

December 2019 Quarterly Report & Appendix 5B

30 January 2020

Highlights

- ❖ Glenaras Pilot making good progress with build-up testing on Glenaras 14L, the central well in the pilot, showing the well is approximately 80% toward critical desorption.
- ❖ Water rates continuing to decline on all wells, albeit slowly, while gas rates remain at previously reported levels.
- ❖ Drilling rig being secured for the Kumbarilla Walloons coal seam gas program, commencing Q2 2020.
- ❖ Reprocessing of 675km of 2D seismic data across Kumbarilla is complete with positive indications for fracture enhanced permeability in the Walloons.
- ❖ Formal award of new exploration permit, ATP 2050 (Springsure Project), effective 1st February 2020.
- ❖ Strong balance sheet with a 31 December cash and receivables position of \$30.3 million with no debt.

Comments from Managing Director Peter Lansom:

“Galilee has just completed one of the most important quarters in the company’s history through the strong performance of its flagship Glenaras Gas Project and has achieved further strategic growth with exploration commencing in the highly prospective Kumbarilla Project in the Surat Basin whilst adding a third, high value asset to the portfolio - the Springsure Project in the resource rich northern Denison Trough.

“The Glenaras multi-well Pilot has maintained its strong performance through the quarter with water rates continuing to trend in a favourable direction. Pressure build up tests have been conducted on the lateral wells and the resultant data verifies that the R3 coal seam is continuing to depressurise within the Pilot area. The latest pressure data confirms that the central well, Glenaras 14L, is now approximately 80% towards critical desorption level.

“Further production optimization activities are being considered for the Pilot. In the short term this will include increased surveillance of the current wells and the potential for drilling vertical monitoring wells to determine the extent of drawdown from the Pilot due to the high permeability we are experiencing.

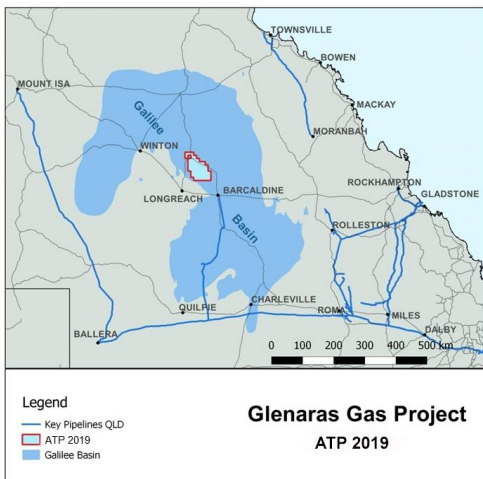
“At Kumbarilla in the Surat Basin, planning is nearing completion for initial exploration drilling, which combined with the reprocessing of over 600km of 2D seismic, will provide increased definition of the Walloon Subgroup and the coal seam gas resource in the permit.

“Finally, Galilee is pleased to have been confirmed as preferred tenderer of ATP 2050, the Springsure Project, with 100% equity. This 1,425km² 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.

“The strong support from our existing shareholders in exercising their options is further endorsement of not only the large Resource base of our Glenaras Gas Project but also demonstrates validation of our growth strategy and I’m delighted the Company has secured this funding which positions us strongly to advance each of our projects in 2020.”

Glenaras Gas Project (ATP 2019) – GLL 100%

Galilee Energy Limited (ASX:GLL) (“Galilee”) is pleased to provide an update on the Glenaras multi-lateral pilot programme (“Pilot”) in the Galilee Basin in Queensland (Figure 1).



The Pilot is part of the Glenaras Gas Project (“Project”) located in ATP 2019, which is 100% owned and operated by Galilee. The Permit covers an area of approximately 4000 km².

The Project has one of the largest contingent gas resources with the potential to supply the eastern Australian market which AEMO forecasts will need supply from currently booked Contingent Resources from the early 2020’s. The independently derived and certified Contingent Resource within the Betts Creek coals are a 1C of 308 PJ, a 2C of 2,508 PJ and a 3C of 5,314 PJ. The Company’s primary focus is on converting these Contingent Resources to Reserves.

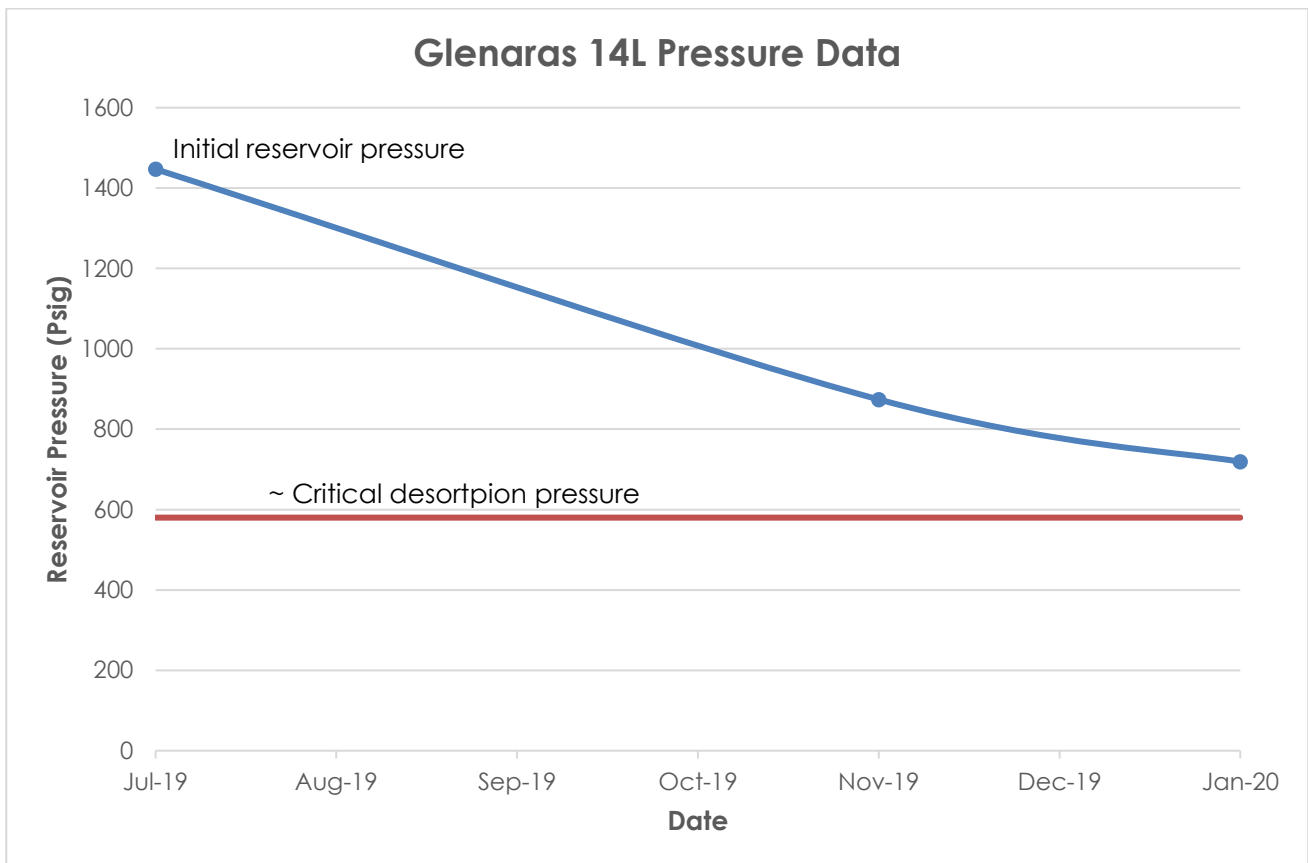
Figure 1 – Glenaras Gas Project

Glenaras Gas Project (ATP 2019) – GLL 100% continued

As previously announced, the Pilot has continued to produce strongly following the installation of a higher capacity pump on Glenaras 15L. All wells within the Pilot have now been fully pumped off since late November 2019, a period of approximately 8 weeks.

Water rates are still declining, albeit slowly, with significant water production and pressure support from the Glenaras 12L and 15L area. These two wells account for 80% of the total water rates from the Pilot. Gas production remains at previously reported rates.

Over the past few weeks several short pressure build-up tests have been conducted on the Pilot lateral wells to determine the level of pressure depletion in the reservoir. These results have been encouraging. The initial reservoir pressure of the R3 coal is approximately 1450 psig. The outer shield wells are showing build-up pressures ranging from 850 to 1000 psig. The central well, Glenaras 14L, has the lowest build up pressure of all the Pilot wells at 720 psig from a three-day test. The graph below depicts the data from the Glenaras 14L well for the 3-day build-up tests conducted in November 2019 and most recently in January 2020, as well as indicating initial pressure and estimated critical desorption pressure. This plot indicates that the Pilot is successfully shielding Glenaras 14L and we are making material headway towards the estimated critical desorption pressure of approximately 550-600 psig. This helps to explain why gas rates have not increased at this point in time, as we are not yet below critical desorption pressure within the Pilot area.



The company will continue to optimise production from the Pilot over the coming months including increased surveillance of the current wells and the potential for drilling vertical monitoring wells to determine the extent of drawdown from the Pilot due to the high permeability we are experiencing.

A successful Pilot achieving commercial gas rates has the potential to book 500 PJ+ of Proved and Probable Reserves. The Pilot will be on production for an extended period to de-water and lower the pressure in the surrounding coal to achieve gas flow.

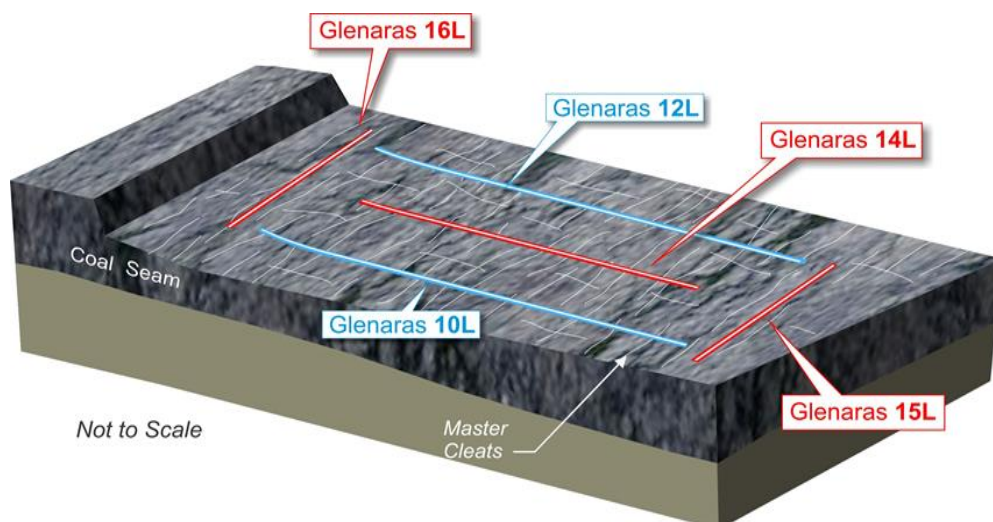


Figure 2 – Enhanced multi-lateral programme

Kumbarilla Project (ATP 2043)

Kumbarilla was awarded to Galilee (100% equity) effective 1st August 2019 for a term of 6 years. A total of 504 PJ of 2C CSG Contingent Gas Resources have been independently certified in the Walloon Subgroup by MHA Petroleum Consultants (“MHA”) with additional potential for conventional oil and gas prospectivity (Table A).

Permit	Contingent Gas Resource (PJ)		
	1C	2C	3C
ATP 2043 – Surat Basin	266	504	895
ATP 2019 – Galilee Basin	308	2,508	5,314
Total	574	3,012	6,209

Table A. Galilee Energy Contingent Gas Resource* estimates (as at 1st August 2019).

The exploration work program has commenced and is currently more than 6 months ahead of schedule. Initial drilling is scheduled to commence in April 2020 with the program comprising three core-holes. These wells will acquire a comprehensive suite of coal property data from the Walloon Subgroup coals to confirm prospectivity and support the positioning and planning of a production pilot for the purpose of maturing initial reserves at Kumbarilla. It is anticipated the drilling program will take approximately three to four weeks.

In addition to drilling, 675km of legacy 2D seismic data has been reprocessed using contemporary methods, creating a higher resolution image of the subsurface at Kumbarilla. The improved visualisation allows for identification of areas of increased geological structuring, which may have enhanced the fracture permeability of the Walloons coals to in turn support improved gas and water deliverability (Figure 3). This geological phenomenon is widely recognised on the world-class Undulla Nose immediately to the north of Kumbarilla, where significant CSG to LNG production is operating. The reprocessed seismic data set will subsequently be integrated with new 2D seismic planned to be acquired in 2021, providing full coverage across the permit and the opportunity to high-grade additional Walloons coal seam gas drilling locations and the definition of conventional oil and gas traps, similar to and along trend from the Moonie oil field (30km southwest).

Kumbarilla is strategically located less than 10km from existing CSG production facilities, which may support expedited entry into the eastern Australian gas market upon the confirmation of a commercial reserves volume (Figure 4). Kumbarilla is also positioned immediately adjacent to the south of APLNG’s Ironbark asset, which was purchased from Origin Energy for \$231 million in February 2019.

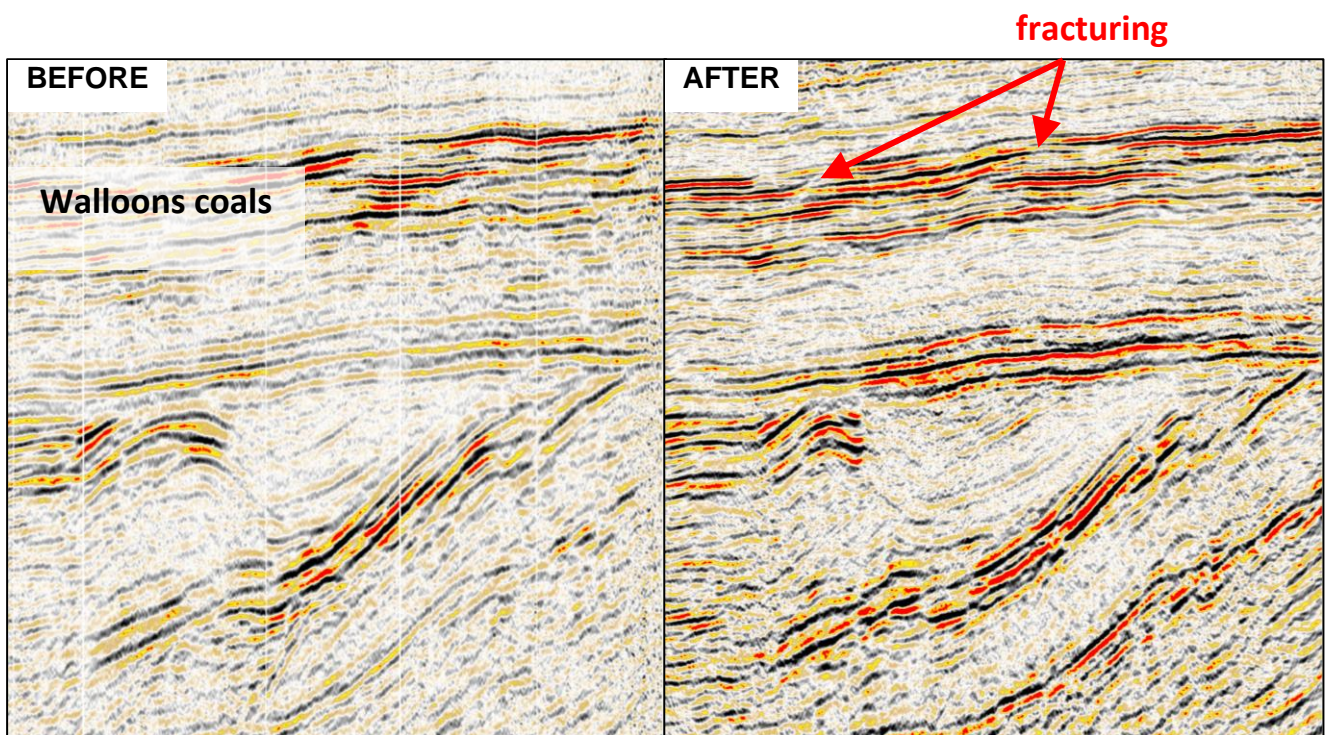


Figure 3 Seismic reprocessing.

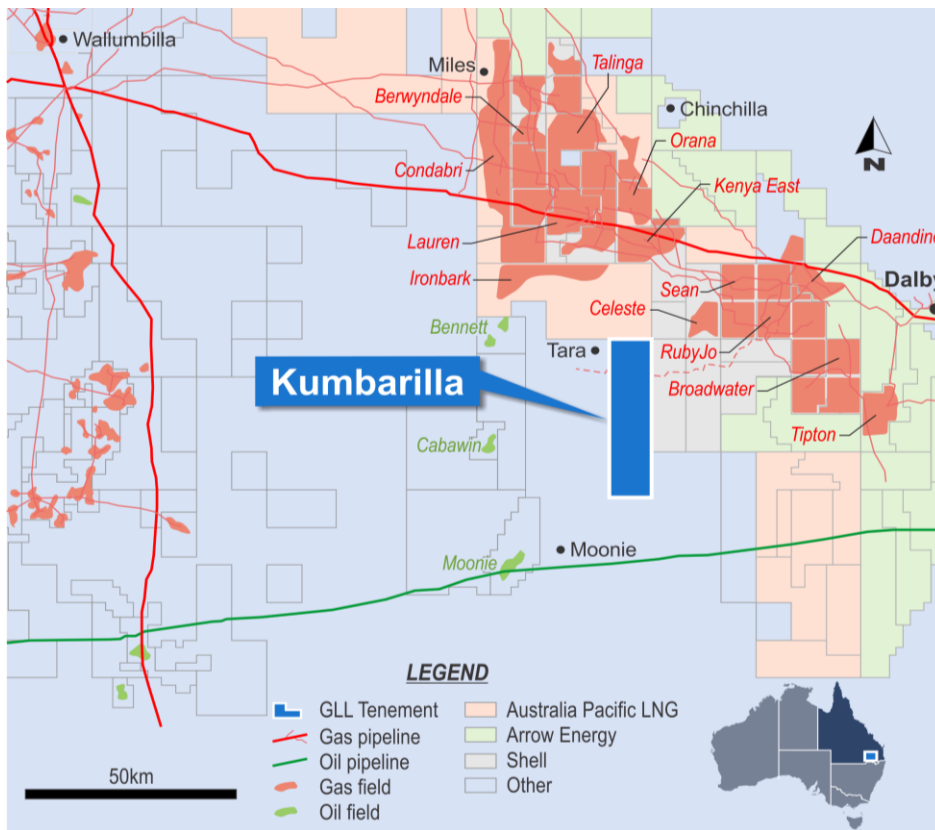


Figure 4 Kumbarilla Project location.

Springsure Project (ATP 2050)

Galilee Energy has formally been awarded operatorship and 100% working interest of ATP 2050, effective 1st February 2020 as per the recent release of new petroleum resource areas by Queensland Government’s Department of Natural Resources, Mines and Energy (DNRME). The tenure has been allocated the number ATP 2050 (Authority to Prospect) by DNRME and Galilee have named the block the Springsure Gas Project.

Springsure has been granted for a six year period, during which time Galilee will execute a staged and technically detailed exploration program to confirm the presence of material gas Resources for future maturation to Reserves and production into the eastern Australian markets.

The Springsure Project consists of 1,425km² of highly prospective acreage in the northern Denison Trough, immediately adjacent to the Northern Denison conventional gas fields and only 25km west of the Mahalo coal seam gas development (Figure 5). Based on current interpretation, Springsure hosts multiple coal seam gas and conventional gas play types which are analogous to the adjacent

producing assets and in terms of perspective regarding the areal size of Springsure, the tenure is large enough to accommodate the combined Northern Denison gas fields and the full Mahalo Development within its boundaries.

The primary target at the Springsure Project is coal seam gas in the Reids Dome Beds, which has proven prospectivity in multiple locations throughout the Denison Trough, in particular at State Gas' Reids Dome Project 30km to the south in PL 231, where recent production testing has yielded encouraging gas flow rates. (Refer to State Gas Limited (ASX: GAS) ASX release, 30 December 2019 and 13 January 2020). The Reids Dome Beds at Springsure are directly on trend, at equivalent depths and larger in areal extent than the same play in PL 231.

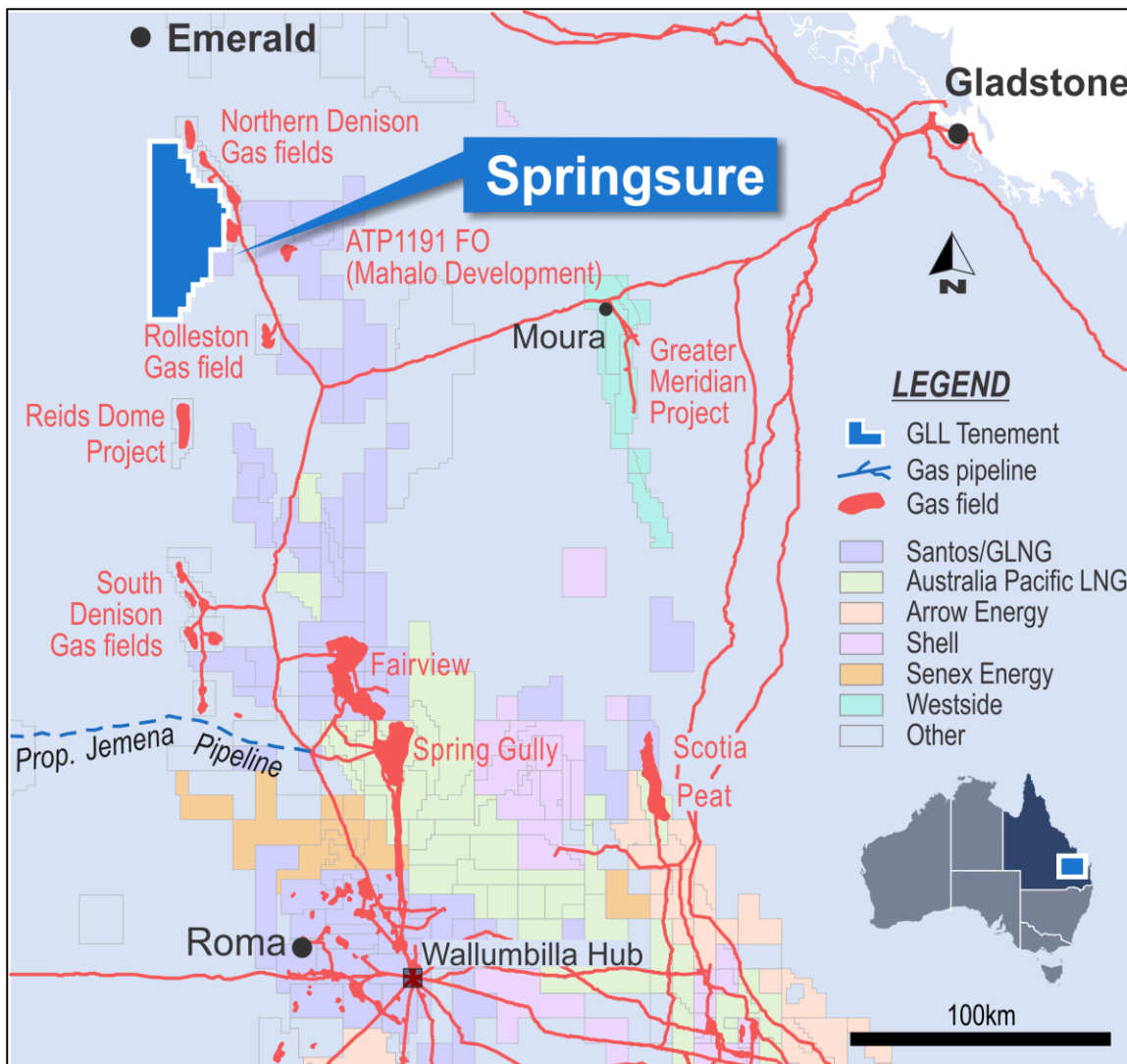


Figure 5 Springsure Project location.

The diversity of coal seam gas and conventional gas targets interpreted at Springsure (Figure 6) are well understood by the Galilee management team, who have extensive experience within the region through exploring, appraising and developing both the Northern Denison gas fields and the Mahalo Development. This collective experience will ensure the full portfolio of coal seam gas and conventional gas plays at Springsure are expeditiously evaluated through the application of contemporary technology within a structured and staged exploration program.

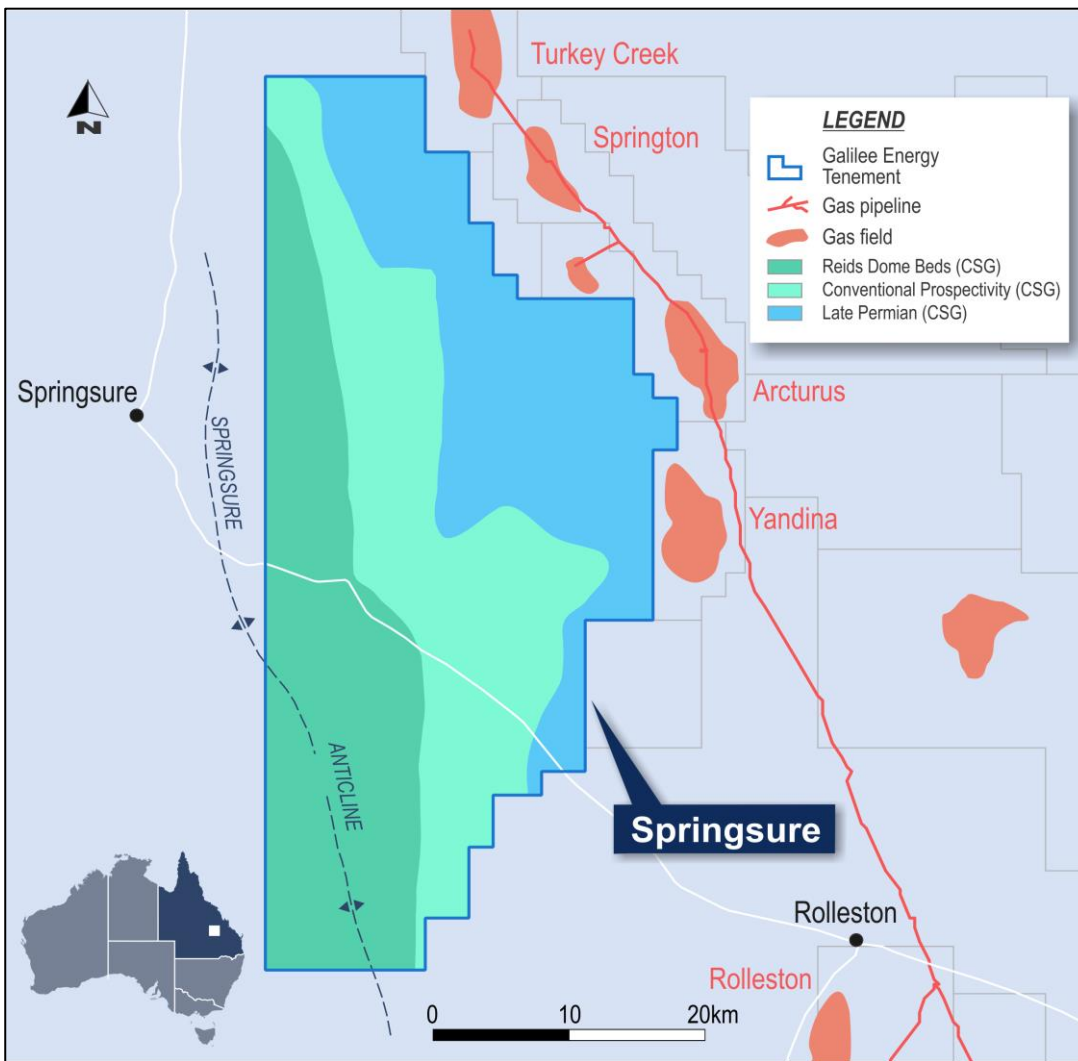


Figure 6 Coal seam gas and conventional gas play fairways.

The Springsure Gas Project is also advantageously positioned to allow multiple potential pathways into the eastern Australian markets including Jemena’s proposed Galilee Gas Pipeline. This proposed pipeline provides the opportunity for Galilee to link two of its key assets, the Springsure Gas Project and the Glenaras Gas Project (ATP 2019) into the eastern Australia markets.

Jemena update

Galilee has agreed an extension to its binding agreement with Jemena to work towards development milestones to fast track plans to deliver a large new source of gas from Galilee’s Glenaras Gas Project to the east coast gas market. Jemena continues to advance the planning of its Galilee Gas Pipeline which would run from the Glenaras Gas Project to Jemena’s Queensland Gas Pipeline.

Ongoing engagement with landholders and findings from initial constructability and ecological surveys has enabled Jemena to be well advanced in its route development. Jemena has passed several significant milestones for the Galilee Gas Pipeline route (Figure 7) connecting the Glenaras Gas Project to the east coast gas market including the formal lodgement of the Voluntary Environmental Impact Statement (EIS) Application and EPBC Act referral with the relevant authorities.

This public recognition of Jemena’s preferred pipeline route is further validation of Jemena’s commitment to transport gas from the Glenaras Gas Project to end users. Following successful Pilot results, the next step by Jemena will be to submit a proposed Terms of Reference for the Galilee Gas Pipeline EIS. These milestones are important steps in proving up a clear pathway to the east coast gas market for the Glenaras Gas Project.



Figure 7 Proposed Galilee Gas Pipeline.

Financials

The cash flow for the Quarter is presented in the Appendix 5B report. The Company continues to maintain a very strong cash and receivables position as at 31 December 2019 of \$30.3 million with no debt.

For further information contact:

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ACN:064 957 419

* Listing Rule 5.42 +

The details of Contingent Resources referenced throughout this Quarterly Activities report in respect to ATP 2019 were announced to the market on 1 September 2015 and in respect to ATP 2043 were announced to the market 1 August 2019. In accordance with Listing Rule 5.34.3, Galilee Energy confirms that it is not aware of any new information or data that materially affects the information in those Market announcements first report the details of the Contingent Resources for ATP 2019 and ATP 2043 respectively and that all of the material assumptions and technical parameters underpinning the estimates in that announcement continue to apply and have not materially changed.

About Galilee

Galilee Energy is focused on creating a mid-tier exploration and production company building on its core strengths in coal seam gas appraisal and development. Its primary area of focus is Queensland where it is appraising the Galilee Basin and exploring in the Surat and Bowen Basins whilst looking to add further high quality acreage to its portfolio.

By authority of the Board:

Directors

Chairman – Ray Shorrocks

Managing Director – Peter Lansom

Non-Executive Director – Dr David King

Non-Executive Director – Stephen Kelemen

Non-Executive Director – Gordon Grieve

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Introduced 01/07/96. Origin: Appendix 8. Amended 01/07/97, 01/07/98, 30/09/01, 01/06/10, 17/12/10, 01/05/13, 01/09/16.

Name of entity

GALILEE ENERGY LIMITED

ABN

11 064 957 419

Quarter ended ("current quarter")

31 December 2019

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows related to operating activities		
1.1 Receipts from customers		
1.2 Payments for:		
(a) exploration & evaluation	(1,945)	(4,467)
(b) development	-	-
(c) production	-	-
(d) staff costs	(219)	(591)
(e) administration and corporate costs	(447)	(637)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	49	109
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other	-	-
1.9 Net cash from / (used in) operating activities	(2,562)	(5,586)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(1)	(15)
(b) petroleum tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-
2.2 Proceeds from the disposal of:		
(a) property, plant and equipment	-	-
(b) petroleum tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-
2.3 Cash flows from loans to other entities	(750)	(750)
2.4 Dividends received (see note 3)	-	-
2.5 Other - Rental bonds received	217	217
2.6 Net cash from / (used in) investing activities	(534)	(548)
3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	-
3.2 Proceeds from sale of convertible notes	-	-
3.3 Proceeds from exercise of share options	22,014	24,865
3.4 Transaction costs related to issues of shares, convertible notes or options	(724)	(746)
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	21,290	24,119

Consolidated statement of cash flows

	Current quarter \$A'000	Year to date \$A'000
4. Net increase/ (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	11,377	11,586
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(2,562)	(5,586)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(534)	(548)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	21,290	24,119
4.5 Effect of movement in exchange rates on cash held	-	-
4.6 Cash and cash equivalents at end of period	29,571	29,571

	Current quarter \$A'000	Previous quarter \$A'000
5. Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts		
5.1 Bank balances	11,894	2,237
5.2 Call Deposits	17,677	9,140
5.3 Bank overdrafts	-	-
5.4 Other (provide details)	-	-
5.5 Cash and cash equivalents at end of quarter (should equal item 4.6 above)	29,571	11,377

	Current quarter \$A'000
6. Payments to directors of the entity and their associates	
6.1 Aggregate amount of payments to these parties included in item 1.2	180
6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	438
6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

6.1 - Directors' fees.

6.2 - Loan of \$437,500 provided to Mr Peter Lansom for the purpose of funding the exercise price payable in respect of the 18 November 2019 options to acquire shares (Options) in accordance with the terms of the Galilee Energy Employee Share Option Plan Rules.

	Current quarter \$A'000
7. Payments to related entities of the entity and their associates	
7.1 Aggregate amount of payments to these parties included in item 1.2	-
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	


	Total facility amount at \$A'000	Amount drawn at quarter end \$A'000
8. Financing facilities available Add notes as necessary for an understanding of the position.		
8.1 Loan facilities		
8.2 Credit standby arrangements		
8.3 Other (please specify)		
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

	\$A'000
9. Estimated cash outflows for next quarter	
9.1 Exploration and evaluation	(1,695)
9.2 Development	-
9.3 Production	-
9.4 Staff Costs	(226)
9.5 Administration and corporate costs	(325)
9.6 Other (provide details if material)	-
Total estimated cash outflows	(2,246)

	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10. Changes in tenements (items 2.1(b) and 2.2(b) above)				
10.1 Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced				
10.2 Interests in mining tenements and petroleum tenements acquired or increased				

Compliance statement

- This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- This statement gives a true and fair view of the matters disclosed.

Sign here  Date: 30/01/2020
(Company Secretary)

Print name:Stephen Rodgers.....

Notes

- 1 The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
- 2 If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 6: Exploration for and Evaluation of Mineral Resources* and *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
- 3 Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.