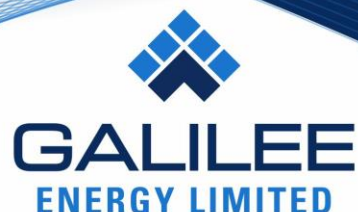


Market update

ASX/MEDIA ANNOUNCEMENT

10 October 2016



- ❖ **Lateral well a resounding success**
- ❖ **Flow rate significantly better than the existing vertical well performance**
- ❖ **In the coming months it is expected to initiate the onset of gas production**

Galilee Energy Limited (ASX: GLL) (“Galilee” or the “Company”) is pleased to provide an operations update in respect to its Glenaras Gas Project - R1 Pilot located in ATP 529.

The Company is pleased to announce that production rates from the recently drilled lateral well are exceeding expectation. The lateral well is already flowing at over 2.5 times the rate of the previous 5-well vertical pilot at 50% drawdown. At full drawdown, the expected water rates from the lateral represent a 5-6-fold improvement over the best vertical well production rate previously recorded. This performance is above modelled expectations and is very exciting for the development of the Glenaras Gas project given the R1 coal at Glenaras is one of the lowest permeability coals in the permit. The aim of this lateral well was to accelerate drawdown of the R1 coal to initiate faster desorption and the onset of gas production. With the current rates the well is flowing, the lateral should achieve its objectives. With the onset of gas production the next step for Galilee will be the conversion of a significant portion of the reported Contingent Resource (currently in excess of 5,300 PJ 3C) to Reserves which will be transformational for the Company.

The well is currently being drawdown slowly and the focus over the coming months is to keep the well steadily producing to enable stable desorption over a large area of the R1 coal in order to initiate gas production. Production operations at the pilot are expected to continue through the remainder of 2016. In its short production life we are already seeing excellent communication with the surrounding vertical wells, with the Glenaras 4 vertical well seeing a steady drop in bottom hole pressure tracking along with the drawdown of the lateral well. This confirms the excellent connectivity of the cleat system within the coals and confirms that the production is being sourced from the coal and not from neighbouring sandstones.

Commenting on the success of the programme Managing Director Peter Lansom said *“The results from the well strongly confirm the decision to drill the lateral well. This excellent production rate will enable a more rapid drawdown of the coal and the early onset of gas. With the emerging shortfalls in gas supply on the Australian East Coast, Galilee is confident that this significant resource, once proven, will be readily taken up by the market.”*

Chairman David King stated *“The results that we have seen from the Glenaras lateral well are a strong testament to the technical team at Galilee. The well presented significant challenges, and the team has delivered a well that is exceeding expectations and it has been done within budget and without any safety incidents. It has been, and continues to be a very busy period for the team and as such the Board has agreed to reinstate (effective 1 October 2016) the executive salaries which were reduced as part of the measures implemented by the Strategic Review announced 18 December 2015. It is vitally important that the team is engaged and remains whole as we move forward with what we hope is an exciting period for the Company. It has also been agreed to reinstate non-executive director fees to 50% of their former level. The two executives in question, one of whom is the MD, took a 20% pay cut over the past nine months while the non-executive directors waived their directors fees during the same period.”*

Galilee is in numerous discussions on potential commercialisation strategies for the Glenaras Gas Project and will update the market as these progress.

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 whilst looking to add further acreage to its portfolio. It also has prospective exploration acreage in Chile.

- Strong Balance sheet
- Proven successful Board and Management

Directors

Chairman - David King

Managing Director – Peter Lansom

Non-executive Director – Ray Shorrocks

Shares

Shares on issue – 152,140,466

Top 20 holders – 52.5% *

Directors and Management – 8.1%

*As at 3 October 2016