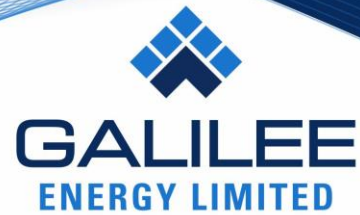


September 2014 quarterly report & Appendix 5B



Galilee Energy Limited (ASX:GLL) (Galilee) ramps up exploration and continues to prepare for additional extensive field activity late 2014 early 2015.

Highlights:

- ❖ **Technical study** with Chile's state owned oil and gas company ENAP in the Magallanes Basin in southern Chile is now almost complete with meetings scheduled in Chile early December to determine the next steps.
- ❖ **Drilling** of the first three prospects in Illinois complete. Encouraging results have confirmed a viable petroleum system and a potential shallow oil resource play. **Drilling continues with one more prospect to be tested in the current programme in late 2014.**
- ❖ **Expansion** of interests in Lavaca County through ground floor participation in an early stage project extending its interest in the Lower Wilcox, and direct participation in two new prospects. **Two wells drilling late Q4 2014.**
- ❖ **Finalised** the formal Joint Venture Agreement and finalising permitting activities within the massive 110,000-acre lease block within the Anadarko Basin on south western Kansas. **Permitting near complete – seismic expected to commence early November 2014.**
- ❖ Galilee continues to maintain a strong cash balance of **\$24.7M** equivalent to ~ 16.2 c/share.

Chile

On 27 May 2014, Galilee signed a memorandum of understanding (MOU) with Chile's state owned oil and gas company, Empresa Nacional del Petróleo (ENAP) to jointly explore for unconventional hydrocarbons in the Magallanes Basin in southern Chile. Extensive technical studies are now almost complete and discussions in Chile with ENAP early December will map the path forward.

Illinois Basin

On 18 June 2014 Galilee announced that it had entered into a Joint Venture agreement under which it will work with a group of experienced US based oil and gas professionals to carry out exploration drilling targeting large, high return, shallow oil prospects in the Illinois Basin, Illinois, USA.

The expected dry hole costs for the wells is less than US\$200,000 each, allowing very inexpensive tests for what are significant targets. This exploration programme, which is continuing, will target Paleozoic reservoirs ranging between 1,200 and 3,000 ft deep in one of the oldest and most prolific oil provinces in the United States.

As announced on 8 October 2014 the drilling programme commenced shortly after the end of the current reporting period, with three of the wells having been drilled at the date of this announcement.

Hanner 1

The first well, Hanner 1 located in Logan County, was drilled to a total depth (TD) of 2,268 ft measured depth (MD). The well encountered the primary Silurian Racine Formation at 1,630 ft MD. While this dolomitic reef facies was encountered on target, the reservoir was not well developed. On drilling through to the secondary Trenton target, continuous oil shows were recorded in the Maquoketa Shale which overlies the Ordovician Trenton / Black River Formation from 1,930 ft MD until the well intersected the porous Trenton Formation at 2,128 ft MD. Oil shows were again encountered in the Trenton / Black River Formation until the well encountered cavernous porosity at 2,250 – 2,260 ft and drilling operations were ceased. A Drill Stem Test (DST) was carried out across the upper Trenton zone (2,140 – 2,186 ft MD) and indicated excellent reservoir quality but did not recover commercial quantities of hydrocarbons.

Wireline logs identified a number of zones of interest, however none of them appear commercial at this time and as a consequence the well was plugged and abandoned. While the test of the Trenton / Black River Formation did not yield oil in commercial quantities, the 300 ft of strong oil shows in the Maquoketa Shale and Trenton / Black River Formations encountered in the well has demonstrated a working petroleum system.

Kramer 1

The second well, Kramer 1 located in Sangamon County, was drilled to a TD of 2,625 ft MD. The well encountered the primary Silurian Racine Formation at 1,600 ft MD, with strong live oil and gas shows recorded in conjunction with a drilling break from 1,652 ft to 1,668 ft MD. A DST carried out across the zone identified good permeability but unfortunately did not recover commercial hydrocarbons. The secondary target Ordovician Galena Group (Trenton Limestone / Black River Formation) was intersected at 2,124 ft MD. Good live oil shows were encountered across the top 56 ft of the zone, however in the absence of good porosity indications, a decision was made to continue drilling until the St Peter Sandstone. This target was intercepted at 2,524 ft MD and drilling terminated at 2625 ft MD due to the absence of hydrocarbon shows. On the inspection of logs following drilling, no further testing was conducted, and the well was plugged and abandoned.

Cunningham 1

The third well, Cunningham 1 located in Sangamon County, was drilled to a TD of 2,556 ft MD. The well encountered the primary Silurian Racine Formation at 1,477 ft MD, with weak oil shows scattered throughout and the zone was not tested. The secondary target Ordovician Galena Group (Trenton Limestone / Black River Formation) was intersected at 1,936 ft MD. Good live oil shows were encountered in the upper portion of the formation. A DST conducted on the upper 82 ft of the formation found the zone to be tight and did not recover commercial hydrocarbons. The well was then deepened intercepting the St Peter Sandstone at 2,320 ft MD and encountering trace to fair oil shows throughout until drilling terminated at 2,556 ft MD. On the inspection of logs following drilling, no further testing was conducted, and the well was plugged and abandoned.

The Maquoketa Shale has long been identified as a potential oil shale play in the Illinois Basin and is the stratigraphic equivalent of the Utica Shale, which is a prolific producer. Logs from both Hanner 1 and Kramer 1 indicate good porosity in the Maquoketa Shale sequence and studies will now investigate samples from the Maquoketa Shale section to identify its potential as a resource play in this area of the Basin, which has seen very few intersections. Additional work will be undertaken to determine where appropriate reservoir development and trapping may exist in proximity to this well.

In Kramer 1 the lower New Albany Group shales were found to contain strong oil and gas shows over an 80 ft high porosity interval and imaging logs were run in the Kramer 1 well to investigate fracture development.

Galilee is continuing to evaluate the results to date.

The rig has now moved onto Wenzel 1, the fourth and final well of the current programme. This well is located approximately 75 miles south of Cunningham 1 in Bond County and on the southern extension of a nearby oil and gas field. The well will target stratigraphically shallower sandstone targets in the Mississippian Cypress, Bethel, Benoist and Renault sandstones thought to drape over Silurian reefal structures at depths of 1,000 ft to 1,500 ft. Wenzel 1 will also be deepened to again test the same targets as the previous wells at slightly deeper depths with the Silurian Racine Formation expected at 2,400 ft, Ordovician Galena (Trenton) Group at 3,200 ft (productive 6 miles north in the Woburn Consolidated field) and Shakopee (Knox) Dolomite at approximately 3,900 ft. Wenzel 1 is prognosed to drill to a total depth of 4,500 ft.

Lavaca County - Texas Gulf Coast

On 24 June 2014 Galilee announced it had acquired a 35% WI (24% WI after payout) in a high impact, liquids rich exploration target in Lavaca County, Texas. Under a Joint Venture agreement Galilee will participate on equal terms with the other participants in a 14,100 ft exploration well "Hoffer B" on the Hoffer Prospect.

On 28 October 2014 Galilee entered into binding agreements to expand the portfolio and participate in a number of new prospects in the vicinity of the exiting Hoffer prospect.

Lower Wilcox Trend

Hoffer B

The well is planned for drilling mid to late December 2014 (subject to the completion of current drilling operations of the rig) and will target a structural closure identified by 3D seismic in the Lower Wilcox formation. The Lower Wilcox reservoir has proven to be a prolific producer in the region and this, combined with the large size of the prospect and the moderate cost of onshore drilling provides a significant high impact addition to Galilee's exploration portfolio. Galilee's expected total cost of participation in the well through to casing point will be less than US \$1.5 m.

Galilee expects the well to deliver sweet natural gas with a good liquids yield. Successful testing of the target will result in immediate follow up development wells and rapid commercialisation with an existing pipeline infrastructure located approximately 500m from the well.

Recent technical studies have indicated that the Lower Wilcox play extends to the northeast of the Hoffer area and Galilee has agreed to participate with a 37.5% working interest in a newly formed AMI to extend over this area. Recent developments in the play have seen the aggressive entry of a major US based E&P company acquire leases on trend and permit a 14,000' test well less than two miles from the proposed Hoffer B well.

Midcox Trend

Calex Resources and its partners have been extremely successful in identifying and successfully drilling shallower (predominantly Midcox) wells structurally up dip from the deeper trend being tested in Hoffer B. As a result of its historical drilling programme there is a deep understanding of the critical success factors for new wells in this play – significantly reducing the exploration risk faced.

In order to balance its risk profile, Galilee has agreed to participate in some shallower (lower cost) wells in this updip trend, which still provide material reserve targets and follow-up drilling.

Within the Midcox, discrete point bar and channel sandstones ranging from 15 ft to 65 ft thick have been found to be highly productive. Porosities are generally in the range of 18-22%, with permeabilities of 20-80 millidarcies.

Dworsky Prospect Area

The Dworsky Prospect area covers an existing 440-acre lease position. The primary objectives for exploration in this area lie in the Midcox section, which is in the depth interval 9,700-11,300 ft. The top of the Midcox section is marked by overpressure at about 9,700-10,100 ft and the base by the erosional unconformity at the Lavaca Channel Erosion Surface at around 11,300 ft.

The analogue wells for the Dworsky prospect area are the three main producers on Hallettsville South field; the Anderson 1 (Middle Midcox, EUR 22 Bcf and 500,000 bo), the Henkes 1 (Lower Wilcox, EUR 7.5 Bcf and 175,000 bo) and the Etzler 1 (Lower Midcox EUR 7.5 Bcf and 250,000 bo). All three wells produce from different Midcox and Lower Wilcox sandstones indicating potential exists for further undrained sandstones in areas away from existing drilling.

Dworsky Haas 1

Drilling is planned for Dworsky Haas 1 late 2014 and will test multiple zones identified on 3D seismic, including three different Midcox sandstones and one of the lower Wilcox sandstones. Galilee has agreed to a 32% WI to casing point (24% WI after casing point) in the Dworsky prospect. The expected total cost to Galilee to casing point is ~US\$786,000.

Galilee will pay an entry cost of US\$114,000 to cover a share of historic lease and seismic costs and the expected total cost to Galilee to casing point is ~US\$900,000 including entry costs.

Spikes Creek East Prospect Area

The Spikes Creek East Prospect area is located 10 miles south-southwest of Hallettsville in Lavaca County. The acreage lies on the downdip one third of the Midcox producing trend, south of the highly productive Exxon Koerth, Trio Hoffer and Trio Hermes Midcox wells. 3D seismic data indicates the presence of a 2000-2500 acre Middle Midcox depositional channel complex, named the Williams Channel, which contains multiple individual sand build-ups ranging in size from 50 to 150 acres which have not been adequately tested by previous drilling.

Williams 2

The first well to be drilled to test the channel axis, Williams 2, is located 2500 ft northeast of Williams 1 flank well which had poor sandstone development. 3D seismic data indicates greatly increased thickness (approximately 200 ft) of Middle Midcox sands at this location, at a structural position high to the previous wells. The prospective area of the axial portion of the Williams Channel covers in excess of 1000 acres providing for multiple follow wells if successful.

The Williams 2 well is forecast to be drilled to depth of 12,500 ft and is currently scheduled to be drilled in Q1 2015.

Galilee has agreed to a 40% WI before payout (32% WI after payout) in the Spikes Creek East prospects. Galilee's entry cost for historical lease and seismic costs is US\$240,000. Total expected cost to Galilee to casing point US\$1,200,000 including entry costs.

Kansas Shallow Oil

On 30 July 2014 Galilee signed a Memorandum of Understanding (MOU) with a group of private investors to progressively earn up to a 75% working interest (WI) in selected areas within 110,000 acres of leases in the Anadarko Basin, south-western Kansas. The MOU allows for Galilee to select the location of operations across existing leases primarily in Meade County, Kansas and to jointly expand the asset within the encompassing 345,600 acre Area of Mutual Interest ("AMI").

Galilee has now executed a Joint Venture Agreement ("JVA") that replaces the MOU.

The key reservoir targets are shallow (4,000-6,000 ft) limestones and sandstones in the Carboniferous section, primarily in the Missourian Lansing and Kansas City groups. The reservoirs are generally from 5 to 40 feet thick and often have more than 20% porosity.

Secondary objectives exist in the slightly deeper Cherokee Group, Marmaton Group, Morrow Sandstone and Mississippi Lime.

Galilee has executed a contract with LoneStar Geophysical Surveys LLC for an approximately 40 sq mile seismic shoot within the AMI. LoneStar, in conjunction with Galilee and its representative, are currently finalising the required permitting for the survey and the Company expects field activities to commence in early November.

Galilee Gas Project (ATP 529P - Galilee 50%, AGL 50% and operator)

Recompletion and restart – delays continue

Subsequent to the update provided to the market in the last quarterly, Galilee continues to work with AGL, the Operator of ATP529P, on progressing with the recompletion and testing of the R1 coal in Glenaras. No further information is available at this time.

Corporate

The Company has commenced an active programme of engaging with existing and potential shareholders. This programme included broker and investor roadshows, as well as presentations and conferences. The positive feedback has resulted in a number of new shareholders, including small cap fund managers, entering the register.

During the Quarter, the Company advised that the Chief Financial Officer (“CFO”) and Company Secretary Simon Brodie would be leaving the Company.

The role was split to part-time and the Company announced the appointment of Mr Stephen Rodgers and Mr Don Langdon as Company Secretary and CFO respectively effective 1 September.

Financials

At the end of the Quarter the company had cash of \$24.7 million and no debt. Current cash would represent approximately 16.2 cents per share. The cash flows for the Quarter are presented in the attached Appendix 5B report.

Appendix 5B

Mining 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

Name of entity

Galilee Energy Limited

ABN

11 064 957 419

Quarter ended ("current quarter")

30 September 2014

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (3 months) \$A'000
1.1 Receipts from product sales and related debtors		
1.2 Payments for (a) exploration & evaluation (b) development (c) production (d) administration	(721)	(721)
	(424)	(424)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	302	302
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other Contract termination	(268)	(268)
	-	-
Net Operating Cash Flows	(1,111)	(1,111)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects (b) equity investments (c) other fixed assets	-	-
	-	-
1.9 Proceeds from sale of: (a) prospects (b) equity investments (c) other fixed assets	129	129
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	(1)	(1)
Net investing cash flows	128	128
1.13 Total operating and investing cash flows (carried forward)	(983)	(983)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

	Current quarter \$A'000	Year to date (3 months) \$A'000
1.13 Total operating and investing cash flows (brought forward)	(983)	(983)
Cash flows related to financing activities		
1.14 Proceeds from issues of shares, options, etc.	-	-
1.15 Proceeds from sale of forfeited shares	-	-
1.16 Proceeds from borrowings	-	-
1.17 Repayment of borrowings	-	-
1.18 Dividends paid	-	-
1.19 Other (provide details if material)	(26)	(26)
Net financing cash flows	(26)	(26)
Net increase (decrease) in cash held	(1,009)	(1,009)
1.20 Cash at beginning of quarter/year to date	25,687	25,687
1.21 Exchange rate adjustments to item 1.20		
1.22 Cash at end of quarter	24,678	24,678

Payments to directors of the entity and associates of the directors
Payments to related entities of the entity and associates of the related entities

	Current quarter \$A'000
1.23 Aggregate amount of payments to the parties included in item 1.2	187
1.24 Aggregate amount of loans to the parties included in item 1.10	

1.25 Explanation necessary for an understanding of the transactions

Payment to related parties for fees per service

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

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2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest

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Financing facilities available

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-
3.2 Credit standby arrangements	-	-

+ See chapter 19 for defined terms.

Estimated cash outflows for next quarter

		\$A'000
4.1	Exploration and evaluation	1,756
4.2	Development	
4.3	Production	
4.4	Administration	274
Total		2,030

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

	Current quarter \$A'000	Previous quarter \$A'000
5.1 Cash on hand and at bank	1,153	562
5.2 Deposits at call	23,525	25,125
5.3 Bank overdraft	-	-
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	24,678	25,687

Changes in interests in mining tenements

	Tenement reference	Nature of interest (note (2))	Interest at beginning of quarter	Interest at end of quarter
6.1	Interests in mining tenements relinquished, reduced or lapsed			
6.2	Interests in mining tenements acquired or increased			

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

Issued and quoted securities at end of current quarter

Description includes rate of interest and any redemption or conversion rights together with prices and dates.

	Total number	Number quoted	Issue price per security (see note 3) (cents)	Amount paid up per security (see note 3) (cents)
7.1 Preference +securities <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 +Ordinary securities	152,140,466			
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 +Convertible debt securities <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 Options <i>(description and conversion factor)</i>				
7.8 Issued during quarter	Unquoted Nil	Nil	<i>Exercise price</i> Nil	<i>Expiry date</i>
7.9 Exercised during quarter				
7.1 Expired during 0 quarter	Unquoted 400,000 400,000 400,000 400,000	Nil	<i>Exercise price</i> Nil Vesting 61.25 cps 21.00 cps 28.00 cps 35.00 cps	<i>Expiry date</i> 1.3.15 1.3.15 1.3.16 1.3.17
7.1 Debentures 1 <i>(totals only)</i>				
7.1 Unsecured notes 2 <i>(totals only)</i>				

+ See chapter 19 for defined terms.

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act or other standards acceptable to ASX (see note 5).
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here: Date: 31 /10/2014
(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 wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
- 2 The "Nature of interest" (items 6.1 and 6.2) includes options in respect of interests in mining tenements acquired, exercised or lapsed during the reporting period. If the entity is involved in a joint venture agreement and there are conditions precedent which will change its percentage interest in a mining tenement, it should disclose the change of percentage interest and conditions precedent in the list required for items 6.1 and 6.2.
- 3 **Issued and quoted securities.** The issue price and amount paid up is not required in items 7.1 and 7.3 for fully paid securities.
- 4 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.
- 5 Accounting Standards ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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