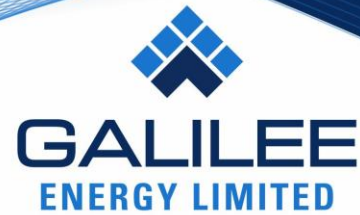


# June 2015 Quarterly Report & Appendix 5B

31 July 2015



**Galilee Energy Limited (ASX:GLL) (Galilee) has made significant progress in implementing its corporate strategy.**

## **Highlights:**

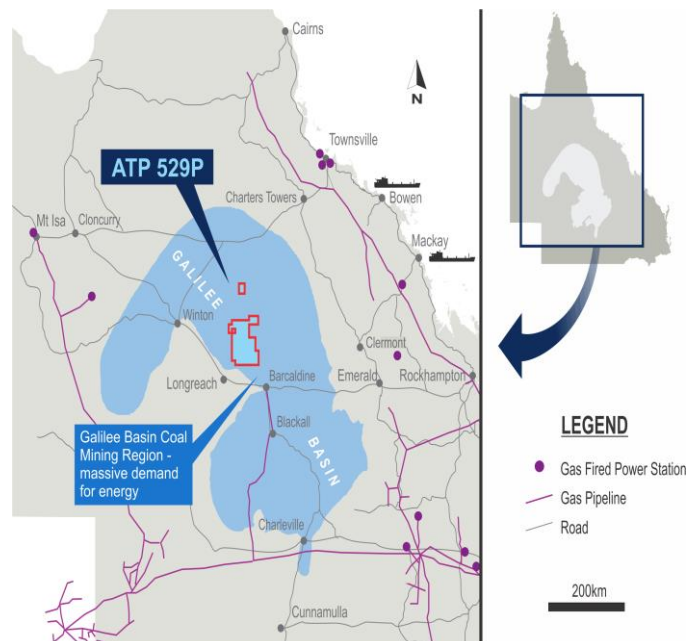
- ❖ **Galilee agreed to acquire 100% of ATP529P** from AGL Energy at no cost, with AGL contributing funds to future operations. Planning is well progressed for the R1 test.
- ❖ **Production testing at Hoffer B1** in Lavaca County with aggregate Midcox production of ~ 6 MMscfd.
- ❖ **Application for CEOP in Chile** submitted to the government.

## **ATP529P**

On 4 June 2015 Galilee announced that AGL Energy Limited ("AGL") had agreed to transfer its 50% interest in ATP 529P to Galilee. The transaction has no upfront cost to Galilee. Formal sale and purchase documentation has been signed and the transaction is expected to complete during mid third quarter 2015 subject to Queensland Government approval. As part of the transaction AGL will also contribute \$590,000 to Galilee to support future operations at Glenaras.

The effect date of the transaction is 1 June 2015. As of 14 July 2015, Galilee was appointed the Operator of the permit.

Galilee believe this permit has the potential to become a material new source of gas supply for the east coast of Australia, and have commenced planning for the workovers required to test the R1 seam. Further information will be provided in coming months regarding the company's plans for the permit.



## **Lavaca County - Texas Gulf Coast**

### **Hoffer B1 Well (Galilee 35% WI, reducing to 28% after payout)**

The Hoffer B1 well was spudded on 6 January 2015 and reached total depth (TD) at 14,150 ft (4,313m) measured depth on 12 March 2015.

As announced on 7 July 2015 testing on this well is progressing. In aggregate, the zones tested in the Midcox units flowed approximately 6 million standard cubic feet of gas per day (MMscfd), with demonstrated liquids content ranging as high as 50 barrels of condensate per million cubic feet of gas produced (bbls/MMscf).

The first of these zones in the Middle Midcox was perforated and production tested at an average flow rate of 3.5 MMscfd of gas at just over 3500 psi flowing tubing pressure on a 17/64" choke. The well also flowed an undetermined amount of associated hydrocarbon liquids, thought to be in the range of 25-50 bbls/MMscf. The testing of this zone was suspended due to a suspected partial failure of the cement job across the interval. Subsequently, a remedial cement job to restore the integrity of the Middle Midcox level was carried out. It appears the remedial cement job was only partially successful in restoring the wellbore integrity in the upper zone, and almost certainly damaged the reservoir in these zones reducing its productivity.

After the remedial cement job, the upper portion of the Middle Midcox in the 11,250-11,420 interval was perforated across approximately 33 ft of net pay. Open hole logs across this zone contained multiple gas-bearing zones, superior in quality and total thickness to the lower zone that tested 3.5 MMscfd with porosity in excess of 23% in some parts. The zone flowed a peak rate of 2.4 MMscfd with a 1017 psi flowing pressure on a 20/64" choke before well integrity issues again impaired testing.

The Operator has recommended that further testing of the Hoffer B1 well in the Midcox interval be suspended due to the poor wellbore conditions. While strong flow rates have been achieved from the interval, the condition on the casing cement is such that stable production is unlikely even if further remedial work is attempted.

Testing on Hoffer B1 will now move up to the Yegua unit, which intersected a 40 ft pay zone in this shallow formation.

The company is confident that the well results demonstrate a gas discovery in the Midcox zones and has engaged an independent reserves auditor to quantify the potential in the area. Future development wells in this area targeting the Midcox unit are able to be carried out under turnkey contracts and are expected to cost less than US\$2.0M (\$640k GLL share) dry hole cost. We look forward to working with the Operator in preparing the development plan for this area and will advise the market of progress in due course. The first development well targeting the Midcox sands discovered in Hoffer B1 is being planned for drilling in the fourth quarter 2015.

Galilee is participating on equal terms with the other Joint Venture partners for a 35% working interest (WI) (reducing to 28% after payout) in the Hoffer Prospect in Lavaca County, Texas.

### **Hoffer Extension Area (Galilee 37.5% WI)**

Work has continued on the 3D seismic data set that covers the Hoffer extension area. This has seen continual refinement of a number of the prospects previously identified. The Joint Venture (JV) now has over 1,500 acres under lease covering a number of quality prospects.

Many of these prospects are dependent on the outcome of production testing of the Hoffer B1 well and the exploration programme for this area will be finalised once this testing is complete.

### **Dworsky Prospect Area (Galilee 32.46% WI, reducing to 24.35% after casing point)**

#### ***Dworsky Haas 1***

Drilling on Dworsky Haas 1 commenced on 14 February 2015 and was drilled to test multiple zones identified on 3D seismic data, including three different Midcox sandstones and one of the lower Wilcox sandstones.

The well was drilled without incident to a TD of 11,600 ft on 11 March 2015. A number of subdued shows were observed in the key Midcox targets, however unfortunately open hole logs identified that these sands were all tight, and unlikely to be capable of commercial production. As a result the deeper part of the well below 10,150 ft was plugged and abandoned, and a testing programme will be conducted on certain shallower show zones encountered in the depth interval 9,000 ft to 10,000 ft. Galilee is currently waiting on the Operator to provide a timeframe for this work, which will commence once testing work is completed at Hoffer B1.

### **Spikes East Prospect Area (Galilee 38.94% WI reducing to 31.15% after payout)**

The Spikes 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 sandstone 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 the Williams 1 flank well which had poor sandstone development. The 3D seismic data indicates greatly increased thickness (approximately 200 ft) of Middle Midcox sandstone 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.

Given the results from the Hoffer B1 well and the desire to start development activities in that field to address the Midcox discovery, Galilee and the other members of the group have agreed to defer drilling of the Williams 2 well until 2016.

Galilee has a 38.94% WI before payout (31.15% WI after payout) in the Spikes Creek East prospects.

### **Illinois Basin (75% WI)**

No activity during the quarter.

Galilee, through its wholly owned US subsidiary funds 100% of the dry hole cost for the first well on each prospect to earn a 75% working interest in the prospect.

### **Kansas Shallow Oil & Gas (farming in to earn up to 75%WI)**

Galilee has a binding Joint Venture Agreement (JVA) to acquire selected leases within a 345,600 acre Area of Mutual Interest (AMI) in Meade County, Kansas. Galilee is the Operator for the JVA.

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.

Late last year Galilee commissioned a ~ 40 square mile 3D seismic survey over the eastern portion of the AMI which was completed in December 2015. The resultant data is excellent, and work has continued with a number of exciting prospects being matured. Further information will be provided in coming months.

Galilee to earn up to a 75% WI via a farmin (25% WI for 3D Seismic – 25% for each well drilled to casing point to a total of 75% WI)

### **Chile**

Late last year Galilee completed its evaluation and study of the Coal Seam Gas (CSG) potential in the Southern Magallanes Basin in Chile. As advised, under the terms of the MOU with Empresa Nacional del Petróleo (ENAP) the detailed results of the study remain confidential at this time. However, the company is able to confirm that the study supports the likely presence of a significant gas resource in the coals of the Oligocene age Loreto Formation.

Galilee has now submitted an application to the Chilean government for an application over an area of almost 6,000 sq.km. The government has requested Galilee provide a presentation on the area's potential, which is a formal part of the application process. This will be conducted in the third quarter 2015.

### **Financials**

The company continues to maintain a very strong cash position of \$16.0 million and no debt. Forecast expenditure for the next quarter includes the forward testing costs for the Hoffer B1 well and the commencement of production testing the R1 seam at ATP529P. At report date limited expenditure is anticipated elsewhere in the portfolio. The cash flow for the Quarter is presented in the attached Appendix 5B report.

Peter Lansom  
Managing Director  
Galilee Energy Limited  
+61 (0) 7 3211 8555

[plansom@galilee-energy.com.au](mailto:plansom@galilee-energy.com.au)

### **About Galilee**

Galilee's Board and management are focused on building and expanding its asset mix to create a mid-tier exploration and production company. Galilee has a clear plan to grow shareholder value and the capacity to execute.

- Strong Balance sheet
- Proven successful Board and Management
- New strategic direction

### **Directors**

Chairman - David King  
Managing Director – Peter Lansom  
Executive Director – Paul Bilston  
Non-executive Director – Ray Shorrocks

### **Shares**

Shares on issue – 152,140,466  
Top 20 holders – 55.51% \*  
Directors and Management – 7.23%

\*As at 6 July 2015

# 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 June 2015

### Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (12 months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors		
1.2 Payments for (a) exploration & evaluation (b) development (c) production (d) administration	(1,520)  (549)	(9,362)  (1,703)
1.3 Dividends received	121	851
1.4 Interest and other items of a similar nature received		
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other Contract termination	- -	(268) -
<b>Net Operating Cash Flows</b>	<b>(1,948)</b>	<b>(10,482)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects (b) equity investments (c) other fixed assets	-  (1)	-  (37)
1.9 Proceeds from sale of: (a) prospects (b) equity investments (c) other fixed assets	-  -	129  -
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	(26)	14
<b>Net investing cash flows</b>	<b>(27)</b>	<b>106</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(1,975)</b>	<b>(10,376)</b>

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity quarterly report**

	Current quarter \$A'000	Year to date (12 months) \$A'000
1.13 Total operating and investing cash flows (brought forward)	(1,975)	(10,376)
<b>Cash flows related to financing activities</b>		
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 (Includes \$671 R&D tax benefit received)	720	694
<b>Net financing cash flows</b>	<b>720</b>	<b>694</b>
<b>Net increase (decrease) in cash held</b>	<b>(1,255)</b>	<b>(9,682)</b>
1.20 Cash at beginning of quarter/year to date	17,318	25,687
1.21 Exchange rate adjustments to item 1.20	(47)	11
1.22 <b>Cash at end of quarter</b>	<b>\$16,016</b>	<b>16,016</b>

**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	210
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

--

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	-	-

+ See chapter 19 for defined terms.

3.2 Credit standby arrangements	-	-
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**Estimated cash outflows for next quarter**

		\$A'000
4.1	Exploration and evaluation	1,490
4.2	Development	
4.3	Production	
4.4	Administration	380
<b>Total</b>		<b>1,870</b>

**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	2,266	1,8767
5.2 Deposits at call	13,750	15,451
5.3 Bank overdraft	-	-
5.4 Other (provide details)		
<b>Total: cash at end of quarter (item 1.22)</b>	<b>16,016</b>	<b>17,318</b>

**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 <b>Preference +securities</b> <i>(description)</i>				
7.2 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs, redemptions				
7.3 <b>+Ordinary securities</b>	152,140,466	152,140,466		
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs				
7.5 <b>+Convertible debt securities</b> <i>(description)</i>				
7.6 Changes during quarter (a) Increases through issues (b) Decreases through securities matured, converted				
7.7 <b>Options</b> <i>(description and conversion factor)</i>	Unquoted 1,150,000 1,150,000 1,150,000	Nil	<i>Exercise price</i> 25 cps 30 cps 35 cps	<i>Expiry date</i> 1.12.15 1.12.16 1.12.17
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 <b>Debentures</b> <i>(totals only)</i>				
7.12 <b>Unsecured notes</b> <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: 31/07 /15  
(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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