639
Taxation services	**-**	22,365
Other assurance services #	**16,060**	46,347
	68,192	187,351

BDO Audit Pty Ltd conducted a review of the accounting for the joint venture ATP529 during the year.

9 Earnings per share (EPS)

(a) Earnings used in calculating earnings per share

	2012 $	2011 $
Basic and diluted earnings		
Profit/(Loss) for the year from continuing operations	**(6,261,081)**	(4,433,521)
Profit/(Loss) for the year from discontinued operations	**-**	25,863,787
Profit/(Loss) for the year	**(6,261,081)**	21,430,266

(b) Weighted average number of ordinary shares

	2012 Number	2011 Number
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	**152,140,466**	152,140,466
Weighted average number of dilutive options outstanding *	**-**	-
Weighted average number of ordinary shares and potential ordinary shares outstanding during the year used in calculating diluted EPS	**152,140,466**	152,140,466

* Options/rights were not included in the current year because the Group had a loss and options were therefore considered anti-dilutive. Options were not included in the previous year as they are out of the money and are not considered dilutive. There are a total of 8,000,000 (2011:12,000,000) including KMP options/rights outstanding which are potentially dilutive.

(c) Earnings per share

	2012 Cents	2011 Cents
From continuing operations		
Basic earnings per share	**(4.1)**	(2.9)
Diluted earnings per share	**(4.1)**	(2.9)
From discontinued operations		
Basic earnings per share	**-**	17.0
Diluted earnings per share	**-**	17.0
From profit for the year		
Basic earnings per share	**(4.1)**	14.1
Diluted earnings per share	**(4.1)**	14.1

10 Cash and cash equivalents

	2012 $	2011 $
Cash at bank and in hand	**681,104**	906,172
Deposits at call	**33,120,000**	39,320,833
	33,801,104	40,227,005

The carrying amount of financial assets represents the maximum exposure to credit risk. The Group has no significant credit risk as funds are invested only with financial institutions with very high credit ratings.

11 Trade and other receivables

	2012 $	2011 $
CURRENT		
Trade receivables	**8,700**	687
Other receivables	**993,903**	1,084,127
Prepayments	**30,107**	21,504
	1,032,710	1,106,318
NON-CURRENT		
Environmental bonds and deposits	**640,942**	640,942
Rental bond	**71,568**	60,833
	712,510	701,775

Rental bond classification:
The rental bond has been reclassified from cash at bank and in hand to non-current rental bond. The $60,833 has been reclassified as it is held as a security for a rental property.

Other receivables:
Included in Other Receivables – Current of $993,903 (2011: $1,084,127) 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 was disputed by the purchaser. An independent expert arbitrated the matter - finding for Galilee. The purchaser agreed to make payment in full which was recieved on 21 August 2012.

As of 30 June 2012, there were $nil (2011: $nil) overdue or impaired trade receivables. Refer to Note 27 for further description of the Group's credit risk exposures.

12 Interest in joint venture

The group through its subsidiary Galilee Resources Limited has a joint venture agreement in place for the development of its tenement ATP529P in the Galilee basin with AGL Energy Ltd. Under the Joint Operating Agreement AGL is the operator for exploration and development programs. The group holds a 50% interest.

13 Subsidiaries

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

Name of entity	Country of Incorporation	Class of equity	Equity Holding 2012	Equity Holding 2011
Galilee Resources Limited	Australia	Ordinary	100%	100%
Beaconsfield Energy Development Pty Ltd	Australia	Ordinary	100%	100%
Capricorn Energy Pty Ltd	Australia	Ordinary	100%	100%

All of the above-mentioned subsidiaries have the same reporting date as the parent, Galilee Energy

14 Property, plant and equipment

	Freehold land	Buildings & leasehold improvements	Mining infra-structure	Plant and equipment	Leased plant and equipment	Motor Vehicles	Total
	$	$	$	$	$	$	$
At 30 June 2012							
Cost	8,000	139,719	-	121,124	-	-	268,843
Accumulated depreciation	-	(62,407)	-	(75,512)	-	-	(137,919)
Net book amount	8,000	77,312	-	45,612	-	-	130,924
Year ended 30 June 2012							
Balance, 1 July 2011	8,000	84,496	-	59,299	-	-	151,795
Additions	-	-	-	11,501	-	-	11,501
Disposals	-	-	-	(7,021)	-	-	(7,021)
Depreciation charge	-	(7,184)	-	(18,167)	-	-	(25,351)
Balance, 30 June 2012	8,000	77,312	-	45,612	-	-	130,924

	Freehold land	Buildings & leasehold improvements	Mining infra-structure	Plant and equipment	Leased plant and equipment	Motor Vehicles	Total
	$	$	$	$	$	$	$
At 30 June 2011							
Cost	8,000	139,719	-	131,635	-	-	279,354
Accumulated depreciation	-	(55,223)	-	(72,336)	-	-	(127,559)
Net book amount	8,000	84,496	-	59,299	-	-	151,795
Year ended 30 June 2011							
Balance, 1 July 2009	617,360	514,740	558,940	2,630,968	2,412,770	187,123	6,921,901
Exchange differences	(59,224)	(39,998)	(55,272)	(245,063)	(207,417)	(17,515)	(624,489)
Re-classifications	-	-	-	(2,085)	-	2,085	-
Additions	-	-	111,202	526,086	517,542	13,879	1,168,709
Disposals (note (a))	(550,136)	(361,603)	(523,158)	(2,543,843)	(2,472,867)	(157,931)	(6,609,538)
Depreciation charge	-	(28,643)	(91,712)	(306,764)	(250,028)	(27,641)	(704,788)
Balance, 30 June 2010	8,000	84,496	-	59,299	-	-	151,795

(a) Disposals

	Freehold land	Buildings & leasehold improvements	Mining infra-structure	Plant and equipment	Leased plant and equipment	Motor Vehicles	Total
	$	$	$	$	$	$	$
(i) Disposals in the ordinary course of business	-	-	-	(241,066)	(823,556)	-	(1,064,622)
(ii) Disposals on sale of the NZ business	(550,136)	(361,603)	(523,158)	(2,302,777)	(1,649,311)	(157,931)	(5,544,916)
	(550,136)	(361,603)	(523,158)	(2,543,843)	(2,472,867)	(157,931)	(6,609,538)

(b) 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.

15 Trade and other payables

	2012	2011
	$	**$**
CURRENT		
Trade payables	**244,371**	610,684
Other payables	**76,601**	42,038
Employee benefits payable	**49,378**	38,427
	370,350	691,149
NON-CURRENT		
Other payables	**23,831**	23,379
	394,181	714,528

16 Provisions

	2012	2011
	$	$
Rehabilitation	**411,003**	362,332
Make-good obligation under lease agreement	**9,800**	9,800
	420,803	372,132

(a) Movement in provision for rehabilitation

	2012	2011
	$	$
Opening balance 1 July	**362,332**	658,207
Additional provisions recognised	**48,671**	486,924
Amounts used	**-**	-
Transfer upon sale of discontinued operation (note 6)	**-**	(819,151)
Exchange variance	**-**	36,352
Closing balance 30 June	**411,003**	362,332

The amount represents the obligation to restore land disturbed during mining activities to the conditions specified in the mining licence.

(b) Movement in provision for make-good under lease agreement

	2012	2011
	$	$
Opening balance 1 July	**9,800**	9,800
Closing balance 30 June	**9,800**	9,800

The provision for make-good represents the Group's obligation under a lease agreement to return a property to its original condition upon termination of the lease.

17 Issued capital

(a) Share capital

	2012 $	2011 $
152,140,466 (2011: 152,140,466) fully paid ordinary shares	**61,518,356**	61,518,356
Transaction costs relating to share issues (net of tax)	**(1,290,782)**	(1,290,782)
	60,227,574	60,227,574

(b) Movements in ordinary share capital:

Date	Number of shares	Issue price	$
30 June 2010	**152,140,466**		**60,349,304**
Changes in the year from 1 July 2010 to 30 June 2011			
De-recognition of deferred tax asset originally credited to equity (Note 5)			**(121,730)**
30 June 2011	**152,140,466**		**60,227,574**
Changes in the year from 1 July 2011 to 30 June 2012			
30 June 2012	**152,140,466**	-	**60,227,574**

(c) Ordinary shares

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.

(d) Options over shares

Refer to Note 18 for details of share options.

(e) 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.

18 Share-based payments

On 17th October 2011, two employees were issued with rights to take up ordinary shares in 3 tranches. Under the terms of the rights the employees are entitled to shares in the company at no cost subject to

	Employee 1	**Employee 2**
Total number of rights issued	1,800,000	1,200,000
Tranche #1		
Number of rights	600,000	400,000
Exercise date	1 Mar 2013	1 Mar 2013
Vesting condition: a share price equal to or greater than	$0.3675	$0.3675
Tranche #2		
Number of rights	600,000	400,000
Exercise date	1 Mar 2014	1 Mar 2014
Vesting condition: a share price equal to or greater than	$0.4900	$0.4900
Tranche #3		
Number of rights	600,000	400,000
Exercise date	1 Mar 2015	1 Mar 2015
Vesting condition: a share price equal to or greater than	$0.6125	$0.6125

The options/rights issued to directors and employees hold no voting or dividend rights and are not transferable, other than to related parties of the employees involved. The fair value of the options/rights granted is deemed to represent the value of the directors' and employees' services received over the vesting period. Employee options/rights are forfeited if the employee ceases to be employed by the group. Directors' options have no service conditions and are not forfeited upon exit from the group. The options are not exercisable if the share price is less than the exercise price on the exercise date. The share rights expire if the relevant vesting condition is not met by the exercise date.

	2012		2011	
	No. of Options / Rights	**Weighted average exercise price**	No. of Options / Rights	Weighted average exercise price
Outstanding at beginning of the year	**9,000,000**	**$0.716**	9,000,000	$0.604
Granted (rights)	**3,000,000**	**$0.490**	-	-
Forfeited (options)	**(4,000,000)**	**$0.325**	-	-
Exercised	**-**	**-**	-	-
Expired	**-**	**-**	-	-
Outstanding at end of year	**8,000,000**	**$0.631**	9,000,000	$0.716
Exercisable at end of year	**5,000,000**	**$0.716**	7,000,000	$0.600

The weighted average remaining life of options/rights outstanding at the year end was 0.893 years (2011: 1.132 years). The options/rights outstanding at the end of the year have exercise prices ranging from $0.24 to $0.87 (2011: $0.30 to $0.87).

The fair values of rights granted in 2012 were calculated using a binomial model tailored specifically for use in valuing employee and director options/rights, applying the following inputs:

		2012		
Weighted average exercise price:	$	0.368	0.490	0.613
Weighted average life of the option/right:	years	0.668	1.668	2.668
Underlying share price:	$	0.180	0.180	0.180
Expected share price volatility:	%	0.755	0.755	0.755
Risk-free interest rate:	%	3.95%	3.95%	3.95%
Fair value	$	0.027	0.022	0.018

18 Share-based payments (continued)

The expected share price volatility was estimated based on expected future volatility taking into account the level of historical volatility in the share price.

Included under Directors' Remuneration expense in profit or loss is $Nil which relates to equity-settled share-based payment transactions relating to directors (2011: $290,217). Included under Administration expense in profit or loss is $23,112 which relates to equity-settled share-based payment transactions relating to employees (2011: $Nil).

19 Parent Company Information

The *Corporations Act* requirement to prepare parent company financial statements where consolidated financial statements are prepared has been removed and replaced by the new regulation 2M.3.01 which requires limited disclosure in regards to the parent company Galilee Energy Limited. The consolidated financial statements incorporate the assets, liabilities and results of the parent company in accordance with the accounting policy described in Note 1 (b).

Galilee Energy Limited	**2012** $	2011 $
Current assets	**34,192,679**	41,385,313
Non-current assets	**4,352,648**	27,751,414
Total assets	**38,545,327**	69,136,727
Current liabilities	**370,353**	682,306
Non-current liabilities	**33,632**	33,179
Total liabilities	**403,985**	715,485
Net assets	**38,141,342**	68,421,242
Issued capital	**60,227,574**	60,227,574
Share-based payments reserve	**879,612**	856,500
Retained earnings/(accumulated losses)	**(22,965,844)**	7,337,168
Total shareholders' equity	**38,141,342**	68,421,242
Profit/(Loss) for the year	**(30,303,012)**	21,604,627
Total comprehensive income/(loss) for the year	**(30,303,012)**	21,604,627

The net assets of the parent include an investment in Galilee Resources Limited of $24,090,412 (2011: $24,090,412), for which no exploration and evaluation expenditure has been capitalised in the consolidated entity. In the opinion of the Directors the investment in this subsidiary has been impaired in

Contractual commitments

The parent company had no contractual commitments for the acquisition of property, plant and equipment at 30 June 2012 (2011: $Nil). The parent company has not guaranteed the debts of any subsidiary company (2011: $Nil), other than through its tax sharing and tax funding agreements.

Contingent Liabilities

The parent company has no contingent liabilities (2011: $Nil).

20 Commitments

(a) Lease commitments : Group as lessee

Operating leases
The Group leases its office premises under a non-cancellable operating lease expiring within four years. The lease has an escalation clause and renewal rights.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	2012 $	2011 $
Within one year	**179,016**	171,997
Later than one year but not later than five years	**153,655**	526,137
Later than five years	**-**	-
	332,671	698,134

(b) Exploration commitments

Galilee Resources Limited
In order to maintain current rights to tenure to exploration and mining tenements, the consolidated entity has exploration expenditure obligations until expiry of the tenement holdings.

The sale, transfer or farm-out of exploration rights to third parties reduces or extinguishes these

In the case of ATP799P the obligations were renegotiated upon expiry on 28 February 2010 for a further term to expire on 28 February 2014 subject to mandatory relinquishment of $^{1}/_{3}$ of tenement blocks and further expenditure totalling $6,000,000.

In the case of ATP529P, 50% of the exploration rights were transferred to AGL Energy Ltd under a farm-in agreement entered into in July 2008. The Group's exploration commitments have been met. The Group will negotiate new expenditure comittments with the Queensland Government on renewal in November 2012.

In the case of ATP799P, expenditure targets both annual and for the period of the term can be reduced at the Minister's discretion, by the relinquishment of unwanted blocks, nominated by the ATP holder.

	2012 $	2011 $
Commitments in relation to exploration permit ATP 799 are as follows:		
Within one year	**-**	-
Later than one year but not later than five years	4,236,142	4,302,536
Minimum payments	**4,236,142**	4,302,536

21 Contingent liabilities

The group has no contingent assets or liabilities.

22 Operating Segments

(a) Segment operations

Since the disposal of the coal mine operations in March 2011, the company has been involved in only one segment, its exploration and evaluation of coal seam gas deposits in Queensland. No financial information presented to the Chief Executive Officer or the Board is on a segment basis and it is not considered beneficial to present any segment information in this report, except for comparison with the previous year.

(b) Segment performance

Coal mine operations refers to the discontinued operation of two coal mines and a coal distribution facility on New Zealand's south island and includes exploration and evaluation activities relating to those *Exploration and evaluation* refers to coal and coal seam gas deposits in Queensland.

	Coal mine operations (discontinued) $	Exploration and evaluation $	Consolidated $
2012			
Revenue from sales to external customers	-	-	-
Other revenue	-	2,237,373	2,237,373
Total segment revenue/income	-	2,237,373	2,237,373
Segment net profit/(loss)	-	(6,261,081)	(6,261,081)
Unallocated items:			
Gain on disposal of discontinued operation			-
Profit for the year			(6,261,081)
2011			
Revenue from sales to external customers	17,737,273	-	17,737,273
Other revenue	335,784	1,022,023	1,357,807
Total segment revenue/income	18,073,057	1,022,023	19,095,080
Segment net profit/(loss)	33,621	(4,433,521)	(4,399,900)
Unallocated items:			
Gain on disposal of discontinued operation			25,830,166
Net profit before tax			21,430,266

(c) Segment net assets

	Coal mine operations (discontinued) $	Exploration and evaluation $	Consolidated $
2012			
Segment assets	-	35,677,248	35,677,248
Segment liabilities	-	(814,984)	(814,984)
Group net assets	-	34,862,264	34,862,264
2011			
Segment assets	-	42,186,893	42,186,893
Segment liabilities	-	(1,086,660)	(1,086,660)
Group net assets	-	41,100,233	41,100,233

23 Notes to the Statement of Cash Flows

	2012 $	2011 $
Reconciliation of loss for the year to net cash flows from operating activities:		
Loss for the year	**(6,261,081)**	21,430,266
Gains on disposal of discontinued operations	**-**	(25,830,166)
Depreciation	**25,350**	704,786
Amortisation	**-**	560,930
Losses on disposal of property, plant and equipment	**7,021**	298,430
Unrealised exchange differences	**-**	756,657
Share-based payments	**23,111**	290,217
Changes in operating assets and liabilities:		
(Increase) decrease in trade and other receivables	**73,607**	(2,621,471)
(Increase) decrease in inventories	**-**	271,805
(Increase) decrease in overburden in advance	**-**	307,961
(Increase) decrease in rehabilitation asset	**-**	(455)
Increase (decrease) in trade and other payables	**(320,343)**	2,012,512
Increase (decrease) in net deferred tax asset and liability	**-**	(294,749)
Increase (decrease) in provisions	**48,670**	304,447
Net cash outflow from operating activities	**(6,403,665)**	(1,808,830)

24 Non-cash investing and financing activities

	2012 $	2011 $
Acquisition of plant and equipment by means of finance leases	**-**	517,542

25 Events occurring after the balance sheet date

No events have occurred after the balance sheet date that require recognition or disclosure in the financial report.

26 Related party transactions

(a) Parent entity
The parent company within the Group and the ultimate parent company is Galilee Energy Limited.

(b) Subsidiaries
Interests in subsidiaries are set out in note 13.

(c) Key management personnel
Disclosures relating to key management personnel are set out in note 7.

(d) Transactions with related parties
Becamal Pty Ltd was a related party until the resignation of C G Smith because he was a director and shareholder.

	2012 $	2011 $
Transactions with Becamal Pty Ltd		
Full repayment of loan balance	-	200,000
Interest on loan	**-**	9,534

There were no other loans to or from key management personnel during the year.

(e) 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.

GALILEE ENERGY LIMITED

27 Financial instruments

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, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements are as follows:

	2012 $	2011 $
Financial assets		
Cash and cash equivalents	**33,801,104**	40,227,005
Trade and other receivables	**1,715,113**	1,786,589
	35,516,217	42,013,594
Financial liabilities		
Trade and other payables	**394,181**	714,528
Financial liabilities		
	394,181	714,528

The Group's financial risk management strategy seeks to assist the group to meet its financial targets while minimising potential adverse effects on financial performance.

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

Specific financial risk exposures and management

(a) Credit risk

The group is exposed to credit risk through its cash and cash equivalents. At 30 June 2012 the group had $33,800,445 (2011: $40,227,005) in accounts with the Westpac Banking Corporation and National Australia Bank.

(b) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses the Group aims at maintaining flexibility in funding by arranging appropriate banking facilities as and when required. At the reporting date the Group held cash and cash equivalents of $33,801,104 (2011: $40,227,005).

All financial liabilities of the continuing business totalling $394,185 (2011: $714,528) are due and payable within six months of the reporting date.

(c) Market risk

(i) Interest rate risk

Exposure to interest rate risk arises on financial assets and liabilities because a future change in interest rates will affect future cash flows of variable rate financial instruments.

(ii) 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 the reporting date the group held no financial assets or liabilities in any other currency (2011: $Nil).

27 Financial instruments (continued)

Sensitivity Analysis
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.

	Profit $	Equity $
Year ended 30 June 2012		
+/- 2% in interest rates	+/- 741,756	+/- 741,756
Year ended 30 June 2011		
+/- 2% in interest rates	-/+ 367,948	-/+ 367,948

(d) 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.

28 Reserves

	2012 $	2011 $
Share based payments reserve	**932,247**	909,135
Non-controlling interests elimination reserve	**(7,656,400)**	(7,656,400)
	(6,724,153)	(6,747,265)

(i) Share based payments reserve
This reserve reflects the fair value of equity instruments granted under share-based payment arrangements.

(iii) *Non-controlling interests elimination reserve*
This reserve has arisen as a result of the acquisition of the non-controlling interests in subsidiary company Galilee Resources Limited. The value of consideration paid for the non-controlling interests was greater than the carrying value of the non-controlling interests acquired.

Directors' declaration

The directors of the company declare that:

1. The financial statements, comprising the statement of comprehensive income, statement of financial position, statement of cash flows, statement of changes in equity and accompanying notes are in accordance with the Corporations Act 2001 and:

    (a) comply with Accounting Standards and the Corporations Regulations 2001; and

    (b) Give a true and fair view of the consolidated entity's financial position as at 30 June 2012 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.

4. 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.

Steven J Koroknay
Chairman

Brisbane
13 September 2012

BDO

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INDEPENDENT AUDITOR'S REPORT

To the members of Galilee Energy Limited

Report on the Financial Report

We have audited the accompanying financial report of Galilee Energy Limited, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility 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 Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, 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.

Opinion

In our opinion:

(a) the financial report of Galilee Energy Limited is in accordance with the *Corporations Act 2001*, including:

 (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

 (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 5 to 9 of the directors' report for the year ended 30 June 2012. 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.

Opinion

In our opinion, the Remuneration Report of Galilee Energy Limited for the year ended 30 June 2012 complies with section 300A of the *Corporations Act 2001*.

BDO Audit Pty Ltd

BDO

C R JENKINS

Director

Brisbane, 13 September 2012