

2014 interim financial report

for the half-year ended 31 December 2013

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 2013. 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:

Dr David King

*Non-executive Chairman
Since 30/10/2013*

Appointed Director 24/09/2013

Peter Lansom

*Managing Director
Since 30/10/2013*

Appointed Director 24/09/2013

Paul Bilston

*Executive Director
Since 30/10/2013*

Appointed Director 24/09/2013

Ray Shorrocks

*Non-executive Director
Appointed 02/12/13*

Cam Rathie AM

*Non-executive Director
Resigned 24/09/13*

Rino Camarri

*Non-executive Director
Resigned 30/10/13*

Andrew A Young

*Non-executive Chairman
Resigned 30/10/13*

Appointed 19/08/2013

Glenn Haworth

*Managing Director
Resigned 24/09/13*

Appointed 07/06/13

Paul Jensen

*Non-executive Director
Resigned 30/10/13*

Appointed 24/09/2013

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 exploration and development opportunities.

Results from operations

The loss from continuing operations after tax for the half-year is \$2,456,725 (2012: loss of \$4,269,041: a decrease of \$1.812 million). This reduction was largely due to lower expenditure at the Galilee Gas Project due to less workovers on equipment. The comparative period to 31 December 2012 involved a number of workovers and a project review. The September and December Quarterly Reports provide details of the activities during the period.

Coal Seam Gas - Australia

Galilee holds a prospective coal seam gas and hydrocarbon tenement in the Galilee Basin in central Queensland through subsidiary, Galilee Resources Limited – tenement ATP 529P covers approximately 3,953 km².

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



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.

Since completion of the remediation program in March 2013 all five wells have performed to design and delivered stable operations with production from all wells. At the end of the December Quarter all pumps were working to design and average total water flow rate was approximately 3,000 bbl/day. However the failure of GA04 further delayed the likely timing of any significant gas production from the pilot

Ongoing activities

In March 2014 Galilee announced the completion of its detailed review of the Glenaras Pilot in ATP 529P utilising the technical skills and experience of the new board and management.

The review included a comprehensive geological and engineering assessment of all the available technical data from both the Glenaras and Rodney Creek pilots along with information from exploration wells and seismic data collected across ATP 529P.

In summary the review:

- Confirms the prospectivity of the late Permian Betts Creek coal beds over a large area of ATP 529P. The quality of this resource, including the coal thickness, permeability and gas content, has the potential to support commercial gas production.
- Determined that the well completion design utilised for the current Glenaras Pilot and the previous Rodney Creek pilot, particularly the application of fracture stimulation, is not appropriate for this geological setting. The current design is unlikely to result in sufficient pressure drawdown of the coals in a timely manner, as a result of water influx from other zones within the Betts Creek coal section. This lack of pressure drawdown in the coals is the reason for the minimal gas production seen in this area to date.

As a result of the review, and in consultation with AGL, the Operator of ATP 529P, the Joint Venture has agreed to cease operation of the Glenaras Pilot in its current form.

Galilee has proposed to AGL a modest recompletion program utilising the existing Glenaras Pilot wells and infrastructure and an alternate completion design. Galilee believes this program has the best chance of delivering a significant drawdown of the coal utilising existing infrastructure and therefore provides a true test of the gas production potential of this project.

Galilee will provide a further update once discussions regarding the proposed program have been concluded.

ATP 799P (Galilee 100%)

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

After a review of the recent drill program (Hillview 06) and the seismic conducted in early 2013 the board concluded that relinquishing the tenement was in the best interests of the company. The company notified the government of its intention to relinquish the ATP and on 13 December 2013 the government notified Galilee of its relinquishment.



Corporate

Board and management changes

Board Composition

With the untimely passing of Steven Koroknay on 6 June 2013, the Company undertook a search for a new independent Non-executive Chairman and Andrew Young was selected and appointed on the 19 August 2013. On the 24 September 2013, Glenn Haworth resigned from the Board and was appointed General Manager. The board appointed Paul Jensen as an independent Non-executive Director of the Company.

At the General Meeting held on 24 September 2013 four of the five resolutions were passed, the fifth having been withdrawn due to the Directors' resignation. Cam Rathie was removed as a Director and David King, Paul Bilston and Peter Lansom (New Directors) were each elected to the Board.

As reported previously to shareholders on 15 October 2013, the New Directors, filed an application in the Supreme Court for leave to bring Derivative Action against the other three Directors and Glenn Haworth.

On 30 October 2013, the company advised that Mr Young, Mr Camarri and Mr Jensen had resigned as Directors of Galilee and advised Galilee that they would not be standing for election as Directors at the forthcoming Annual General Meeting.

The company also advised that, in light of the resignations, Dr King, Mr Lansom and Mr Bilston, notified Galilee of their agreement to withdraw the application lodged in the Supreme Court of Queensland and Galilee consented to the proceedings being withdrawn. Galilee consented to the Proceedings being withdrawn.

After the changes the company commenced a search for an additional Independent Non-executive Director to bring more independence to the board and to enhance the skills and expertise available to the company.

On 2 December 2013 the board appointed Mr Ray Shorrocks as an Independent Non-executive Director. Mr Shorrocks is a director of Patersons Securities Limited and heads the corporate finance department in Sydney. He is also chairman of Republic Gold Limited (ASX: RAU) and a director of a number of private companies.

Ray's skills will enhance the existing board's financial and commercial expertise as we progress building a successful hydrocarbon exploration company.

A profile of each directors' background and experience is available on the Galilee website and included in the Annual Report. The board has an excellent set of complementary skills and experience.

The new board members have implemented an objective review of the current Galilee Basin permit and determine the best path forward for the long-term capital and investment requirements of the permit.

Proportional takeover by Olympus Funds Management

On 25 November 2013, Galilee Energy Limited (Galilee) received a bidder's statement in relation to a proportional off-market takeover bid from Olympus Funds Management Pty Ltd (Olympus), a wholly owned subsidiary of ASX listed Mercantile Investment Company Limited (Mercantile), for one out of every two ordinary shares in Galilee Energy (Shares) held by each Shareholder at an offer price of 15 cents cash per Share (Proportional Bid).



Galilee's constitution (Constitution) and the Corporations Act require a proportional takeover bid be approved by Galilee's shareholders (Approval). The Approval requirement was re-affirmed by over 75% of the votes cast at the November AGM.

A shareholders meeting held on 21 January 2014 overwhelmingly rejected the proportional bid made by Olympus Funds Management. As a consequence, the takeover did not proceed and:

- any offers that had not been accepted, or which had been accepted, but for which binding contracts had not yet resulted, were deemed to be withdrawn; and
- all binding agreements were rescinded.

No matters or circumstances have arisen since 31 December 2013 that have significantly affected, or may significantly affect, the Group's operations in future financial years, the results of those operations or the state of affairs in future financial years.

Auditor's independence declaration

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

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

On behalf of the Directors



David King
Chairman

Brisbane
14 March 2014



DECLARATION OF INDEPENDENCE BY ANTHONY WHYTE TO THE DIRECTORS OF GALILEE ENERGY LIMITED

As lead auditor for the review of Galilee Energy Limited for the half-year ended 31 December 2013, I declare that, to the best of my knowledge and belief, there have been:

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

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

A J Whyte

Director



BDO Audit Pty Ltd

Brisbane, 14 March 2014

Galilee Energy Limited

Statement of profit or loss and other comprehensive income

for the half-year ended 31 December 2013

	Note	Consolidated	
		31 Dec 13	31 Dec 12
		\$	\$
Revenue	2	617,190	869,544
Exploration and evaluation expenses			
Proportionate share of exploration and evaluation expenditure in joint venture	3	(1,175,334)	(2,061,180)
Consulting fees		(18,795)	(56,651)
Contractors	3	(418)	(2,282,780)
Depreciation and amortisation		(532)	(549)
Other		(15,843)	(38,380)
		(1,210,922)	(4,439,540)
Administration expenses			
Employee benefits expense		(471,768)	(413,155)
Directors' remuneration		(83,117)	(104,834)
Consulting fees		(967,330)	(223,476)
Administration expenses		(340,778)	(246,258)
		(1,862,993)	(987,723)
Total expenses		(3,073,915)	(5,427,263)
Profit/(Loss) before income tax		(2,456,725)	(4,557,719)
Income tax benefit/(expense)		-	288,678
Profit/(loss) from continuing operations after tax		(2,456,725)	(4,269,041)
Profit/(loss) for the period		(2,456,725)	(4,269,041)
Total comprehensive income/(loss) for the period		(2,456,725)	(4,269,041)
Earnings/(loss) per share from continuing operations			
Basic earnings per share		(0.02)	(0.03)
Diluted earnings per share		(0.02)	(0.03)
Earnings/(loss) per share for profit/(loss) for the year			
Basic earnings per share		(0.02)	(0.03)
Diluted earnings per share		(0.02)	(0.03)

The accompanying notes form part of these financial statements.

Galilee Energy Limited

Statement of financial position

as at 31 December 2013

	Note	Consolidated	
		31 Dec 13	30 Jun 13
		\$	\$
ASSETS			
Current assets			
Cash and cash equivalents		25,973,089	27,392,976
Trade and other receivables	4	300,303	1,404,167
Total current assets		26,273,392	28,797,143
Non-current assets			
Trade and other receivables	4	712,510	712,510
Property, plant and equipment		119,240	117,737
Total non-current assets		831,750	830,247
Total assets		27,105,142	29,627,390
LIABILITIES			
Current liabilities			
Trade and other payables		720,558	776,612
Total current liabilities		720,558	776,612
Non-current liabilities			
Trade and other payables		3,908	7,802
Provisions		442,242	442,242
Total non-current liabilities		446,150	450,044
Total liabilities		1,166,708	1,226,656
Net assets		25,938,434	28,400,734
EQUITY			
Issued capital	6	60,227,574	60,227,574
Reserves		(6,695,101)	(6,689,526)
Accumulated losses		(27,594,039)	(25,137,314)
Total equity		25,938,434	28,400,734

The accompanying notes form part of these financial statements.

Galilee Energy Limited

Statement of changes in equity

for the half-year ended 31 December 2013

	Issued Capital	Accumulated Losses	Proportionate Interests Reserve	Foreign Currency Translation Reserve	Share-based Payments Reserve	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2013	60,227,574	(25,137,314)	(7,656,400)	-	966,874	28,400,734
Profit/(Loss) from continuing operations for the period	-	(2,456,725)	-	-	-	(2,456,725)
Total comprehensive income/(loss)	-	(2,456,725)	-	-	(5,575)	(2,456,725)
Share-based payments expense	-	-	-	-	-	(5,575)
Balance at 31 December 2013	60,227,574	(27,594,039)	(7,656,400)	-	961,299	25,938,434
Balance at 1 July 2012	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)
Total comprehensive income/(loss)	-	(4,269,041)	-	-	-	(4,269,041)
Share issue costs	-	-	-	-	-	-
Share-based payments expense	-	-	-	-	17,334	17,334
Balance at 31 December 2012	60,227,574	(22,910,198)	(7,656,400)	-	949,581	30,610,557

The accompanying notes form part of these financial statements.

Galilee Energy Limited

Statement of cash flows

for the half-year ended 31 December 2013

	Note	Consolidated	
		31 Dec 13	1 Jan 13
		\$	\$
Cash flows from operating activities			
Payments to suppliers and employees (including GST)		(3,104,795)	(3,971,496)
Other revenue		1,194,369	814,202
Interest received		500,571	333,174
Interest paid		-	-
Net cash provided by/(used in) operating activities		(1,409,855)	(2,824,120)
Cash flows from investing activities			
Payments for property, plant and equipment		(10,077)	(5,464)
Payments for intangibles		-	-
Proceeds from disposal of property, plant and equipment		45	-
Refunds of/(Payments for) bonds and deposits		-	-
Net cash provided by investing activities		(10,032)	(5,464)
Cash flows from financing activities			
Proceeds from issue of shares		-	-
Share issue expenses		-	-
Repayments of borrowings		-	-
Net cash provided by/(used in) financing activities		-	-
Net increase/(decrease) in cash and cash equivalents		(1,419,887)	(2,829,584)
Cash and cash equivalents at the beginning of the period		27,392,976	33,801,104
Cash and cash equivalents at the end of the period		25,973,089	30,971,520

The accompanying notes form part of these financial statements.

Galilee Energy Limited

Notes to the financial statements

for the half-year ended 31 December 2013

1 Basis of Preparation

These general purpose interim financial statements for the half-year ended 31 December 2013 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 2013, 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 2013 have been applied in this interim financial report, except in relation to the matters discussed below.

New and revised standards have been issued by the AASB and are effective for the half-year, however they are no material changes to the policies that affect measurement of the results or the financial position of the entity. The fair value of the consolidated entity's financial assets and the financial liabilities approximate their carrying value.

2 Revenue from continuing operations

	31 Dec 13	31 Dec 12
	\$	\$
Interest received or receivable (refer note 4)	(613,296)	(856,222)
Sundry income	(3,894)	(13,322)
Total revenue from continuing operations	(617,190)	(869,544)

3 Significant items

The Group has a 50% interest in a joint venture with AGL Energy Ltd as a result of a farm-in 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 \$1,175,334 (31 Dec 2012: \$2,061,180).

The Group had a 100% interest in ATP799P. A technical review was completed in early October 2013 and the study concluded that ATP 799P is unlikely to contain commercial quantities of hydrocarbons and therefore did not justify further exploration expenditure. On 28 November 2013 the relinquishment of ATP 799P was announced. ATP 799P is an exploration tenement and all costs associated with the tenement are expensed in the period in which they occur, no expense was incurred in the six months to December 2013.

Galilee Energy Limited
Notes to the financial statements
for the half-year ended 31 December 2013

4 Trade and other receivables	31 Dec 13	30 Jun 13
	\$	\$
CURRENT		
Trade receivables	20,117	1,216,343
Interest receivable	269,473	156,750
Prepayments	10,713	31,074
	<hr/>	<hr/>
	300,303	1,404,167
	<hr/>	<hr/>

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.

NON-CURRENT		
Environmental bonds and deposits	712,510	712,510
	<hr/>	<hr/>

5 Trade and other payables	31 Dec 13	30 Jun 13
	\$	\$
CURRENT		
Trade & ATP 529P payables	689,458	671,096
Other ATP 799P payables	-	54,265
Employee benefits	31,100	51,251
	<hr/>	<hr/>
	720,558	776,612
	<hr/>	<hr/>

6 Issued Capital

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

7 Contingent Liabilities

On 12 December 2013 former employee Mr Haworth commenced proceedings in the Federal Court seeking relief against Galilee and Messrs' Lansom, Bilston and Dr King for alleged contraventions of the *Fair Work Act 2009 (Cth)*. No claim amount has been determined and the company is defending the action.

Galilee Energy Limited

Notes to the financial statements

for the half-year ended 31 December 2013

8 Events After the End of the Interim Period

At a General Meeting held on 21 January 2014 shareholders voted against a resolution seeking to approve a proportional takeover offer made by Olympus Funds Management Pty Ltd.

On 3 March 2014 Galilee announced the completion of its detailed review of the Glenaras Pilot in ATP 529P utilising the technical skills and experience of the new board and management. The review included a comprehensive geological and engineering assessment of all the available technical data from both the Glenaras and Rodney Creek pilots along with information from exploration wells and seismic data collected across ATP 529P.

As a result of the review, and in consultation with AGL, the Operator of ATP 529P, the Joint Venture has agreed to cease operation of the Glenaras Pilot in its current form.

Further information is available on the company and the ASX websites.

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 7 to 13 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 2013 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.



David King
Chairman

Brisbane
14 March 2014

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 2013, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company 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 company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Galilee Energy Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Galilee Energy Limited, would be in the same terms if given to the directors as at the time of this auditor's 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 2013 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*

BDO Audit Pty Ltd

BDO



A J Whyte

Director

Brisbane, 14 March 2014