

# **2013 interim financial report**

**for the half-year ended 31 December 2012**

**Galilee Energy Limited**  
ABN 11 064 957 419  
and controlled entities



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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 half-year ended 31 December 2012. The financial statements have been reviewed and approved by the directors based on the recommendation of the Audit Committee.

### **Directors**

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

**Steven J Koroknay**

(Chairman since 21 June 2010)

Director since 2008

**L Cam Rathie AM**

Director since 2010

**Rino Camarri**

Director since 2010

## Review of operations

### **Strategy**

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

### **Results from operations**

The loss from continuing operations after tax for the half-year is \$4,269,041 (2011: loss of \$4,546,499: a decrease of \$0.277 million). This was largely due to the continued project development program in ATP 529P and exploration conducted in ATP 799P. The September and December Quarterly Reports provide details of the activities during the period.

### **Coal Seam Gas - Australia**

Galilee holds two highly prospective coal seam gas and hydrocarbon tenements in the Galilee Basin in central Queensland through subsidiary, Galilee Resources Limited. The tenements, ATP 529P and 799P, cover approximately 7,000 km<sup>2</sup>.

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

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

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

#### **Joint venture**

During the half-year the parties operated the Glenaras 5-spot Pilot. A detailed review of the operations eventuated in a series of recommendations related to the re-start and operation of the 5-spot pilot. Implementation of the recommendations commenced in November 2012.



Activities will be directed at upgrading the current artificial lift configurations and pilot ancillary equipment, so that artificial lift reliability is improved to enable a minimum of six months continuous and simultaneous dewatering of all five pilot wells. Dewatering is expected to allow the wells to produce gas flows that may be sufficient to support certification of 2P gas reserves.

During the period the JV undertook a number of activities to manage the operation and implement the plan. Work included:

- Detailed review of operations;
- Water studies for produced water management;
- Submitting the regulatory case for continuation of the Pilot.
- Specification, ordering and expedited delivery of critical equipment;
- Detailed workover and installation planning; and
- System testing and design.

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

### **ATP 799P (Galilee 100%)**

ATP 799P is adjacent to and immediately north of ATP 529P.

The Board approved a plan to drill one exploration well from five proposed well locations, acquire 100km of 2D seismic and complete associated geological and geophysical studies in 2012/13. The primary objective of the plan is to evaluate the Betts Creek beds for coal seam gas. A secondary objective is to evaluate the potential for shale gas.

Hillview 06, (see ASX announcement of 11/12/12) located in the Galilee Basin central Queensland, approximately 200kms NE of Longreach (see figure 1) was a successful well. It encountered thicker and gassier coals than previous tenement wells with encouraging potential for a contingent resource booking on completion of core and wireline technical analysis. Shale cuttings from the Toolebuc shale formation, which exuded oil, will require more detailed technical analysis.

Coring commenced at 1,019m recovering a total of 386m from the Betts Creek beds and Aramac Coal Measures including 16.99m of net coal and 11.96m of net carbonaceous mudstone. Gas desorption testing on 24 core samples is ongoing with results expected in Q1 2013.

The exploration well site was selected with the following aims:

| Key exploration objectives                              | Scorecard |
|---|-----------|
| Confirm seismic indication of thicker coals             | ✓         |
| Test for higher reservoir temperatures                  | ✓         |
| Assess the presence of oil and gas shows                | ✓         |
| Recover core to determine rock and reservoir properties | ✓         |
| Evaluate the permeability of the coal seams             | ✓         |
| Acquire wireline logs of the cored interval             | ✓         |



Hillview 06 was drilled 15km west of Dotswood 01 on 2D seismic line 2009-GEL-03. This site was chosen because the seismic line exhibits multiple stacked reflectors at this position, predicting and confirming increased probability of thicker coal seams. The well is also located on a basement high where present day temperatures were predicted and confirmed to be higher than previous tenement wells due to thinner underlying basement sediment cover. In addition, the Toolebuc shale was predicted and confirmed to be at the thickest and most thermally mature in this region of the tenement.

Since the outcomes of the drilling program have given further evidence to support the model and geological interpretation the company is progressing with a 2D Seismic survey to further refine the locations for the next exploration targets. The seismic survey is planned to commence in March 2013. Subject to the seismic program the company anticipates a further two exploration wells may be drilled in 2013.

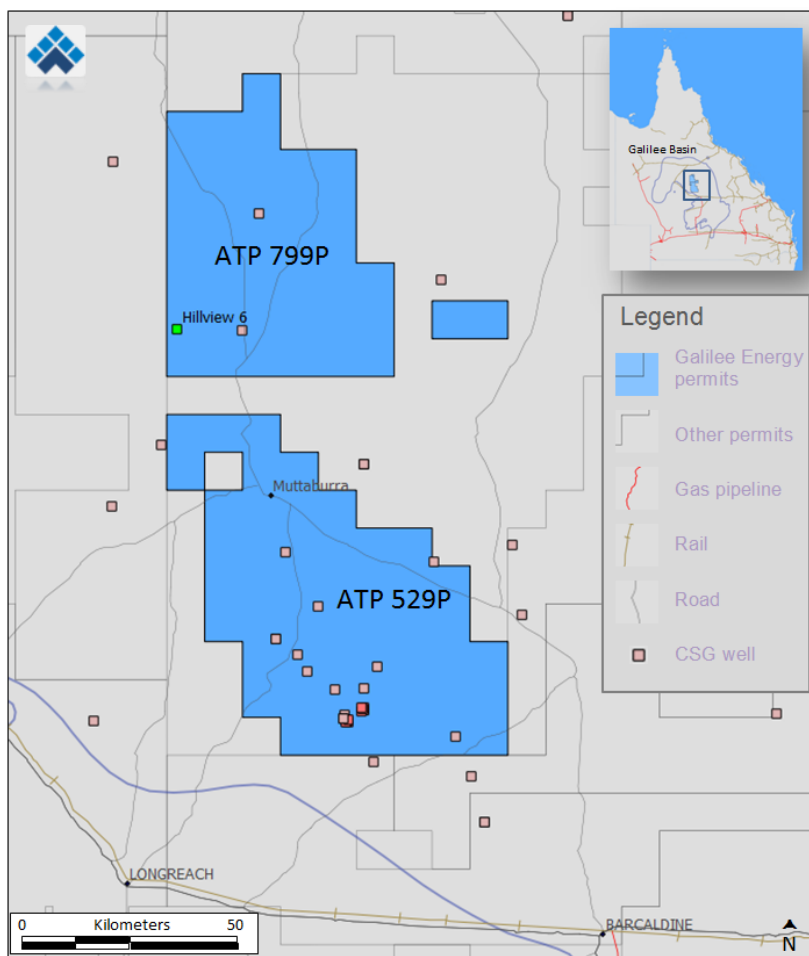


Figure 1: Galilee exploration ATP 799P

### Key Information

|                     |   |
|---------------------|---|
| Tenement            | ATP 799P  |
| Operator            | Galilee Energy (GLL)  |
| Ownership           | GLL 100%  |
| Area                | 3,097 km <sup>2</sup>   |
| Status              | Granted   |
| Expiry date         | 28 February 2018  |
| Later work due date | 28 February 2014  |
| Commitment          | Drill 3 core wells<br>Acquire 100km 2D<br>Engineering studies |

### Prospectivity

- Coal Seam Gas: Galilee Basin sub bituminous to bituminous Late Permian Betts Creek Coals.
- Eromanga Basin Post-Permian Toolebuc shale gas/oil.
- Conventional Oil and Gas accumulation are considered to be high risk.



## Corporate

No matters or circumstances have arisen since 31 December 2012 that have significantly affected, or may significantly affect, the Group's operations in future financial years, the results of those operations or the state of affairs in future financial years.

### **Auditor's independence declaration**

The auditor's independence declaration is included on Page 7 of the interim financial report for the half-year.

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

On behalf of the Directors



Steven J Koroknay  
Chairman

Brisbane  
26 February 2013



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

As lead auditor of Galilee Energy Limited for the half year ended 31 December 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 review; and
- any applicable code of professional conduct in relation to the review.

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



C R Jenkins  
Director

**BDO Audit Pty Ltd**  
Brisbane: 26 February 2013

## Galilee Energy Limited

### Consolidated Statement of Profit & Loss and other Comprehensive Income for the half-year ended 31 December 2012

|  | Note | <b>Consolidated</b><br>31 Dec 12<br>\$ | 31 Dec 11<br>\$ |
|--|------|--|-----------------|
| <b>Revenue</b>   | 2    | <b>869,544</b>                         | 1,209,401       |
| <b>Exploration and evaluation expenses</b>                                     |      |  |                 |
| Proportionate share of exploration and evaluation expenditure in joint venture | 3    | <b>(2,061,180)</b>                     | (4,400,518)     |
| Consulting fees  |      | <b>(56,651)</b>                        | (41,481)        |
| Contractors  | 3    | <b>(2,282,780)</b>                     | -               |
| Depreciation and amortisation  |      | <b>(549)</b>                           | (568)           |
| Other  |      | <b>(38,380)</b>                        | (53,562)        |
|  |      | <b>(4,439,540)</b>                     | (4,496,129)     |
| <b>Administration expenses</b>   |      |  |                 |
| Employee benefits expense  |      | <b>(413,155)</b>                       | (430,448)       |
| Directors' remuneration  |      | <b>(104,834)</b>                       | (87,501)        |
| Consulting fees  |      | <b>(223,476)</b>                       | (457,907)       |
| Administration expenses  |      | <b>(246,258)</b>                       | (283,915)       |
|  |      | <b>(987,723)</b>                       | (1,259,771)     |
| <b>Total expenses</b>  |      | <b>(5,427,263)</b>                     | (5,755,900)     |
| <b>Profit/(Loss) before income tax</b>   |      | <b>(4,557,719)</b>                     | (4,546,499)     |
| Income tax benefit/(expense)   |      | <b>288,678</b>                         | -               |
| <b>Profit/(loss) from continuing operations after tax</b>                      |      | <b>(4,269,041)</b>                     | (4,546,499)     |
| <b>Profit/(loss) for the period</b>  |      | <b>(4,269,041)</b>                     | (4,546,499)     |
| <b>Total comprehensive income/(loss) for the period</b>                        |      | <b>(4,269,041)</b>                     | (4,546,499)     |
| <b>Earnings/(loss) per share from continuing operations</b>                    |      |  |                 |
| Basic earnings per share   |      | (0.03)                                 | (0.03)          |
| Diluted earnings per share   |      | (0.03)                                 | (0.03)          |
| <b>Earnings/(loss) per share for profit/(loss) for the year</b>                |      |  |                 |
| Basic earnings per share   |      | (0.03)                                 | (0.03)          |
| Diluted earnings per share   |      | (0.03)                                 | (0.03)          |

*The accompanying notes form part of these financial statements.*



# Galilee Energy Limited

## Consolidated Statement of Financial Position as at 31 December 2012

|                                | Note | Consolidated      |                   |
|--------------------------------|------|-------------------|-------------------|
|                                |      | 31 Dec 12<br>\$   | 30 Jun 12<br>\$   |
| <b>ASSETS</b>                  |      |                   |                   |
| <b>Current assets</b>          |      |                   |                   |
| Cash and cash equivalents      |      | 30,971,520        | 33,801,104        |
| Trade and other receivables    | 4    | 795,398           | 1,032,710         |
| Total current assets           |      | <u>31,766,918</u> | <u>34,833,814</u> |
| <b>Non-current assets</b>      |      |                   |                   |
| Trade and other receivables    | 4    | 712,510           | 712,510           |
| Property, plant and equipment  |      | 126,135           | 130,924           |
| Total non-current assets       |      | <u>838,645</u>    | <u>843,434</u>    |
| <b>Total assets</b>            |      | <u>32,605,563</u> | <u>35,677,248</u> |
| <b>LIABILITIES</b>             |      |                   |                   |
| <b>Current liabilities</b>     |      |                   |                   |
| Trade and other payables       |      | 1,562,511         | 370,350           |
| Total current liabilities      |      | <u>1,562,511</u>  | <u>370,350</u>    |
| <b>Non-current liabilities</b> |      |                   |                   |
| Trade and other payables       |      | 11,692            | 23,831            |
| Provisions                     |      | 420,803           | 420,803           |
| Total non-current liabilities  |      | <u>432,495</u>    | <u>444,634</u>    |
| <b>Total liabilities</b>       |      | <u>1,995,006</u>  | <u>814,984</u>    |
| <b>Net assets</b>              |      | <u>30,610,557</u> | <u>34,862,264</u> |
| <b>EQUITY</b>                  |      |                   |                   |
| Issued capital                 | 6    | 60,227,574        | 60,227,574        |
| Reserves                       |      | (6,706,819)       | (6,724,153)       |
| Accumulated losses             |      | (22,910,198)      | (18,641,157)      |
| <b>Total equity</b>            |      | <u>30,610,557</u> | <u>34,862,264</u> |

*The accompanying notes form part of these financial statements.*

## Galilee Energy Limited

### Consolidated Statement of Changes in Equity for the half-year ended 31 December 2012

|   | Issued<br>Capital | Accumulated<br>Losses | Change in<br>Proportionate<br>Interests<br>Reserve | Foreign<br>Currency<br>Translation<br>Reserve | Share-based<br>Payments<br>Reserve | Total       |
|---|-------------------|-----------------------|--|---|------------------------------------|-------------|
|   | \$                | \$                    | \$   | \$  | \$                                 | \$          |
| <b>Balance at 1 July 2012</b>                             | 60,227,574        | (18,641,157)          | (7,656,400)  | -   | 932,247                            | 34,862,264  |
| Profit/(Loss) from continuing operations for the period   | -                 | (4,269,041)           | -  | -   | -                                  | (4,269,041) |
| Profit/(Loss) from discontinued operations for the period | -                 | -                     | -  | -   | -                                  | -           |
| Other comprehensive income/(loss), net of income tax      | -                 | -                     | -  | -   | -                                  | -           |
| Total comprehensive income/(loss)                         | -                 | (4,269,041)           | -  | -   | -                                  | (4,269,041) |
| Share-based payments expense                              | -                 | -                     | -  | -   | 17,334                             | 17,334      |
| <b>Balance at 31 December 2012</b>                        | 60,227,574        | (22,910,198)          | (7,656,400)  | -   | 949,581                            | 30,610,557  |
| <b>Balance at 1 July 2011</b>                             | 60,227,574        | (12,380,076)          | (7,656,400)  | -   | 909,135                            | 41,100,233  |
| Profit/(Loss) from continuing operations for the period   | -                 | (4,546,499)           | -  | -   | -                                  | (4,546,499) |
| Profit/(Loss) from discontinued operations for the period | -                 | -                     | -  | -   | -                                  | -           |
| Other comprehensive income/(loss), net of income tax      | -                 | -                     | -  | -   | -                                  | -           |
| Total comprehensive income/(loss)                         | -                 | (4,546,499)           | -  | -   | -                                  | (4,546,499) |
| Share issue costs   | -                 | -                     | -  | -   | -                                  | -           |
| Share-based payments expense                              | -                 | -                     | -  | -   | 5,778                              | 5,778       |
| <b>Balance at 31 December 2011</b>                        | 60,227,574        | (16,926,575)          | (7,656,400)  | -   | 914,913                            | 36,559,512  |

The accompanying notes form part of these financial statements.

# Galilee Energy Limited

## Consolidated Statement of Cash Flows for the half-year ended 31 December 2012

|   | Note | Consolidated       |                    |
|---|------|--------------------|--------------------|
|   |      | 31 Dec 12          | 31 Dec 11          |
|   |      | \$                 | \$                 |
| <b>Cash flows from operating activities</b>                   |      |                    |                    |
| Payments to suppliers and employees (including GST)           |      | (3,971,496)        | (5,704,902)        |
| Other revenue   |      | 814,202            | 4,350              |
| Interest received   |      | 333,174            | 1,218,578          |
| Interest paid   |      | -                  | -                  |
|   |      | (2,824,120)        | (4,481,974)        |
| <b>Cash flows from investing activities</b>                   |      |                    |                    |
| Payments for property, plant and equipment                    |      | (5,464)            | -                  |
| Payments for intangibles                                      |      | -                  | -                  |
| Proceeds from disposal of property, plant and equipment       |      | -                  | -                  |
| Refunds of/(Payments for) bonds and deposits                  |      | -                  | -                  |
|   |      | (5,464)            | -                  |
| <b>Cash flows from financing activities</b>                   |      |                    |                    |
| Proceeds from issue of shares                                 |      | -                  | -                  |
| Share issue expenses  |      | -                  | -                  |
| Repayments of borrowings                                      |      | -                  | -                  |
|   |      | -                  | -                  |
| <b>Net increase/(decrease) in cash and cash equivalents</b>   |      | <b>(2,829,584)</b> | <b>(4,481,974)</b> |
| Cash and cash equivalents at the beginning of the period      |      | 33,801,104         | 40,227,005         |
| Effects of exchange rate changes on cash and cash equivalents |      | -                  | -                  |
|   |      | <b>30,971,520</b>  | <b>35,745,031</b>  |

*The accompanying notes form part of these financial statements.*

**Galilee Energy Limited**  
**Notes to the Consolidated Financial Statements**  
for the half-year ended 31 December 2012

**1 Basis of Preparation**

These general purpose interim financial statements for the half-year ended 31 December 2012 have been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standard AASB134: Interim Financial Reporting.

This interim financial report is intended to provide users with an update on the latest annual financial statements of Galilee Energy Limited and its controlled entities (the Group). As such, it does not contain information that represents relatively insignificant changes occurring during the half-year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2012, together with any public announcements made during the following half-year.

The same accounting policies and methods of computation that were used in the annual financial statements for the year ended 30 June 2012 have been applied in this interim financial report, except in relation to the matters discussed below.

**2 Revenue from continuing operations**

|  | 31 Dec 12 | 31 Dec 11   |
|--|-----------|-------------|
|  | \$        | \$          |
| Interest received or receivable (refer note 4) | (856,222) | (1,201,843) |
| Sundry income                                  | (13,322)  | (7,558)     |
|  | (869,544) | (1,209,401) |
| Total revenue from continuing operations       | (869,544) | (1,209,401) |

**3 Significant items**

The Group has a 50% interest in a joint venture with AGL Energy Ltd as a result of a farmin arrangement. When the joint venture reaches the appropriate stage, the Group's shares of the assets, liabilities, revenue and expenses of jointly controlled operations will be included in the appropriate line items of the consolidated financial statements, until then the Group's contributions to the joint venture are being expensed. The expenses for the reporting period were \$2,061,180 (31 Dec 2011: \$4,400,518).

The Group has a 100% interest in ATP799P. The Group engaged in exploration on the tenement during the period including drilling hole Hillview 06. The Group made an announcement on 11/12/2012 to the ASX regarding the drilling of Hillview 06. ATP 799P is an exploration tenement and all costs associated with the tenement are expensed in the period in which they occur. The major component being Contractors \$2,282,780 (2011: Nil)

**4 Trade and other receivables**

|                                  | 31 Dec 12 | 30 Jun 12 |
|----------------------------------|-----------|-----------|
|                                  | \$        | \$        |
| <b>CURRENT</b>                   |           |           |
| Trade receivables                | 84,874    | 24,282    |
| Interest receivable              | 700,489   | 177,440   |
| Other receivables                | -         | 800,881   |
| Prepayments                      | 10,036    | 30,107    |
|                                  | 795,398   | 1,032,710 |
| <b>NON-CURRENT</b>               |           |           |
| Environmental bonds and deposits | 712,510   | 712,510   |

Interest receivable represents accrued interest from funds invested in bank fixed income products. The interest receivable arises as several large investments have been placed on terms of between 12 and 18 months and interest is paid on maturity. Consequently, actual cash received in the period is significantly less than the accrued revenue recognised in the accounts. Actual cash from interest in the period reflects payments related to the prior period and the current reporting period received in cash.

**Galilee Energy Limited**  
**Notes to the Consolidated Financial Statements**  
for the half-year ended 31 December 2012

**5 Trade and other payables**

|                           | 31 Dec 12 | 30 Jun 12 |
|---------------------------|-----------|-----------|
|                           | \$        | \$        |
| CURRENT                   |           |           |
| Trade & ATP 529P payables | 552,378   | 244,371   |
| Other ATP 799P payables   | 981,537   | 76,601    |
| Employee benefits         | 28,596    | 49,378    |
|                           | 1,562,511 | 370,350   |

**6 Issued Capital**

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

**7 Contingent Liabilities**

The Groups contingent assets and liabilities have not changed materially from the financial statements to 30 June 2012.

**8 Events After the End of the Interim Period**

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

**9 Segment reporting**

The consolidated entity has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and determining the allocation of resources. The consolidated entity is managed primarily on a geographic basis, that is the location of the respective areas of interest (tenements) in Australia. Operating segments are determined on the basis of financial information reported to the Board which is at the consolidated entity level. The consolidated entity does not have any products/services it derives revenue from.

Accordingly, management currently identifies the consolidated entity as having only one operating segment, being exploration and evaluation of coal seam gas deposits in Queensland. There have been no changes in the operating segments during the half-year. Accordingly, all significant operating decisions are based upon analysis of the consolidated entity as one segment. The financial results from the segment are equivalent to the financial statements of the consolidated entity as a whole.

## Directors' declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 9 to 17 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with ASSB 134 Interim Financial Reporting, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

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



Steven J Koroknay  
Chairman

Brisbane  
26 February 2013

## INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Galilee Energy Limited

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Galilee Energy Limited, which comprises the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the disclosing entity and the entities it controlled at the half-year's end or from time to time during the half-year.

#### Directors' Responsibility for the Half-Year Financial Report

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

#### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Half year Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Galilee Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

### Independence

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

### Conclusion

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

- A. giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the half-year ended on that date; and
- B. complying with Accounting Standard AASB 134 *Half year Financial Reporting* and *Corporations Regulations 2001*.

**BDO Audit Pty Ltd**



C R Jenkins

Director

Brisbane: 26 February 2013