Galilee Energy to drill lateral well at Glenaras Pilot

ASX/MEDIA ANNOUNCEMENT

26 July 2016

- **The Glenaras Gas Project is targeting a significant new gas resource in Queensland with over 5000 PJ of 3C Continent Resources**
- **The Glenaras R1 pilot kicked off in 2015 and performance to date is encouraging**
- **Modelling indicates a lateral well through the existing pilot will achieve commercial gas flow from this lower permeability seam in a timely manner. Design of this well has now been finalised**
- **Drilling is planned to commence in August 2016**
- **On success, a first reserves booking for the Galilee Basin should be achieved in early 2017**

The Glenaras Gas Project is located in the highly prospective ATP529 permit in western Queensland within the Galilee Basin. The permit covers an area of approximately 4000 km^2 and is 100% owned and operated by Galilee Energy Limited (Figure 1). The project area contains a significant coal seam gas Contingent Resource position in the Betts Creek coals with a 1C of 308 PJ, a 2C of 2508 PJ and a 3C of 5314 PJ, as a result of the extensive exploration activity within the permit to date.

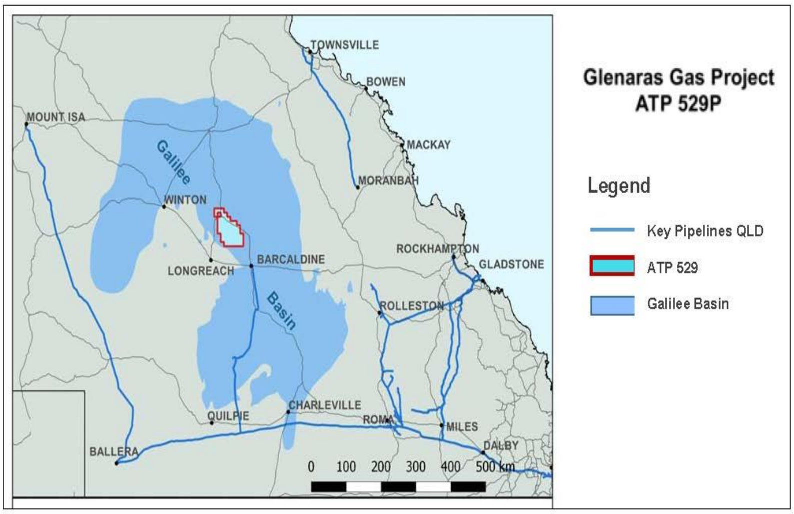

Figure 1

The Glenaras Gas Project – R1 vertical well pilot was initiated in late 2015 by recompleting a single Betts Creek coal seam, the uppermost R1 seam, to avoid accessing any of the water bearing sands. Previous attempts had targeted the lower, more permeable coals but poor completion methods and fracture stimulation had drawn water from the sands thus hindering the drawdown of the coals.

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The performance of the wells to date clearly demonstrates that the new completion design being trialled has not connected the wells to the water bearing sands and has allowed drawdown of the coal only, for the first time.

Production results to date are highly encouraging but do reflect the lower permeability of the R1 coal. Modelling suggests that the five vertical well pilot may achieve critical desorption pressure, but it is more likely the reservoir drawdown is being matched by inflow meaning the pilot is at an equilibrium. To achieve this required drawdown, additional production offtake is required. The Company has sought expert advice to achieve this goal and the recommendation is to drill a lateral well through the middle of the pilot. (see Figure 2.) Recent work in many CSG pilots in Eastern Australia has shown that horizontal drilling can dramatically improve reservoir drawdown and accelerate gas production in lower permeability pilots. That, combined with large reductions in rig rates and improved steering technology, means this technology is a perfect fit to the Glenaras pilot project.

Two existing vertical wells will be utilised for the lateral with the kick-off lateral exiting from the Glenaras 5 wellbore and intersecting Glenaras 3. (see figure 2 & 3.)

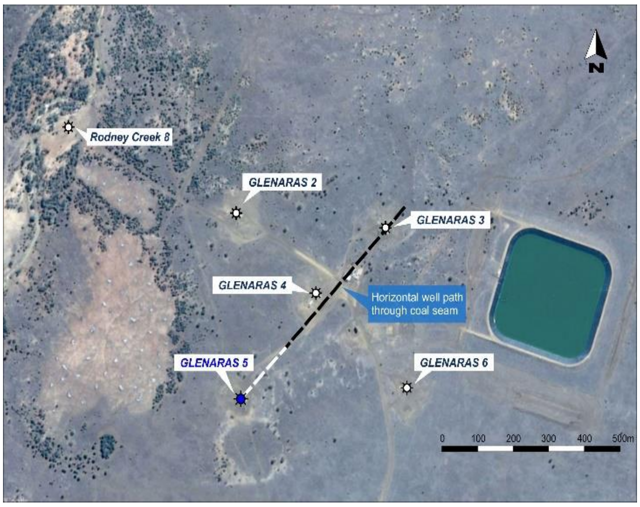
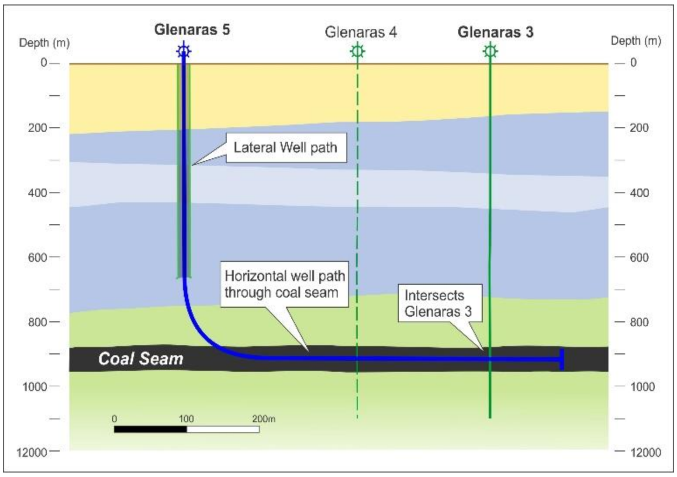


Figure 2

On this basis the Company has contracted to drill the lateral well with the expectation of accelerating drawdown to such an extent as to enable the first conversion of Resources to Reserves early in 2017.



Modelling of a 350 m lateral in this R1 coal shows gas flows within three months. As a result, we now expect the pilot to be produced through to the end of the calendar year to see the full benefits of the lateral well. Final design work has now been completed. Timing for the project is weather dependent, but mobilisation to site is expected by mid-August 2016.

Figure 3

The expected cost of the project is generally consistent with previous guidance in the March Quarterly and represents excellent value given the work programme and technology involved and reflects the current competitive market conditions for rig services.

Conversion of a significant portion of the reported Contingent Resource (currently in excess of 5,300 PJ $3C^{+}$) to Reserves will be transformational for the Company.

Significantly, a positive result from this R1 coal will allow reserves booking in the more permeable R2, R3 and R4 coals which will be the primary target of development. Given the better permeabilities of these coals, field development should not require further horizontal wells or fracture stimulation which Galilee believes will lead to a low cost development sufficient to make the project a very competitive source of supply in the burgeoning Queensland gas market.

In parallel with field operations, the Company has commenced a number of commercial initiatives including discussions with potential domestic and export gas customers, infrastructure and investment partners. These will continue to progress in the coming months.

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.

- Strong Balance sheet
- Proven successful Board and Management

Directors	**Shares**
Chairman - David King	Shares on issue – 152,140,466
Managing Director – Peter Lansom	Top 20 holders – 54.5%*
Non-executive Director – Ray Shorrocks	Directors and Management – 7.9%

*As at 13 July 2016