GALILEE ENERGY LIMITED

# CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

Galilee Energy Limited

ABN 11 064 957 419

and controlled entities

# Contents

# Directors' Report

In accordance with a resolution of the Board, the directors present their report on the consolidated entity ("Galilee" or "Company") consisting of Galilee Energy Limited and the entities it controlled at the end of or during the year ended 30 June 2020. The financial statements have been reviewed and approved by the directors based on the recommendation of the Audit Committee.

## 1. Directors

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

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

## 2. Principal activities

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

The principal activity of the consolidated entity is oil and gas exploration and production. The foundation asset of the Company is the Glenaras Gas Project located in the Galilee Basin near Longreach in Queensland and further details are contained within the Managing Director's Report provided earlier in the 2020 Annual Report and in the Review of Operations below.

## 3. Strategy

The Company's strategy is to build a balanced portfolio of high quality, conventional and unconventional oil and gas assets. The primary focus is on commercialising the Glenaras Gas Project with an emphasis on the structurally short supplied eastern Australia gas market. Notwithstanding the short term increased availability of gas and lower spot gas prices, analysis by the Australian Energy Market Operator (AEMO) is consistent with that of the Company, validating our strategy which predicts a tightening of the eastern Australian gas market from around 2022 onwards. This timing accords well with the Company's significant uncontracted resource base and the likely cost competitiveness of its assets in comparison with alternative gas supply sources.

## 4. Results from operations

The net loss for the year from continuing operations was $17 million (2019: $11 million).

The loss for the year primarily reflects expenditure on Glenaras Gas Project operations, undertaking remediation activity in ATP 2019 and the Kumbarilla drilling programme totalling $14 million (2019: $8 million).

## 5. Dividends

No dividends have been declared, provided for or paid in respect of the financial year ended 30 June 2020 (2019: Nil).

## 6. Review of operations

The Company's flagship Glenaras Gas Project lies within the highly prospective ATP 2019 permit in Queensland's Galilee Basin. The permit covers an area of approximately 4000 km$^2$ and is 100% owned and operated by Galilee Energy (Figure 1). The project contains a significant coal seam gas Contingent Resource position in the Betts Creek and Aramac coals with a 1C of 308 PJ, a 2C of 2,508 PJ and a 3C of 5,314 PJ, as a result of the extensive historical exploration activity within the permit.

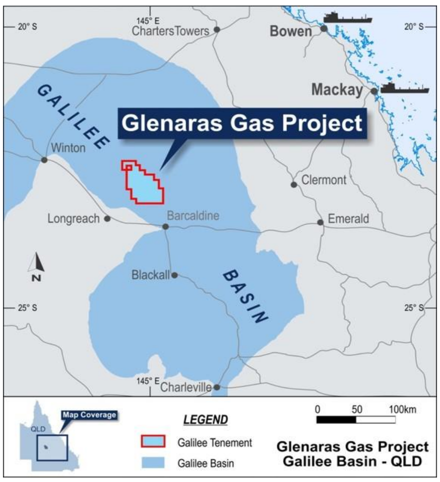


Figure 1.

The Glenaras multi-well pilot has continued to perform solidly through the year and was enhanced with the drilling of the Glenaras 17A monitoring well which has provided significant new positive information on the reservoir characteristics and vertical connectivity within the Betts Creek coal sequence. Importantly, data obtained from Glenaras 17A indicates that the Betts Creek coal sequence is isolated from the significant aquifer systems, namely the overlying Hutton sandstone and Great Artesian Basin.

# Directors' Report (continued)

## 6. Review of operations (continued)

Despite the considerable disruption on global markets due to the uncertainty surrounding the COVID-19 pandemic, the Galilee Board and management teams have considerable experience in the sector and have successfully worked through such market volatility and uncertainty and through prudent management we are in a position to focus on the delivery of our growth plans due to the strong financial position of the Company. The Company proactively adapted its operating procedures both in head office and field operations in accordance with the Federal requirements associated with the COVID-19 pandemic. The safety of our staff and all contractors was paramount with the revised operating procedures and there was no disruption to the drilling programmes or field operations.

The Board acknowledge that these events are serious matters but the Board does not believe the COVID-19 pandemic will impact at all on the ability of the Company to prosecute its strategy nor on its ability to continue as a going concern and we remain focussed on our clear strategy of becoming a significant supplier of gas into the east coast markets. With our robust balance sheet, high-quality, low-cost nature of our assets and a disciplined approach to capital allocation, we are well positioned to withstand the current market volatility.

Galilee has a high quality portfolio of acreage across three different basins in Queensland with one of the largest contingent gas resource bases on the east coast. In addition, all acreage is held at 100% working interest and these assets offer both conventional and unconventional targets with a clear pathway to market.

Galilee has no direct exposure to global oil prices and our diversified gas acreage in Queensland provides opportunities to meet the forecast supply-demand gap that exists on the east coast of Australia from around 2022 due to the continuing uncertainty regarding indigenous gas supply. The infrastructure partnership Galilee has with Jemena underpins our Glenaras Gas Project development plans.

Significant work has progressed on Glenaras Gas Project water management during the year, including the development of a management plan to utilise produced water for irrigation purposes. Work was successfully completed on remediation of the legacy Rodney Creek and Glenaras vertical pilot wells during the financial year.

The Company manages risk in accordance with its risk management policy to ensure that the risks associated with oil and gas exploration activities are identified, measured and mitigated to the lowest practicable level. Risk assessments are conducted on a regular basis by the management team and are reported through to the Risk Committee. The Board and delegated Risk Management Committee are responsible for overseeing the risk management framework. Policies and procedures are continually developed, reviewed and enhanced as appropriate to manage the current and changing risks of the business.

The Kumbarilla exploration programme in ATP 2043 was completed safely and within budget. The three wells, Kumbarilla Central 1, 2 and 3, were drilled through the complete Walloon Subgroup section and acquired valuable data that will now be used to further evaluate the permit's coal seam gas potential. Reprocessing of over 675km of existing 2D seismic data within ATP 2043 is approaching completion and has provided significantly improved, high-quality imaging of the subsurface structural and stratigraphic architecture.

Galilee was confirmed as preferred tenderer of ATP 2050, the Springsure Project, with 100% equity. This 1,425km$^2$ permit in the northern Denison Trough has multiple coal seam gas and conventional gas play types with considerable resource potential immediately adjacent to the northern Denison Trough gas fields. Initial exploration work at the Springsure Project is progressing well, with the reprocessing of over 700km of existing 2D seismic.

As at the end of the financial year, Galilee was focussing on the performance and the newly acquired subsurface data at the Glenaras Gas Project, including initiating an external reservoir simulation study by Schlumberger to analyse the current production and pressure performance of the Glenaras pilot to optimise future drilling and development options.

## 7. Matters subsequent to the end of financial year

The sum of $4 million was received on 13 July 2020 with respect to an R&D tax offset claim. Neither this matter or any other matters or circumstances will significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years.

# Directors' Report (continued)

## 8. Environmental regulation

The Company conducts its operations in compliance with the Queensland Petroleum and Gas (Production and Safety) Act 2004. Environmental considerations are reviewed with and approved by the Queensland Department of Environment and Science under the Environmental Protection Act 1994. The Company has not recorded any breaches of any of its environmental licence conditions nor has it been notified of any material environmental breaches by any government agency during the year. In line with our increased activity, Queensland regulators conducted environmental inspections and audits and no improvement or infringement notices were issued. The Company is not aware of any breaches in environmental regulations in relation to its interests in the USA and South America.

## 9. Shares under option

No share options were granted to employees, contractors and investors at the date of this report.

## 10. Shares issued on the exercise of options

During the year 45,771,671 share options were exercised.

| Date options granted | Exercise Price (cents) | Number of shares issued |
|---:|---:|---:|
| 18-Nov-16 | 12.5 | 7,600,000 |
| 1-Dec-17 | 25.0 | 2,350,000 |
| 10-Jul-18 | 50.0 | 14,155,000 |
| 11-Dec-18 | 75.0 | 21,666,671 |
| | | 45,771,671 |

## 11. Directors and officer's insurance

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

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

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

## 12. Proceedings on behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purposes of taking responsibility on behalf of the Company for all or any part of those proceedings.

### 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 2020, and the numbers of meetings attended by each director were:

| Name | Meetings of Directors | | Meetings of Audit Committee | | Meetings of Risk Committee | | Remuneration Committee | |
|---|---|---|---|---|---|---|---|---|
| | A | B | A | B | A | B | A | B |
| Dr David King | 8 | 8 | 2 | 2 | 3 | 3 | 0 | 0 |
| Peter Lansom | 8 | 8 | * | * | * | * | 0 | 0 |
| Ray Shorrocks | 8 | 8 | * | * | * | * | 0 | 0 |
| Stephen Kelemen | 8 | 8 | 2 | 2 | 3 | 3 | 0 | 0 |
| Gordon Grieve | 7 | 7 | 2 | 2 | 2 | 2 | 0 | 0 |

A = Number of meetings eligible to attend
B = Number of meetings attended
* = Not member of committee

# Directors' Report (continued)

## 13. Information on Directors and Company Secretary

### Ray Shorrocks

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

*Other directorships in listed companies – current*

| | |
|---|---|
| Hydrocarbon Dynamics Limited (formerly Indago Energy Limited) | Appointed 12/01/16 |
| Auteco Minerals Limited | Appointed 28/01/20 |
| Cygnus Gold Limited | Appointed 30/06/20 |
| Alicanto Minerals Limited | Appointed 07/08/20 |

Former Directorships of Australian listed public companies in the last three years:

| | |
|---|---|
| Bellevue Gold Limited (formerly Draig Resources Limited) | Resigned 09/09/19 |
| Estrella Resources Limited | Resigned 01/02/19 |

*Special responsibilities*
Chairman

Interest in Galilee Energy Limited shares and options
2,227,886 shares and 1,000,000 performance rights

### Dr David King

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

*Other directorships in listed companies – current*

| | |
|---|---|
| Cellmid Ltd | Appointed 18/01/08 |
| Litigation Capital Management Ltd | Appointed 09/10/15 |
| Tap Oil Limited | Appointed 18/10/18 |
| Renergen Ltd | Appointed 05/06/19 |

Former Directorships of listed public companies in the last three years:

| | |
|---|---|
| Petronor E&P (formerly African Petroleum Corporation) | Resigned 31/01/20 |

*Special responsibilities*
Chairman Audit Committee and member Risk Committee

*Interest in Galilee Energy Limited shares and options*
1,441,434 shares and 275,000 performance rights

### Stephen Kelemen

*Director – Independent Non-executive*
Stephen has a diverse petroleum industry experience across reservoir, development, operations and exploration activities in conventional oil & gas, CSG and other unconventional resources from his 40-year career in the industry. Notably he led Santos Ltd's CSG team from its inception in 2004 and drove the growth that enabled Santos to develop a substantial CSG portfolio. Stephen has a Bachelor of Engineering degree from the University of Adelaide. He is an Adjunct Professor for the Centre for Natural Gas (formerly Centre for Coal Seam Gas) at University of Queensland and is the Deputy Chair – Petroleum for Queensland Exploration Council.

*Other directorships in listed companies – current*

| | |
|---|---|
| Elixir Petroleum Limited | Appointed 06/05/19 |

# Directors' Report (continued)

## 13. Information on Directors and Company Secretary (continued)

Former Directorships of Australian listed public companies in the last three years:

Nil

*Special responsibilities*
Chairman Risk Committee and member Audit Committee

*Interest in Galilee Energy Limited shares and options*
134,000 shares and 275,000 performance rights

### Gordon Grieve

*Director – Independent Non-executive*
Gordon has over 30 years' experience as a solicitor and counsel working with energy and resources companies in Australia and overseas and is the current Chairman of Partners at Piper Alderman, leading both their International and Energy & Resources Groups. Gordon is a skilled advisor in relation to corporate governance and compliance issues, company takeovers and schemes of arrangement and has represented companies and directors on all facets of major corporate transactions and commercial litigation.

*Other directorships in listed companies – current*
Nil

*Former Directorships of Australian listed public companies in the last three years:*

Nil

*Special responsibilities*
Member of Risk and Audit Committees

Interest in Galilee Energy Limited shares and options
25,000 shares

### Greg Columbus

*Director – Independent Non–executive*
Greg is the non-executive Chairman of Warrego Energy (ASX:WGO). He is also the Managing Director and a Main Board Director for Clarke Energy Group (A Kohler Company) for the past 18 years. Clarke Energy are a privately owned, multinational power solutions company specialising in the engineering, installation and maintenance of power plants and gas compression stations, operating in 28 countries.

Greg joined Clarke Energy after previously holding executive General Manager role for AMEC Plc in Australia & New Zealand for 12 years where he was principally involved in bringing UK expertise and technology from Aberdeen, to significantly impact Floating Platform Storage and Offloading Vessels [FPSO] industry along with significant work for Woodside in Western Australia.

Having a unique combination of graduate diploma of Electrical and Mechanical engineering, he then completed his MBA with University of South Australia conferred in 2003. Greg has over 30 years business experience in delivering large, complex oil & gas projects and has along the course of his career also carved out strong strategic vision and been involved in numerous M&A activities.

*Other directorships in listed companies – current*
Warrego Energy — Appointed 22/10/18

*Former Directorships of Australian listed public companies in the last three years:*

Nil

*Special responsibilities*
Member Audit Committee

Interest in Galilee Energy Limited shares and options
61,563 shares

# Directors' Report (continued)

## 13. Information on Directors and Company Secretary (continued)

### Peter Lansom

*Managing Director*

Peter holds a Bachelor of Petroleum Engineering (Honours) degree from the University of NSW and has over 25 years' experience in conventional and unconventional exploration and development, working with Comet Ridge Ltd, Eastern Star Gas (ESG), Origin Energy and Santos. He has significant expertise in subsurface engineering, asset valuation, field development planning and commercial and corporate finance. In his past role at Origin, in the key management position of chief petroleum engineer, he had responsibility for delivering the corporate year end petroleum reserves report and ensuring that consistently high standards in sub-surface engineering were maintained across that Company's assets. In his recent role as executive director at ESG, Peter had overall engineering responsibility for the exploration and pilot development of the Company's CSG assets in NSW which resulted in certifying 3P reserves of over 3,500 PJ over a 5 year period, and saw the Company grow to a $900 million market capitalisation.

*Special responsibilities*

Managing Director

*Interest in Galilee Energy Limited shares and options*

8,734,601 shares and 3,200,000 performance rights

### Stephen Rodgers

*Company Secretary*

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

## 14. Remuneration Report (audited)

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

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

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

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

### A Principles used to determine the nature and amount of remuneration

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

### 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

# Directors' Report (continued)

## 14. Remuneration Report (audited) (continued)

- designed to attract and retain high calibre executives

Alignment to program participants' interests:
- rewards capability and experience
- reflects competitive reward for contribution to growth in shareholder wealth
- provides a clear structure for earning rewards

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

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

### Directors' fees
The chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration. In accordance with the provisions of Listing Rule 10.11 of the Official Listing Rules of the ASX Limited, a meeting of shareholders held on 27 November 2009 approved the sum of $600,000 per annum to be the total aggregate annual remuneration payable to non-executive Directors of the Company. The current total of base non-executive director remuneration is $283,250.

### Executive pay
The executive remuneration and reward framework have the following components:
- base pay and non-monetary benefits
- short term incentives
- share based payments, and
- other remuneration such as superannuation and long service leave.

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

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

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

### Short term incentives.
Generally paid in cash and structured, with a focus on delivery of specific short-term objectives aligned with the company's strategies and goals. Bonuses are paid at the discretion of the Board for executive and non-executive's role in meeting these targets.

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

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

### 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.

# Directors' Report (continued)

## 14. Remuneration Report (audited) (continued)

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 2020:

| Item | Unit | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|---|---|---|---|---|---|
| Revenue – continuing operations | $'000s | 374 | 314 | 180 | 194 | 379 |
| Net profit/(loss) before tax | $'000s | (16,890) | (11,450) | (10,316) | (3,830) | (6,039) |
| Net profit(loss) after tax | $'000s | (16,890) | (11,450) | (10,316) | (3,830) | (6,039) |
| Basic loss per share | cents | (6.7) | (5.3) | (5.9) | (2.5) | (4.1) |
| Last traded share price | cents | 58.0 | 70.0 | 71.0 | 11.0 | 7.0 |
| Remuneration -salary and fees | $'000s | 1,276 | 1,529 | 519 | 552 | 607 |

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

### B Details of remuneration

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

| | Short-term benefits & fees | | | Post Employment | | Share-based Payments | | % |
|---|---|---|---|---|---|---|---|---|
| 30 June 2020 | Salary & fees | Cash bonus (*) | Termination payments | Super-annuation | Retirement benefits | Options Performance Rights | Total | Performance Based |
| Directors | $ | $ | $ | $ | $ | $ | $ | |
| Dr D King | 59,361 | - | - | 5,639 | - | 24,340 | 89,340 | 27.00% |
| P Lansom | 389,037 | 100,000 | - | 21,003 | 29,555 | 283,229 | 822,824 | 47.00% |
| R Shorrocks | 91,324 | 22,831 | - | 10,845 | - | 96,704 | 221,704 | 54.00% |
| S Kelemen | 65,000 | - | - | - | - | 24,340 | 89,340 | 27.00% |
| G Grieve | 48,630 | - | - | 4,620 | - | - | 53,250 | 0.00% |
| Total | 653,352 | 122,831 | - | 42,107 | 29,555 | 428,614 | 1,276,459 | |

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

(*) Cash bonuses are paid at the discretion of the Board. The cash bonus paid in the 2020 year was recognition for the successful execution of the 2019 drilling and completion programme, conducted safely, within budget and on schedule.

### C Service agreement

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

Peter Lansom, Managing Director
Term of agreement – open-ended agreement commencing 31 October 2013:

- Contract provides for salary review, current base salary amended to $410,040 including superannuation
- Salary rate is reviewed annually in line with a performance review
- Short Term Incentive (STI) up to a maximum of 30% of the base salary, which will be paid in cash
- The required notice period on termination is three months by either party
- The agreement provides for six months payment for termination under certain conditions

# Directors' Report (continued)

## 14. Remuneration Report (audited) (continued)

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

### D Share based compensation

#### Directors' share options

No additional share options were granted to the Directors in the current financial year. The options granted in the prior financial year were exercised this year.

| | Grant date | Opening balance | Granted as remuneration | Exercised | Expired | Closing balance | % Vested & Exercisable |
|---|---|---|---|---|---|---|---|
| Dr D King | 18-Nov-16 | 800,000 | - | (800,000) | - | - | 100% |
| P Lansom | 18-Nov-16 | 3,500,000 | - | (3,500,000) | - | - | 100% |
| R Shorrocks | 18-Nov-16 | 800,000 | - | (800,000) | - | - | 100% |
| | | 5,100,000 | - | (5,100,000) | - | - | |

#### Performance rights

During the previous year ended 30 June 2019, the following performance rights were granted to directors as part of their remuneration.

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

Subject to the director remaining an employee, the performance rights granted during the previous year ended 30 June 2019 will vest when at least 500PJ of 2P reserves are booked on or before 30 November 2020. The exercise price of the performance rights is nil.

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

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

No performance rights vested during the year and no performance rights were exercisable as at 30 June 2020.

# Directors' Report (continued)

## 14. Remuneration Report (audited) (continued)

### E Key Management Personnel shareholdings

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

| 30 June 2020 | Balance at beginning of year | Granted as remuneration during the year | Shares acquired | Other changes | Balance at end of year |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| Dr David King | 641,434 | - | 800,000 | - | 1,441,434 |
| Peter Lansom | 5,234,601 | - | 3,500,000 | - | 8,734,601 |
| Ray Shorrocks | 1,273,886 | - | 954,000 | - | 2,227,886 |
| Stephen Kelemen | 120,000 | - | 14,000 | - | 134,000 |
| Gordon Grieve | - | - | 25,000 | - | 25,000 |
| **Total Directors** | 7,265,921 | - | 5,293,000 | - | 12,562,921 |

### F Loans to Key Management Personnel

| | **30 Jun 20** | 30 Jun 19 |
|---|---|---|
| | **$** | $ |
| Loan to Managing Director | **437,500** | - |

Loan was provided for the sole purpose of facilitating the exercise of the 18 November 2019 Options, an initial term of 12 months was subsequently amended to 18 months, with interest payable accruing from 18 November 2020.

The loan attracts an interest rate of 3% on the amount of the loan from 18 November 2020, with interest and principal repayable in two equal instalments, varied from 18 May 2020 and 18 November 2020 to 18 November 2020 and 18 May 2021.

### G Transactions with Directors or Director related entities

Nil

### End of audited Remuneration Report (audited)

## 15. Non-audit services

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

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

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

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

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

| | **30 Jun 20** | 30 Jun 19 |
|---|---|---|
| | **$** | $ |
| Non-audit services | | |
| - Tax consulting and compliance services | **20,056** | 12,700 |

## Auditor's independence declaration

The auditor's independence declaration is included on Page 12 of the financial report for the year. Signed in accordance with a resolution made pursuant to s306(3) of the Corporations Act 2001. On behalf of the Directors

Raymond Shorrocks
Chairman

Brisbane, 24 September 2020

# Audit Independence Declaration

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Level 10, 12 Creek St
Brisbane QLD 4000
GPO Box 457 Brisbane QLD 4001
Australia



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

As lead auditor of Galilee Energy Limited for the year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been:

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

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

TJ Kendall

**T J Kendall**
Director

**BDO Audit Pty Ltd**

Brisbane, 24 September 2020

# Consolidated Statement of Profit or Loss & Other Comprehensive Income

for the year ended 30 June 2020

| | Note | Consolidated 30 Jun 20 $ | 30 Jun 19 $ |
|---|---|---|---|
| **Revenue and other income** | | | |
| Interest received | | **276,272** | 313,590 |
| Other income | | **98,000** | - |
| | | **374,272** | 313,590 |
| **Expenses** | | | |
| Exploration and evaluation costs | 3 (a) | **(13,668,593)** | (7,787,158) |
| Employee benefits expense | 3 (b) | **(2,615,265)** | (2,836,527) |
| Consulting fees | 3 (c) | **(282,424)** | (284,934) |
| Business development | | **(18,263)** | (97,365) |
| Administration expenses | 3 (d) | **(679,289)** | (757,804) |
| **Total expenses** | | **(17,263,834)** | (11,763,788) |
| **Loss before income tax** | | **(16,889,562)** | (11,450,198) |
| Income tax benefit/(expense) | 4 | **-** | - |
| **Loss for the year** | | **(16,889,562)** | (11,450,198) |
| **Other comprehensive (loss)/income, net of income tax** | | | |
| **Items that may be reclassified subsequently to profit or loss** | | | |
| Exchange differences on translation of foreign operations | | **(650)** | 65 |
| **Total other comprehensive income, net of income tax** | | **(650)** | 65 |
| **TOTAL COMPREHENSIVE LOSS** | | **(16,890,212)** | (11,450,133) |
| **LOSS PER SHARE** | | **Cents** | **Cents** |
| Basic loss per share | | **6.7** | 5.3 |
| Diluted loss per share | | **6.7** | 5.3 |

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

# Consolidated Statement of Financial Position
as at 30 June 2020

| | Note | Consolidated | |
|---|---|---|---|
| | | **30 Jun 20** | 30 Jun 19 |
| | | **$** | $ |
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 8 | **18,088,918** | 11,543,465 |
| Trade and other receivables | 9 | **1,186,631** | 334,093 |
| Inventory | | **1,324,524** | - |
| Total current assets | | **20,600,073** | 11,877,558 |
| **Non-current assets** | | | |
| Trade and other receivables | 9 | **1,272,866** | 1,339,145 |
| Property, plant and equipment | 10 | **96,568** | 91,203 |
| Right of use asset | 11 | **90,139** | - |
| Total non-current assets | | **1,459,573** | 1,430,348 |
| **Total assets** | | **22,059,646** | 13,307,906 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 12(a) | **2,247,113** | 1,362,319 |
| Provisions | 13 | **-** | 780,913 |
| Lease liability | 12(b) | **94,477** | - |
| Total current liabilities | | **2,341,590** | 2,143,232 |
| **Non-current liabilities** | | | |
| Trade and other payables | 12(a) | **63,277** | 69,082 |
| Provisions | 13 | **1,664,636** | 1,332,748 |
| Lease liability | 12(b) | **26,912** | - |
| Total non-current liabilities | | **1,754,825** | 1,401,830 |
| **Total liabilities** | | **4,096,415** | 3,545,062 |
| **NET ASSETS** | | **17,963,231** | 9,762,844 |
| **EQUITY** | | | |
| Issued capital | 14 | **107,895,707** | 83,792,426 |
| Reserves | 15 | **(4,971,552)** | (5,722,094) |
| Accumulated losses | | **(84,960,924)** | (68,307,488) |
| **TOTAL EQUITY** | | **17,963,231** | 9,762,844 |

The above statement of financial position should be read in conjunction with the accompanying notes.

# Consolidated Statement of Changes in Equity
for the year ended 30 June 2020

| | Issued Capital | Accumulated Losses | Non-controlling Interests Elimination Reserve | Foreign Currency Translation Reserve | Share-based Payments Reserve | Total |
|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ |
| Balance at 1 July 2019 | **83,792,426** | **(68,307,488)** | **(7,656,400)** | **(47,806)** | **1,982,112** | **9,762,844** |
| Loss for the period | **-** | **(16,889,562)** | **-** | **-** | **-** | **(16,889,562)** |
| Other comprehensive loss | **-** | **-** | **-** | **(650)** | **-** | **(650)** |
| Total comprehensive loss | **-** | **(16,889,562)** | **-** | **(650)** | **-** | **(16,890,212)** |
| Contributions of equity net of transaction costs | **24,103,281** | **-** | **-** | **-** | **-** | **24,103,281** |
| Share-based payments expense | **-** | **-** | **-** | **-** | **987,318** | **987,318** |
| Transfers | **-** | **236,126** | **-** | **-** | **(236,126)** | **-** |
| | **24,103,281** | **236,126** | **-** | **-** | **751,192** | **25,090,599** |
| Balance at 30 June 2020 | **107,895,707** | **(84,960,924)** | **(7,656,400)** | **(48,456)** | **2,733,304** | **17,963,231** |
| | | | | | | |
| Balance at 1 July 2018 | 65,346,715 | (56,857,290) | (7,656,400) | (47,871) | 257,968 | 1,043,122 |
| Loss for the period | - | (11,450,198) | - | - | - | (11,450,198) |
| Other comprehensive loss | - | - | - | 65 | - | 65 |
| Total comprehensive loss | - | (11,450,198) | - | 65 | - | (11,450,133) |
| Contributions of equity net of transaction costs | 18,445,711 | - | - | - | - | 18,445,711 |
| Share-based payments expense | - | - | - | - | 1,724,144 | 1,724,144 |
| | 18,445,711 | - | - | - | 1,724,144 | 20,169,855 |
| Balance at 30 June 2019 | 83,792,426 | (68,307,488) | (7,656,400) | (47,806) | 1,982,112 | 9,762,844 |

The above statement of changes in equity should be read in conjunction with the accompanying notes.

# Consolidated Statement of Cash Flows
for the year ended 30 June 2020

| | Note | Consolidated 30 Jun 20 $ | 30 Jun 19 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Payments for exploration (including GST) | | **(14,682,872)** | (10,760,398) |
| Payments to suppliers and employees (including GST) | | **(3,761,008)** | (2,181,339) |
| GST refunds received | | **1,292,766** | 1,003,739 |
| Other income received | | **98,000** | |
| Interest received | | **271,851** | 284,568 |
| Interest paid | | **(3,777)** | |
| **Net cash used in operating activities** | 24 (a) | **(16,785,040)** | (11,653,430) |
| | | | |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | **(76,161)** | (110,958) |
| Refunds of/(Payments for) bonds and deposits | | **142,216** | (54,118) |
| **Net cash provided by/(used in) investing activities** | | **66,055** | (165,076) |
| | | | |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of shares | | **24,115,003** | 18,699,503 |
| Share issue costs | | **(761,722)** | (253,792) |
| Payment for principal portion of lease liabilities | 12(b) | **(88,843)** | - |
| **Net cash provided by financing activities** | | **23,264,438** | 18,445,711 |
| | | | |
| **Net Decrease in cash and cash equivalents** | | **6,545,453** | 6,627,205 |
| | | | |
| Cash and cash equivalents at the beginning of the period | | **11,543,465** | 4,916,260 |
| Effects of exchange rates on cash | | **-** | - |
| **Cash and cash equivalents at the end of the period** | 8 | **18,088,918** | 11,543,465 |

The above statement of cash flows should be read in conjunction with the accompanying notes.

# Index to Notes

# Notes to the Consolidated Financial Statements
for the year ended 30 June 2020

## 1. General information

These financial statements include the consolidated financial statements and Notes of Galilee Energy Limited (the Company) and its controlled entities (Galilee Energy or "the Group"). Galilee Energy Limited is a for-profit entity for the purpose of preparing the financial statements. The financial statements were approved for issue by the Directors on 24 September 2020.

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

Level 6, 167 Eagle Street
BRISBANE QLD 4000

### Principal activities

Galilee Energy Limited and Subsidiaries, (the Group) principal activities are to carry out oil and gas exploration and appraisal. The Group has tenement interests and exploration and evaluation activities in Australia, the United States and Chile.

## 2. 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.

### Basis of preparation

### Compliance with accounting standards

These general-purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting standards Board ("AASB") and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB"). The Group is a for-profit entity for financial reporting purposes.

### Going concern & judgements

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

Despite the considerable disruption on global markets due to the uncertainty surrounding the COVID-19 pandemic, the Galilee Board and management teams have considerable experience in the sector and have successfully worked through such market volatility and uncertainty and through prudent management we are in a position to focus on the delivery of our growth plans due to the strong financial position of the Company. The Board does not believe the COVID-19 pandemic will impact at all on the ability of the Company to prosecute its strategy nor on its ability to continue as a going concern.

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

### New, revised or amending Accounting Standards and Interpretations adopted

The Group has adopted all the mandatory new and amended Accounting Standards issued that are relevant to its operations and effective from 1 July 2019 for the reporting period.

The only new accounting standard adopted by the Group is AASB16 – Leases, effective 1 July 2019.
AASB16 was issued in February 2016 and adoption is mandatory for financial years commencing on or after 1 July 2019. The Group has changed its accounting policies as a result of adopting AASB 16. The impact of the adoption of this standard and the new accounting policies are disclosed below.

# Notes to the Consolidated Financial Statements (continued)

## 2. Significant accounting policies (continued)

### AASB 16 Lease – Impact of adoption

AASB16 results in almost all leases being recognised in the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The only lease effected by the adoption of the new standard is the Group's lease of office premises at 167 Eagle Street, Brisbane. The Group has applied the modified retrospective approach and has not re-stated comparative amounts for the year prior to adoption.

The impact on the Statement of Financial Position as at 01 July 2019 is the recognition of right of use asset of $161,683 after allowing for incentives and a corresponding lease liability of $214,009. Refer to Note 11 and Note 12(b) for further information.

### Accounting Policy AASB 16 - Leases

The Group leases its office premises in Brisbane. Rental contracts are typically made for fixed periods of 3 to 8 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, however leased assets may not be used as security for borrowing purposes.

Until the 2019 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 July 2019, leases are recognised as a right of use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payments that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Right of use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received plus any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

### Critical accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement when applying the Group's accounting policies. These estimates and judgements are continually evaluated

# Notes to the Consolidated Financial Statements (continued)

## 2. Significant accounting policies (continued)

and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the Group and that are believed to be reasonable under present circumstances.

The critical estimates and judgements applied in the preparation of the financial statements are as follows:

### Provision for rehabilitation

The Group's exploration activities are subject to various laws and regulations governing the protection of the environment, which require the rehabilitation of permit areas following the completion of exploration and/or production. The Group estimates the future rehabilitation costs at the time of drilling the wells or installation of the assets.

Rehabilitation could involve re-vegetation of the land area affected and the removal of oil and gas wells, and other surface plant and equipment. In some cases, the rehabilitation will occur many years into the future. The Group recognises management's best estimate of the nature, extent and cost of the rehabilitation obligations in the period in which they arise. The Group appoints an independent expert to advise on the cost to rehabilitate each well. In addition, future changes to environmental laws and regulations, production estimates and discount rates may affect the calculation of the estimated cost of the rehabilitation estimates. As a result, actual costs incurred in future periods may differ from the estimates.

Within the Glenaras Gas Project area there are two legacy vertical pilots, the Rodney Creek and Glenaras five spot vertical well pilots. Galilee worked with several service companies to design a system to rehabilitate these wells. This work was completed in the 2020 financial year.

At 30 June 2020, the cost of the future rehabilitation work on the remaining wells required has been independently assessed by a specialist third party company. These cost estimates have been indexed at CPI (assumed to be 2.0%) to the future date that the rehabilitation work is expected to be undertaken. The resultant schedule of cash flows is then discounted to obtain a present value of the potential rehabilitation liability. With respect to wells drilled and completed as possible production wells, it is assumed that the rehabilitation will be undertaken in 2030 financial year. The total of the rehabilitation provision at reporting is $1,664,636 (current - nil and non-current $1,664,636).
(2019: current $759,104 and non-current $1,280,423).

### Joint arrangements

The Group has interests in a number of joint arrangements in the USA:

In accordance with *AASB 11 Joint Arrangements*, the accounting treatment adopted for these joint arrangements depends upon an assessment of the rights and obligations of the parties to the arrangement that are established in each of the joint operating agreements (JOAs) or the farm-in agreement as the case may be. The JOA or farm-in agreement sets out the voting rights of the parties to the agreement. The voting rights determine who has control i.e. the power to direct the operating activities of the joint arrangement.

Based on an analysis of each JOA and farm-in agreement, the Group has classified each of its joint arrangements as a "joint operation" in accordance with the requirements of AASB 11 in that:

- there is joint control because all decisions about the operating activities requires unanimous consent of all the parties, or a group of the parties considered collectively; and
- each party to the joint operation has rights to its respective interest in the assets and revenue of the arrangement, and obligations for its share of the liabilities and expenditure.

As a result, the Group recognises in its financial statements its share of the revenue, expenses, assets and liabilities of each of the joint operations in which it has an interest.

### Loans to and investments in subsidiaries

The parent entity has recorded its investments in subsidiaries at cost of $24,098,886 (2019: $24,098,886) less provisions for impairment of $24,098,886 (2019: $24,098,886). The parent entity has also loaned funds to its subsidiaries of $14,178,134 (2019: $14,178,557) primarily to fund exploration activities. The parent entity has impaired the carrying amount of loans by $14,178,134 (2019: $14,178,557). The impairment of the investments and loans has been based on the underlying net assets of the subsidiaries. In future periods, as the exploration activities progress on the various areas of interest, and with changes in other market conditions, the carrying amounts of investments and loans may need to be reassessed in line with the net asset position of the subsidiaries or as otherwise appropriate.

# Notes to the Consolidated Financial Statements (continued)

## 2. Significant accounting policies (continued)

### Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in Note 19.

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Galilee Energy Limited (''company'' or ''parent entity'') as at 30 June 2020 and the results of all subsidiaries for the year then ended. Galilee Energy Limited and its subsidiaries together are referred to in these financial statements as the "consolidated entity".

### Principles of consolidation

### Subsidiaries

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. Subsidiaries are all those entities over which the consolidated entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The effects of potential exercisable voting rights are considered when assessing whether control exists. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transaction between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group. Investments in subsidiaries are accounted for at cost in the individual financial statements of Galilee Energy Limited.

### Joint arrangements

Joint arrangements are arrangements in which one or more parties have joint control. Joint arrangements are classified as either joint operations or joint ventures.

### Joint operations

The Group has entered into joint arrangements which are classified as joint operations because the parties to the joint arrangements have rights to the assets and obligations for the liabilities, rather than to the net assets, of the joint arrangements. The Group has recognised its direct right to, as well as its share of jointly held, assets, liabilities, revenues and expenses of joint operations which have been included in the financial statements under the appropriate headings.

### Joint Ventures

Interests in joint ventures are accounted for in the consolidated financial statements using the equity method. Under the equity method of accounting, the Group's share of the movements in statement of profit or loss and other comprehensive income of joint ventures are recognised in consolidated statement of profit or loss and other comprehensive income. The cumulative movements are adjusted against the carrying amount of the investment.

When the Group's share of post-acquisition losses in a joint venture exceeds its interest in the joint venture (including any long term interests that form part of the Group's net investment in the joint venture), the Group does not recognise further losses unless it has obligations to, or has made payments, on behalf of the associate.

### Foreign currency translation

### Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is Galilee Energy Limited's functional and presentation currency.

# Notes to the Consolidated Financial Statements (continued)

## 2. Significant accounting policies (continued)

### Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

### Group companies

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

- assets and liabilities for the statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for the statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments are recognised in other comprehensive income.

When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

### Interest income

Interest income is recognised on a time proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

### Government grants

Grants that compensate the Group for expenses incurred e.g. Research and Development are recognised in profit or loss when received and are offset against the expenditure to which the grant relates. The state and federal governments have announced temporary measures to help small and medium businesses during the economic downturn associated with the COVID-19 pandemic. The Group received government relief in the form of Job Keeper payments and a temporary cash flow boost payment.

### Research and development

Research and development expenditure is recognised as an expense as incurred. Costs incurred on research and development projects (relating to the design and testing of new or improved products or processes) are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other developmental expenditures that do not meet these criteria are recognised as an expense when incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised on a straight-line basis over the asset's useful life from the point at which the asset is ready for use.

# Notes to the Consolidated Financial Statements (continued)

## 2. Significant accounting policies (continued)

### Income tax

The income tax expense or revenue for the year is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in subsidiaries where the parent company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Galilee Energy Limited and its wholly owned Australian resident entities have implemented the tax consolidation legislation.

The head entity, Galilee Energy Limited, and the subsidiaries in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Galilee Energy Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from subsidiaries in the tax consolidated group for the purposes of tax consolidation, where considered recoverable.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

### 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.

# Notes to the Consolidated Financial Statements (continued)

## 2. Significant accounting policies (continued)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit and loss. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date.
Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability are recognised in accordance with AASB 9 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured.

### Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.
For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows, which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

### Cash and cash equivalents

For Statement of Cash Flows presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less or that are otherwise readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts are shown within financial liabilities in current liabilities on the statement of financial position.

### Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less impairment. Trade receivables are normally due for settlement no more than 30 days from the date of recognition.

### Impairment

The Group assesses on a forward looking basis the expected credit loss associated with its debt instruments carried at amortised cost. For trade receivables and loans to employees the Group applies the simplified approach permitted under AASB 9, which requires expected lifetime losses to be recognised from initial recognition. There were no trade receivables at 30 June 2020. Loans to employees is secured by shares thus nil expected credit losses were recognised.

### Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and impairment losses if applicable. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

With the exception of certain equipment, which is depreciated on a units of use basis, depreciation is calculated on a declining basis to allocate the cost of each asset, net of its residual values, over its estimated useful life.
The following rates of depreciation are used:

| | |
|---|---|
| Office equipment | 15% - 30% |
| Plant and equipment | 4% - 50% |

# Notes to the Consolidated Financial Statements (continued)

## 2. Significant accounting policies (continued)

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.

### Inventory

Inventories are stated at the lower of cost or net realisable value. Cost includes the cost of purchase net of discounts received and other costs incurred to bring the inventories to their present location and condition. Inventories include spares, consumables, maintenance and drilling tools used for ongoing operations and are valued at cost and expected to be consumed in the next 12 months.

### Right of use asset

The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all the risks and rewards of ownership of the underlying asset to the Group. Under AASB 16 Leases, the Group recognises the right of use asset and lease liabilities in the Statement of Financial Position. The asset is then depreciated over the life of the lease.

The Group recognises a right of use asset of $161,683 and a corresponding future lease liability of $214,009 at 1 July 2019 in the Statement of Financial Position. The resultant impact of the new standard on profit or loss is the recognition of an expense for the amortisation of the right of use asset of $71,544 and interest expense of $3,777.

### 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.

### Exploration and evaluation expenditure

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement in determining whether it is likely that future economic benefits are likely either from future exploitation or sale or where activities have not reached a stage which permits a reasonable assessment of the existence of resource. The determination of a mineral resource is itself an estimation process that requires varying degrees of uncertainty, and this directly impacts on the application of full cost for areas of interest. All costs are expensed in the period it is incurred until such time as an economically recoverable resource has been identified.

### Provisions

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

### Rehabilitation

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

Where there are a number of similar obligations, the likelihood that an outflow will be required 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 an independent assessment of the 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.

# Notes to the Consolidated Financial Statements (continued)

## 2. Significant accounting policies (continued)

### Employee benefits

#### Short-term obligations

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

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

#### Other long-term obligations

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

#### Retirement benefit obligations

The Group makes contributions to defined superannuation funds. The contributions are recognised as an expense as they become payable.

#### Share-based equity settled benefits

The Group provides additional benefits to employees in the form of share-based compensation, whereby, subject to certain conditions, part of an employee’s remuneration includes an entitlement to receive performance rights or options over shares ("equity-settled transactions").

The fair value of the share-based compensation granted to employees and consultants is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options or performance rights.

Fair value of a performance right or option is measured at grant date using a binomial or Black-Scholes pricing model that takes into account the exercise price, the term, any market performance conditions (the impact of non-market performance vesting conditions is excluded), the underlying share price at grant date, the expected price volatility of the underlying share, the expected dividend yield and the expected risk free interest rate for the term of the option or performance right.

Non-market vesting conditions are taken into account in the estimate of the number of rights or options that are expected to ultimately vest. At the end of each reporting period, the number of rights/options expected to vest based on the non-market vesting conditions is revised. The impact of the revision to the original estimates, if any, is recognised in profit or loss with a corresponding adjustment to equity. An expense is still recognised for options that do not ultimately vest because a market condition was not met.

### Issued capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

If the entity reacquires its own equity instruments, e.g. as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled.

No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

### Earnings per share

#### Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

# Notes to the Consolidated Financial Statements (continued)

## 2. Significant accounting policies (continued)

### 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.

### Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case, it is recognised as part of the cost of acquisition of the asset or as part of the expense.
Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

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

# Notes to the Consolidated Financial Statements (continued)

## 3. Expenses

| | | Consolidated | |
|---|---|---|---|
| | | **30 Jun 20** | 30 Jun 19 |
| Loss before income tax includes the following specific expenses: | | **$** | $ |
| **(a)** | **Exploration and evaluation expenditure** | | |
| | Australia | **(13,668,212)** | (7,756,413) |
| | United States | **-** | - |
| | Chile | **(381)** | (30,745) |
| | | **(13,668,593)** | (7,787,158) |
| **(b)** | **Employee benefits expense** | | |
| | Employee benefits expense | **(1,267,280)** | (852,306) |
| | Directors' fees | **(283,250)** | (216,250) |
| | Share based payments expense | **(987,318)** | (1,724,144) |
| | Defined contribution superannuation expense | **(77,417)** | (43,827) |
| | | **(2,615,265)** | (2,836,527) |
| **(c)** | **Contractor and consultants' costs** | | |
| | Consulting fees | **(282,424)** | (284,934) |
| | | **(282,424)** | (284,934) |
| **(d)** | **Other expenses include the following specific items:** | | |
| | Auditors remuneration | | |
| | - auditing or reviewing the financial reports | **(45,591)** | (47,432) |
| | - taxation services | **(20,056)** | (12,700) |
| | Finance costs associated with lease liabilities | **(3,777)** | (74,927) |
| | Other occupancy costs | **(30,021)** | (4,876) |
| | Depreciation | **(142,340)** | (98,931) |
| | Other administration and office costs | **(439,212)** | (517,623) |
| | Foreign exchange losses/gains (net) | **1,708** | (1,315) |
| | | **(679,289)** | (757,804) |

# Notes to the Consolidated Financial Statements (continued)

## 4. Income tax

| | Consolidated | |
|---|---|---|
| | 30 Jun 20 | 30 Jun 19 |
| **Recognised in the statement of profit or loss and other comprehensive income** | $ | $ |
| Current tax benefit | **(4,780,900)** | 2,820,045 |
| De-recognition of deferred tax losses | **4,780,900** | (2,820,045) |
| | **-** | - |
| **Numerical reconciliation of income tax expense to prima facie tax on accounting profit** | | |
| Loss before income tax | **(16,889,562)** | (11,450,198) |
| Tax at the Australian tax rate of 30% (2019 30%) | **(5,066,869)** | 3,435,059 |
| Tax effect of amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Non-deductible expenses | **(10,226)** | (97,771) |
| Share-based payments expensed | **296,195** | (517,243) |
| Research and development tax offset received | **-** | - |
| Prior year tax losses converted to research and development tax offset | **-** | - |
| Current year tax losses not recognised | **4,780,900** | (2,820,045) |
| Income tax expense/(credit) | **-** | - |
| **Unused tax losses** | | |
| **Income losses** | | |
| Australian income losses | **70,050,812** | 62,133,446 |
| US income losses | **12,060,233** | 12,060,233 |
| | **82,111,045** | 74,193,679 |
| Australian capital losses | **3,204,839** | 3,204,839 |
| Total unused tax losses | **85,315,884** | 77,398,518 |
| **Potential tax benefit** | | |
| Australian losses @ 30% | **21,015,244** | 18,640,034 |
| US Losses @ 40% | **4,824,093** | 4,824,093 |
| Capital losses @ 30% | **961,452** | 961,452 |

# Notes to the Consolidated Financial Statements (continued)

## 5. Interests of Key Management personnel

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

| | Consolidated | |
|---|---|---|
| | **30 Jun 20** | 30 Jun 19 |
| | **$** | $ |
| Short-term employee benefits | **653,352** | 589,353 |
| Cash bonus | **122,831** | 100,000 |
| Post-employment benefits | **42,107** | 33,979 |
| Long-term employment benefits | **29,555** | 2,844 |
| Share based payments | **428,614** | 803,228 |
| | **1,276,459** | 1,529,404 |

## 6. Auditor's remuneration

| | Consolidated | |
|---|---|---|
| | **30 Jun 20** | 30 Jun 19 |
| Remuneration of the auditor of the parent company for: | **$** | $ |
| Audit services | | |
| - Auditing or reviewing the financial statements | **45,591** | 47,432 |
| Non-audit services | | |
| - Tax consulting and compliance services | **20,056** | 12,700 |
| | **65,647** | 60,132 |

## 7. Earnings per share

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

| | | Consolidated | |
|---|---|---|---|
| | | **30 Jun 20** | **30 Jun 19** |
| (a) | **Earnings used in calculating basic and diluted earnings per share:** | **$** | $ |
| | Loss for the year | **(16,889,562)** | (11,450,198) |
| | Loss used in the calculation of the basic and dilutive earnings per share | **(16,889,562)** | (11,450,198) |
| | | **Number** | **Number** |
| (b) | **Weighted average number of ordinary shares used as the denominator** | | |
| | Weighted average number of ordinary shares used in calculating basic earnings per share | **251,684,919** | **215,629,875** |
| | Adjustments for the calculation of diluted earnings per share: | | |
| | Options/performance rights | **-** | - |
| | Weighted average number of ordinary shares used in calculating diluted earnings per share | **251,684,919** | 215,629,875 |

# Notes to the Consolidated Financial Statements (continued)

## 8. Cash and cash equivalents

| | Consolidated | |
|---|---|---|
| | **30 Jun 20** | 30 Jun 19 |
| | **$** | $ |
| Cash at bank and on hand | **3,188,918** | 2,443,465 |
| Deposits at call | **14,900,000** | 9,100,000 |
| Cash at bank and on hand | **18,088,918** | 11,543,465 |

## 9. Trade and other receivables

| | Note | Consolidated | |
|---|---|---|---|
| | **Note** | **30 Jun 20** | 30 Jun 19 |
| **Current** | | **$** | $ |
| Trade receivables | | **791** | 23,371 |
| GST receivable | | **314,824** | 139,796 |
| Interest receivable | | **41,632** | 40,989 |
| Prepayments | | **79,384** | - |
| Loan to employees | 26 | **750,000** | |
| Rental bond | | **-** | 129,937 |
| | | **1,186,631** | 334,093 |
| | | | |
| **Non-Current** | | **$** | $ |
| Environmental bonds and deposits | | **1,230,748** | 1,210,167 |
| Rental bond | | **42,118** | 128,978 |
| | | **1,272,866** | 1,339,145 |
| | | **2,459,497** | 1,673,238 |

## 10. Property, plant and equipment

| | Consolidated | |
|---|---|---|
| | **30 Jun 20** | 30 Jun 19 |
| | **$** | $ |
| Plant and equipment at cost | **342,723** | 287,044 |
| Accumulated depreciation | **(257,185)** | (204,616) |
| | **85,538** | 82,428 |
| | | |
| Office equipment at cost | **178,628** | 158,146 |
| Accumulated depreciation | **(167,598)** | (149,371) |
| | **11,030** | 8,775 |
| | **96,568** | **91,203** |

# Notes to the Consolidated Financial Statements (continued)

## 10. Property, plant and equipment (continued)

Movements in carrying amounts of property, plant and equipment

| | Office equipment | Plant and equipment | Total |
|---|---|---|---|
| | $ | $ | $ |
| **Balance, 1 July 2019** | **8,775** | **82,428** | **91,203** |
| **Additions** | **20,482** | **55,679** | **76,161** |
| **Disposals** | **-** | **-** | **-** |
| **Depreciation** | **(18,227)** | **(52,569)** | **(70,796)** |
| **Balance, 30 June 2020** | **11,030** | **85,538** | **96,568** |

| | Office equipment | Plant and equipment | Total |
|---|---|---|---|
| | $ | $ | $ |
| Balance, 1 July 2018 | 16,510 | 62,666 | 79,176 |
| Additions | 13,692 | 97,266 | 110,958 |
| Disposals | - | - | - |
| Depreciation | (21,427) | (77,504) | (98,931) |
| Balance, 30 June 2019 | 8,775 | 82,428 | 91,203 |

Non-current assets pledged as security

Refer to note 22 for information on non-current assets pledged as security by the parent company and its subsidiaries.

## 11. Right of use asset

| | Consolidated | |
|---|---|---|
| | **30 Jun 20** | 30 Jun 19 |
| | **$** | $ |
| **Right of use asset** | **161,683** | - |
| **Accumulated amortisation** | **(71,544)** | - |
| | **90,139** | - |

## 12(a). Trade and other payables

| | Consolidated | |
|---|---|---|
| | **30 Jun 20** | 30 Jun 19 |
| **Current** | **$** | $ |
| Trade payables | **2,010,259** | 1,124,333 |
| Other payables | **108,952** | 131,838 |
| Employee benefits | **127,902** | 106,148 |
| | **2,247,113** | 1,362,319 |
| **Non-Current** | | |
| Employee benefits | **63,277** | 15,082 |
| Security bond - sub-lease | **-** | 54,000 |
| | **63,277** | 69,082 |
| | **2,310,390** | 1,431,401 |

# Notes to the Consolidated Financial Statements (continued)

### 12(b). Lease Liability

| | $ |
|---|---|
| **Balance, 1 July 2019** | **214,009** |
| Additions | - |
| Interest expense related to lease liabilities | **(3,777)** |
| Principal repayment of lease liabilities | **(88,843)** |
| **Balance, 30 June 2020** | **121,389** |

The maturity of lease liabilities at 30 June 2020 were as follows:

| | |
|---|---|
| **Period ending 30 June** | |
| 2021 | 100,254 |
| 2022 | 25,307 |
| Effect of discounting | (4,172) |
| **Lease liability 30 June 2020** | **121,389** |
| Short-term lease liability | 94,477 |
| Long-term lease liability | 26,912 |

### 13. Provisions

| | Consolidated | |
|---|---|---|
| | **30 Jun 20** | 30 Jun 19 |
| **Current** | **$** | $ |
| Restoration & rehabilitation | - | 759,104 |
| Obligations under sub-lease | - | 21,809 |
| | - | 780,913 |
| **Non-current** | | |
| Restoration & rehabilitation | **1,664,636** | 1,280,423 |
| Lease incentive | - | 52,325 |
| | **1,664,636** | 1,332,748 |
| | **1,664,636** | 2,113,661 |

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

| | Consolidated | |
|---|---|---|
| | **30 Jun 20** | **30 Jun 19** |
| **Movements in carrying amounts of restoration and rehabilitation provision** | $ | $ |
| Balance at the beginning of the year | **2,039,527** | 1,547,000 |
| Increase/(reduction) in amount provided | **(374,891)** | 492,527 |
| Balance at the end of year | **1,664,636** | 2,039,527 |

In accordance with AASB 137, from 1 January 2017 the Edward Street lease becomes an onerous contract because the economic benefits from occupying the premises are now nil and there is an ongoing cost until the end of the lease term arising from the shortfall in the amount of the sub-lease rental. As a result, a provision for the full amount of the ongoing rental obligations under the sub-lease was initially recognised and is being reduced over the lease term as the sub-lease rental is received. The sub-lease contract expired in November 2019.

# Notes to the Consolidated Financial Statements (continued)

### 13. Provisions (continued)

| | Consolidated | |
|---|---|---|
| | **30 Jun 20** | **30 Jun 19** |
| **Movements in carrying amounts of obligations under sub-lease provision** | **$** | **$** |
| Balance at the beginning of the year | **21,809** | 52,485 |
| Initial recognition of obligations under sub-lease | **-** | **-** |
| Reduction of rental obligations under sub-lease | **(21,809)** | (36,271) |
| Finance charges on unwinding of obligation | - | 5,595 |
| Balance at the end of year | **-** | 21,809 |

### 14. Issued Capital

| | Consolidated | |
|---|---|---|
| | **30 Jun 20** | 30 Jun 19 |
| **Ordinary shares** | **$** | $ |
| Ordinary shares - fully paid | **110,717,946** | 85,852,943 |
| Transaction costs relating to share issues (net of tax) | **(2,822,239)** | (2,060,517) |
| | **107,895,707** | 83,792,426 |

| | **30 Jun 20** | 30 Jun 19 | **30 Jun 20** | 30 Jun 19 |
|---|---|---|---|---|
| **Movements in ordinary shares** | **Number of Shares** | | **$** | $ |
| Balance at the beginning of the year | **225,679,361** | 189,707,690 | **83,792,426** | 65,346,715 |
| Share placement @ 40 cents | - | 14,155,000 | - | 5,662,000 |
| Share placement @ 60 cents | - | 21,666,671 | - | 13,000,003 |
| Options exercised @ 25 cents | - | 150,000 | - | 37,500 |
| Options exercised @ 12.5 cents | **7,600,000** | **-** | **950,000** | **-** |
| Options exercised @ 25 cents | **2,350,000** | **-** | **587,500** | **-** |
| Options exercised @ 50 cents | **14,155,000** | **-** | **7,077,500** | **-** |
| Options exercised @ 75 cents | **21,666,671** | **-** | **16,250,003** | **-** |
| Share issue costs | - | - | **(761,722)** | (253,792) |
| Balance at the end of the year | **271,451,032** | 225,679,361 | **107,895,707** | 83,792,426 |

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands, every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

### Capital Management

Management controls the capital of the Group to ensure that it can fund its operations and continue as a going concern.

The Group's capital comprises equity as described in the statement of financial position supported by financial assets. There are no externally imposed capital requirements.

Management manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. Responses to these changes include management of debt levels and share issues. There have been no changes in the strategy since the prior year.

# Notes to the Consolidated Financial Statements (continued)

## 15. Reserves

| | Consolidated | |
|---|---|---|
| | **30 Jun 20** | 30 Jun 19 |
| | **$** | $ |
| Share based payments | **2,733,304** | 1,982,112 |
| Foreign currency translation | **(48,456)** | (47,806) |
| Non-controlling interest elimination reserve | **(7,656,400)** | (7,656,400) |
| | **(4,971,552)** | (5,722,094) |

### Share based payments reserve

This reserve reflects the fair value of equity instruments granted under share-based payment arrangements.

### Foreign currency translation reserve

The foreign currency translation reserve records the exchange differences arising on translation of foreign subsidiaries.

### Non-controlling interest's elimination reserve

This reserve has arisen as a result of the acquisition of the non-controlling interests in subsidiary company Galilee Resources Pty Ltd. The value of consideration paid for the non-controlling interests was greater than the carrying value of the non-controlling interests acquired.

| | **Non-controlling interest elimination** | **Foreign currency translation** | **Share based payments** | **Total** |
|---|---|---|---|---|
| **Movements in reserves - 2020** | **$** | **$** | **$** | **$** |
| Balance at the beginning of the year | (7,656,400) | (47,806) | 1,982,112 | (5,722,094) |
| Grant of performance rights | - | - | 987,318 | 987,318 |
| Transfer to retained earnings | | | (236,126) | (236,126) |
| Foreign currency translation | - | (650) | - | (650) |
| Balance at the end of year | (7,656,400) | (48,456) | 2,733,304 | (4,971,552) |
| | | | | |
| **Movements in reserves - 2019** | | | | |
| Balance at the beginning of the year | (7,656,400) | (47,871) | 257,968 | (7,446,303) |
| Grant of performance rights | - | - | 1,724,144 | 1,724,144 |
| Foreign currency translation | - | 65 | - | 65 |
| Balance at the end of year | (7,656,400) | (47,806) | 1,982,112 | (5,722,094) |

## 16. Interest in joint operation

| Subsidiary | Agreement | Interest | Comment |
|---|---|---|---|
| Galilee Energy Texas LLC | Hoffer-Klimitchek Area Lavaca County Participation Agreement and Joint Operating Agreement | 3% | Working interest reduced to 3% after payback. |
| Galilee Energy Kansas LLC | • Key Terms Agreement<br>• Joint Venture Agreement<br>• Joint Operating Agreement | 25%<br>50%<br>75% | Interest earned after:<br>3D seismic<br>Well 1 to Casing point<br>Well 2 to casing point |

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

# Notes to the Consolidated Financial Statements (continued)

## 17. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 2:

| Name of entity | Country of Incorporation | Class of equity | Equity Holding 2020 | Equity Holding 2019 |
|---|---|---|---|---|
| Galilee Resources Pty Ltd | Australia | Ordinary | 100% | 100% |
| Beaconsfield Energy Development Pty Ltd | Australia | Ordinary | 100% | 100% |
| Capricorn Energy Pty Ltd | Australia | Ordinary | 100% | 100% |
| Galilee Energy Surat Pty Ltd | Australia | Ordinary | 100% | 100% |
| Capricorn Agricultural Technologies Pty Ltd | Australia | Ordinary | 100% | - |
| Galilee Energy US LLC | United States | Ordinary | 100% | 100% |
| Galilee Energy Texas LLC | United States | Ordinary | 100% | 100% |
| Galilee Energy Kansas LLC | United States | Ordinary | 100% | 100% |
| Galilee Energy Illinois LLC | United States | Ordinary | 100% | 100% |
| Galilee Energy Chile SpA | Chile | Ordinary | 100% | 100% |

All subsidiaries have the same reporting date as the parent, Galilee Energy Limited.

## 18. Share based payments

### Share-based payments expense

The share-based payments expense included in the financial statement with respect to Options issued during the year is as follows:

| | | Consolidated 30 Jun 20 $ | Consolidated 30 Jun 19 $ |
|---|---|---|---|
| Statement of comprehensive income | | | |
| Share-based payments expense included in employee benefits expense | | **987,318** | **1,724,144** |
| **Movements in share-based payments reserve** | | | |
| Balance at the beginning of the period | | **1,982,112** | 257,968 |
| Share-based payments included in employee benefits expense | | **987,318** | 1,724,144 |
| Transfer to retained earnings | | **(236,126)** | - |
| Balance at the end of the period | 15 | **2,733,304** | 1,982,112 |

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

### Share options

Options are granted either under the Company's Employee Share Incentive Option Plan or on terms determined by the directors or otherwise approved by the Company at a general meeting. The options are granted for no consideration. Options are usually granted for a three to four-year period and entitlements to the options are vested on a time basis and/or on specific performance-based criteria such as share price increases or reserves certification. Options granted either under the plan or otherwise as described above carry no dividend or voting rights. When exercisable, each option is convertible to one ordinary share.

During the year, no share options were granted to employees, contractors, and investors.

# Notes to the Consolidated Financial Statements (continued)

## 18. Share based payments (continued)

### Share options (continued)

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

| Grant date | Expiry date | Opening balance | Granted during the period | Forfeited during the period | Exercised during the period | Expired during the period | Closing balance | % Vested & Exercisable |
|---|---|---|---|---|---|---|---|---|
| 18-Nov-16 | 18-Nov-19 | 7,600,000 | - | - | (7,600,000) | - | - | 100% |
| 1-Dec-17 | 31-Dec-19 | 2,350,000* | - | - | (2,350,000) | - | - | 100% |
| 10-Jul-18 | 18-Nov-18 | 14,155,000* | - | - | (14,155,000) | - | - | 100% |
| 11-Dec-18 | 5-Dec-19 | 21,666,671* | - | - | (21,666,671) | - | - | 100% |
| | | 45,771,671 | - | - | (45,771,671) | - | - | |

*Free attaching options as part of capital raising.*

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

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

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

### Employee Performance Share Rights

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

The object of the plans is to:

(a) provide an incentive for employees/contractors to remain in their employment and continue to provide services to the Group in the long term;

(b) recognise the ongoing efforts and contributions of employees/contractors to the long-term performance and success of the Group; and

(c) provide employee/contractors with the opportunity to acquire performance rights, and ultimately shares in Galilee Energy Limited.

Performance Rights are issued for no consideration and provide an equity-based reward for employees that is linked with achieving performance conditions determined when the Performance Rights are granted. The performance criteria are determined on a case by case basis by the Board. These performance criteria are likely to be matters such as length of employment, successful operational results and/or direct increase in shareholder value linked to the share price of the Company or performance targets.

# Notes to the Consolidated Financial Statements (continued)

## 18. Share based payments (continued)

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

| Granted during the year | Grant Date | Expiry Date | Assumed Vesting Date | Share Price at Grant Date (cents) |
|---|---|---|---|---|
| 200,000 | 16-Jul-19 | 30-Nov-20 | 30-Nov-20 | 115.00 |
| 250,000 | 27-Dec-19 | 30-Nov-20 | 30-Nov-20 | 67.00 |

The following table shows the movement in the number of performance rights granted in the current and prior periods and the balance at 30 June 2020.

| Grant date | Expiry date | Opening balance | Granted during the period | Forfeited during the period | Exercised during the period | Expired during the period | Closing balance | % Vested |
|---|---|---|---|---|---|---|---|---|
| 30-Nov-18 | 30-Nov-20 | 4,700,000 | | - | - | - | 4,700,000 | 0% |
| 19-Dec-18 | 30-Nov-20 | 3,750,000 | | - | - | - | 3,750,000 | 0% |
| 20-Dec-18 | 30-Nov-20 | 1,000,000 | | - | - | - | 1,000,000 | 0% |
| 16-Jul-19 | 30-Nov-20 | - | 200,000 | - | - | - | 200,000 | 0% |
| 27-Dec-19 | 30-Nov-20 | - | 250,000 | - | - | - | 250,000 | 0% |
| | | 9,450,000 | 450,000 | - | - | - | 9,900,000 | |

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

The 2019 exploration program included three additional lateral wells which were drilled successfully at the Glenaras Pilot and have been brought online with the de-watering process ongoing. An externally certified reserves booking will be possible following the commencement of commercial gas flow rates. The progress of gas flow rates from these wells and from further drilling will be known over future months. The potential exists for a reserves booking by the end of November 2020 and as such there exists the potential for an exercise date for the performance rights of 30 November 2020.

# Notes to the Consolidated Financial Statements (continued)

## 19. Parent company information

The assets, liabilities and results of the parent company are disclosed below in accordance with the accounting policy described in Note 2.

| Galilee Energy Limited | 30 Jun 20<br>$ | 30 Jun 19<br>$ |
|---|---|---|
| **Assets** | | |
| Current assets | **20,654,467** | 11,802,015 |
| Non-current assets | **1,417,455** | 1,453,566 |
| Total assets | **22,071,922** | 13,255,581 |
| | | |
| **Liabilities** | | |
| Current liabilities | **2,369,609** | 2,143,232 |
| Non-current liabilities | **2,874,913** | 1,349,505 |
| Total liabilities | **5,244,522** | 3,492,737 |
| **Net assets** | **16,827,400** | 9,762,844 |
| | | |
| **Shareholders' Equity** | | |
| Issued capital | **107,895,707** | 83,792,426 |
| Reserves | **2,733,304** | 1,982,112 |
| Accumulated losses | **(93,801,611)*** | (76,011,694) |
| **Total shareholders' equity** | **16,824,400** | 9,762,844 |
| | | |
| Loss for the year | **(18,026,044)** | (12,586,069) |
| | | |
| Total comprehensive loss for the year | **(18,026,044)** | (12,586,069) |

**Includes $236,126 adjustment from share option reserve to opening retained earnings.*

The parent company did not have any contingent liabilities at 30 June 2020 (2019: $Nil). The parent company has not entered into any guarantees in relation to the debts of its subsidiaries (2019: $Nil).

## 20. Contractual commitments

The parent company had no contractual commitments for the acquisition of property, plant and equipment at 30 June 2020 (2019: $ Nil). The parent company has not guaranteed the debts of any subsidiary company (2019: $ Nil), other than through its tax sharing and tax funding agreements.

## 21. Contingent Liabilities

The directors are not aware of any contingent assets or liabilities for the Group (2019: $Nil).

## 22. Commitments

### Bank guarantees

National Australia Bank have provided bank guarantees totalling $1,236,590 (June 2019: $1,432,806) as follows:
The bank guarantees are secured by term deposits.

- $1,194,472 (June 2019: $1,173,891) to the State of Queensland in respect of the Group's exploration permits and environmental guarantees; and
- $42,118 (June 2019: $258,915) to the landlord of the Brisbane office premises to support the Group's obligations under the lease of the Eagle Street, Brisbane premises.

### Exploration expenditure

In order to maintain its interests in the exploration permits in which the Group is involved, the Group is required to meet certain conditions imposed by the various statutory authorities granting the exploration permits or that are imposed by the various joint arrangements entered into by the Group. These conditions include minimum expenditure commitments.

# Notes to the Consolidated Financial Statements (continued)

### Exploration expenditure (continued)

At balance date, the Group's minimum work program commitments for the Galilee Basin permit (ATP 2019) have been met. For Springsure (ATP 2050) and Kumbarilla (ATP 2043), these permits are respectively in years 1 and 2 of their initial, four year work program with all commitments currently having been met.

Actual expenditure may vary significantly from the minimum commitment obligations and will be dependent on the outcome of exploration activity currently being planned.

Commitments in the United States of America and South America in the next 12 months are $nil (2019: $nil). There are no commitments beyond 30 June 2020.

## 23. Segment Information

### Identification of reportable segments

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

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

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

### Segment performance

The following table shows the revenue and exploration and evaluation expenditure information regarding the Group's operating segments for 30 June 2020 and 30 June 2019.

| | Australia | | United States | | South America | |
|---|---|---|---|---|---|---|
| | Qld | Illinois | Texas | Kansas | Chile | Total |
| **30 June 2020** | $ | $ | $ | $ | $ | $ |
| **Segment Result** | | | | | | |
| Exploration & evaluation costs | (13,668,212) | - | - | - | (381) | (13,668,593) |
| Segment result before tax | (13,668,212) | - | - | - | (381) | (13,668,593) |
| | | | | | | |
| **Reconciliation of segment result to Group loss before tax** | | | | | | |
| Interest revenue | | | | | | 276,272 |
| Other income | | | | | | 98,000 |
| Employee benefits expense | | | | | | (2,615,265) |
| Consulting fees | | | | | | (282,424) |
| Business development | | | | | | (18,263) |
| Administration expenses | | | | | | (679,289) |
| **Loss before tax** | | | | | | (16,889,562) |
| | | | | | | |
| **30 June 2019** | | | | | | |
| **Segment Result** | | | | | | |
| Exploration & evaluation costs | (7,756,413) | - | - | - | (30,745) | (7,787,158) |
| Segment result before tax | (7,756,413) | - | - | - | (30,745) | (7,787,158) |
| | | | | | | |
| **Reconciliation of segment result to Group loss before tax** | | | | | | |
| Interest revenue | | | | | | 313,590 |
| Other income | | | | | | - |
| Employee benefits expense | | | | | | (2,836,527) |
| Consulting fees | | | | | | (284,934) |
| Business development | | | | | | (97,365) |
| Administration expenses | | | | | | (757,804) |
| **Loss before tax** | | | | | | (11,450,198) |

# Notes to the Consolidated Financial Statements (continued)

## 24. Notes to the Statement of Cash Flows

| | Note | Consolidated | |
|---|---|---|---|
| | | **30 Jun 20** | 30 Jun 19 |
| **(a) Reconciliation of cash flow from operations** | | **$** | $ |
| Loss for the period | 23 | **(16,889,562)** | (11,450,198) |
| Depreciation | | **142,340** | 98,931 |
| Share-based payments | | **987,318** | 1,724,144 |
| Net exchange differences | | **(650)** | 65 |
| ***Changes in operating assets and liabilities*** | | | |
| Decrease in trade and other receivables | | **(153,091)** | (120,143) |
| Decrease in trade payables and accruals | | **799,682** | (2,493,285) |
| Decrease/(Increase) in prepayments | | **(79,384)** | 49,009 |
| (Decrease)/Increase in provisions | | **(330,527)** | 538,047 |
| (Decrease)/Increase in inventory | | **(1,261,166)** | - |
| | | **(16,785,040)** | (11,653,430) |

**(b) Non-cash financing and investing activities**

| | Consolidated | |
|---|---|---|
| | **30 Jun 20** | 30 Jun 19 |
| | **$** | $ |
| Shares issued under employee share option plan | **750,000** | - |
| | **750,000** | **-** |

**(c) Reconciliation of liabilities arising from financial activities**

| | 1 Jul 19 Opening balance | Cash Inflows | Cash outflows | Non-cash changes | 30 Jun 20 Closing balance |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Lease liability | 214,009 | - | 92,620* | - | 121,389 |
| | 214,009 | - | 92,620 | - | 121,389 |

**Include interest expense payment related to lease liabilities*

## 25. Events occurring after reporting date

The sum of $3.78 million was received on 13 July 2020 with respect to an R&D tax offset claim. Neither this matter or any other matters or circumstances will significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in future financial years.

## 26. Related party transactions

### Parent entity

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

### Subsidiaries

Interests in subsidiaries are set out in note 17.

# Notes to the Consolidated Financial Statements (continued)

## 26. Related party transactions (continued)

### Key management personnel

### Loan to Managing Director

The Company has an employee share option plan (ESOP Plan). Pursuant to the ESOP Plan and having secured shareholder approval, the Company has issued options to certain directors and senior employees to acquire fully paid ordinary shares in the Company (Options). Rule 15.1 of the ESOP Plan Rules (Plan Rules) provides that the Company may offer a loan to a participant in the ESOP Plan who holds Options to enable the participant to pay the exercise price of the Option.

Various Options were due to expire on 18 November 2019 and, in accordance with the ESOP Plan Rules, the Directors approved loans to option holders to the value of $750,000 for the sole purpose of satisfying the exercise price of Option (Loans). Included in the loans is an amount of $437,500 to the Managing Director, Mr Peter Lansom.

The terms and conditions of the loans are as follows:

1. The loans are provided for the sole purpose of facilitating the exercise of the 18 November 2019 Options;
2. An initial term of 12 months subsequently varied to 18 months, with interest payable accruing from 18 November 2020, subject to earlier repayment in accordance with Rule 15 of the ESOP Plan Rules;
3. An interest rate of three (3) % on the amount of the loan;
4. Interest and principal are repayable in two (2) equal instalments, varied from 18 May 2020 and 18 November 2020 to 18 November 2020 and 18 May 2021; and
5. If the Participant:
    a. fails to comply with a term or condition of the loan or the ESOP Plan; or
    b. becomes bankrupt; or
    c. fails to repay any amount outstanding under or in connection with the loan when required to do so,

the Company may purchase the shares from the employee or direct that they be sold to a nominee of the Company at a price not less than the lesser of the purchase price of the shares paid by the employee and the market price thereof at the date of such disposition.
The Company shall apply the proceeds from the disposal of the shares towards satisfaction of any amounts outstanding under or in connection with the loan.

Any remaining amount of the loan shall be immediately due and payable by the director or employee to the Company. Supplementary information relating to key management personnel are set out in the remuneration report.

### Terms and conditions

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

### Transactions with controlled entities

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

- Loans advanced to subsidiaries; and
- Investments in subsidiaries

Loans to subsidiaries have been impaired as noted in Note 2 Critical Estimates and Judgements – Loans to and investments in subsidiaries. The loans to subsidiaries are interest free, repayable in cash at call and are unsecured.

## 27. Financial risk management

### Overview

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

# Notes to the Consolidated Financial Statements (continued)

## 27. Financial risk management (continued)

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

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

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

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

| | | Consolidated | |
|---|---|---|---|
| | Note | 30 Jun 20 | 30 Jun 19 |
| **Financial Assets** | | $ | $ |
| Cash and cash equivalents | 8 | **18,088,918** | 11,543,465 |
| | | **18,088,918** | 11,543,465 |
| **Financial Liabilities** | | | |
| Trade and other payables | 12(a) | **2,310,390** | 1,431,401 |
| Lease liabilities | 12(b) | **121,389** | - |
| | | **2,431,779** | 1,431,401 |

Risk management is carried out under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas, such as mitigating foreign exchange, interest rate and credit risks, use of derivative financial instruments and investing excess liquidity.

Specific financial risk exposures and management are summarised below.

### Interest rate risk

Exposure to interest rate risk arises on cash and term deposits recognised at reporting date because a future change in interest rates will affect future cash flows received from variable rate financial instruments or the fair value of fixed rate financial instruments.

Interest rate risk is managed by forecasting future cash requirements (generally up to one year). Cash deposit interest rate information is obtained from a variety of banks over a variety of periods (usually one month up to six-month term deposits) and funds are then invested in an optimised fashion to maximise interest returns.

The Group's financial assets and liabilities bear variable or effective interest rates which are summarised in the table below.

| | Interest rate (% p.a.) | |
|---|---|---|
| | Variable Interest Rate | Effective Interest Rate |
| **Financial Asset** | | |
| Cash and cash equivalents | 0.4% - 2.7% | |
| **Financial Liability** | | |
| Lease Liability | | 4% |

# Notes to the Consolidated Financial Statements (continued)

### 27. Financial risk management (continued)

#### Interest rate sensitivity

The following table illustrates sensitivities to the Group's exposures to changes in interest rates. The table indicates how profit and equity values reported at balance date would have been affected by changes in the relevant risk variable. These sensitivities assume that the movement in a particular variable is independent of other variables.
A sensitivity of 2% interest rate has been selected as this is considered reasonable given the current market conditions. A 2% movement in interest rates at the reporting date would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2020.

| Interest rate sensitivity | Profit or Loss | | Equity | |
|---|---|---|---|---|
| | 2% increase | 2% decrease | 2% increase | 2% decrease |
| **2020 - Consolidated** | $ | $ | $ | $ |
| Cash and cash equivalents and restricted cash | 361,778 | (361,778) | 361,778 | (361,778) |
| **2019 - Consolidated** | | | | |
| Cash and cash equivalents and restricted cash | 230,869 | (230,869) | 230,869 | (230,869) |

#### Credit risk

The Group is exposed to significant credit risk through its cash and cash equivalents. At 30 June 2020, the Group had $3.189 million excluding term deposits (2019: $2.433 million) in accounts with the National Australia Bank.

#### Liquidity risk

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

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

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

| | Note | <1 year | >3 years | >5 years | Total Contractual Cash Flows | Carrying Amount |
|---|---|---|---|---|---|---|
| **Consolidated - 30 June 2020** | | $ | $ | $ | $ | $ |
| Trade and other payables | 12(a) | 2,247,113 | - | 63,277 | 2,310,390 | 2,310,390 |
| Lease liability | 12(b) | 94,477 | 26,912 | - | 121,389 | 121,389 |
| | | 2,341,590 | 26,912 | 63,277 | 2,431,779 | 2,431,779 |
| **Consolidated - 30 June 2019** | | | | | | |
| Trade and other payables | 12(a) | 1,362,319 | 54,000 | 15,082 | 1,431,401 | 1,431,401 |

#### Foreign exchange risk

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

# Notes to the Consolidated Financial Statements (continued)

## 27. Financial risk management (continued)

As a result of activities overseas, the Group's statement of financial position can be affected by movements in exchange rates. The Group also has transactional currency exposures. Such exposures arise from transactions denominated in currencies other than the functional currency of the Group. The Group's exposure to foreign currency risk primarily arises from the Group's operations overseas, namely in the USA.

The Group currently does not engage in any hedging or derivative transactions to manage foreign currency risk. The Group's policy is to generally convert its local currency to US dollars at the time of transaction. The Group has, on rare occasions, taken the opportunity to move Australian dollars into foreign currency (ahead of a planned requirement for those foreign funds) when exchange rate movements have moved significantly in favour of the Australian dollar, and management considers that the currency movement is extremely likely to move back in subsequent weeks or months. Therefore, the opportunity has been taken to lock in currency at a favourable rate to the Group. This practice is expected to be the exception, rather than the normal practice.

### Fair value estimation

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

# Directors' declaration

The directors of the Company declare that:

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

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

   (b) Give a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the year ended on that date.

2. The Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards.

3. In the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

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

Raymond Shorrocks
Chairman

Brisbane, 24 September 2020

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# INDEPENDENT AUDITOR'S REPORT

To the members of Galilee Energy Limited

## Report on the Audit of the Financial Report

### Opinion

We have audited the financial report of Galilee Energy Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

(i) Giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and

(ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Going Concern

| Key audit matter | How the matter was addressed in our audit |
|---|---|
| **Refer to Note 2**<br><br>The financial statements have been prepared on the going concern basis, which contemplates that the Group will continue to meet its commitments and can therefore continue normal business activities and realise assets and settle liabilities in the ordinary course of business.<br><br>As the Group generates no revenue and is reliant on funding from other sources such as capital raising, there is significant judgement involved in determining whether the going concern basis adopted is appropriate and is critical to the understanding of the financial statements as a whole. As a result, this matter was considered key to our audit. | Our procedures, amongst others, included:<br><br>• Assessing the cash flow forecasts provided by management and challenging the assumptions therein to determine whether there is consistency with management's intention and stated business and operational objectives.<br>• Checking the mathematical accuracy of the cash flow forecasts.<br>• Performing sensitivity analysis, on the cash flow forecast provided to determine if the Group has sufficient funds to continue as a going concern for the next 12 months. |

### Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2020, but does not include the financial report and the auditor's report thereon.

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

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

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

### Responsibilities of the directors for the Financial Report

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

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

**Auditor's responsibilities for the audit of the Financial Report**

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

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

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our auditor's report.

## Report on the Remuneration Report

**Opinion on the Remuneration Report**

We have audited the Remuneration Report included in pages 6 to 10 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Galilee Energy Limited, for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.

**Responsibilities**

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**BDO Audit Pty Ltd**

BDO

Tim Kendall

**T J Kendall**
Director

Brisbane, 24 September 2020