

# Galilee Energy Limited

## Quarterly Activities Report : June 2010

### Overview

30 July 2010

In recent months some significant steps were undertaken by the Company to clearly focus on future growth through development as a recognised hydrocarbon energy company with initial emphasis on coal seam gas.

During the quarter the merger with the subsidiary of Galilee was finalised, a new Board of Directors announced and the Company changed its name to Galilee Energy Limited to better reflect its current core business, namely the exploration and evaluation of its coal seam gas permits in the Galilee Basin.

The sale of the Australian coal project, Broughton, was completed and Galilee also announced a review of its New Zealand coal operations with a view to spinning off those assets under a separate IPO. Should the IPO proceed, funds raised would be directed to further exploration and development of the New Zealand coal tenements with particular emphasis on proving up the potential export coking coal project at Whareatea West.

It is intended that Galilee would retain a significant shareholding in the new entity and receive an injection of funds through the repayment of loans from the New Zealand operations. The value proposition for shareholders of the new company will be through the growth of the present cash positive operations with the future potential for greater gains from the development of an export coking coal business by an entity which will have a healthy positive cash position.

The underlying strategy of these actions is to enable the Company to fully focus its management on realising the value upside of its coal seam gas assets in Australia while still maintaining an investment interest in a separate New Zealand coal business. In addition the appointment of a CEO with specific oil and gas expertise is also imminent as another step in this process. Once this executive is in place, I will step aside as Managing Director to concentrate on the New Zealand coal operations.

It is pleasing to note that the Company has ended the financial year recording its maiden profit. Whilst significant expenditure was incurred by the exploration programme in Galilee's ATP 799P tenement, the completion of the Broughton sale and the cash generated by the New Zealand coal operations will result in an expected profit in the range of \$1.6 to \$1.8 million.

The enclosed report further outlines the activities for the quarter.



Campbell Smith

Managing Director

### Coal Seam Gas – Queensland

The highly prospective coal seam gas and hydrocarbon tenements, ATP 529P and the adjoining ATP 799P tenement to the north continue to be the focus of exploration and evaluation efforts.

#### ATP 529 P

**AGL Energy Limited : 50% (Operator)**  
**Galilee Energy Limited : 50%**

During the quarter the exploration programme advanced in ATP 529 P, the second phase of the AGL farm-in. This programme comprised 540 km of 2D seismic acquisition which was completed in late 2009, and the drilling of seven coreholes.

Six of the proposed core holes have now spudded with the seventh well, **Stockholm**, to spud shortly. **Muttaborra-2**, **Vera Park-1** and **Crossmore South-1** have been cored, plugged and abandoned as planned with cores currently undergoing analysis. **Laugharne Creek-1** awaits drill stem testing. **Mt Myth-1** has spudded and is now suspended, pending coring and **Acacia-1** has spudded and is currently drilling ahead. The installation of ground water monitoring equipment has also been completed at **Rodney Creek-8**.

The Glenaras production pilot remains suspended awaiting the arrival of equipment to replace failed downhole pumps. These are due in the current quarter however the delay will push back the dewatering programme schedule and the timing for reserve certification which is now expected early in 2011.

#### ATP 799 P

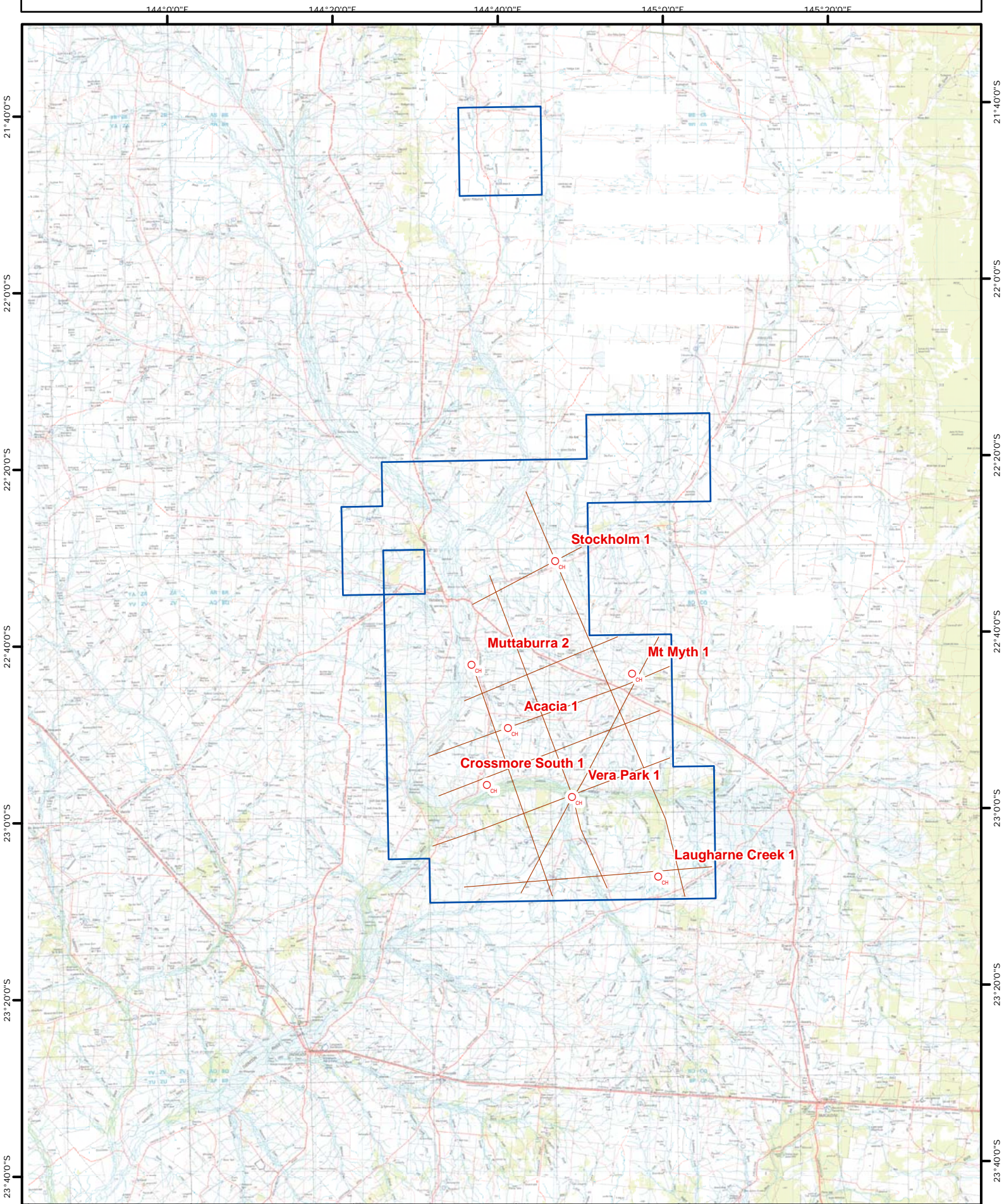
**Galilee Energy Limited : (100%)**

The analysis of data from the drilling programme of late 2009/early 2010 is progressing. Significantly, preliminary results have confirmed that the Permian coals present in the Rodney Creek region extends across the exploration area in ATP 799P.

The results from this exploration will determine the next phase of appraisal in the tenement which will include identifying potential locations for a production pilot targeted at defining reserves.

The following maps indicate the locations of drill holes and seismic lines on ATP 529P and ATP 799P.

# ATP529P Activities



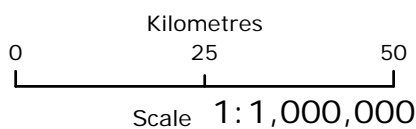
Energy in  
action.™



Author: Upstream Gas

Date: 28/07/2010

Ref: 2542\_r3



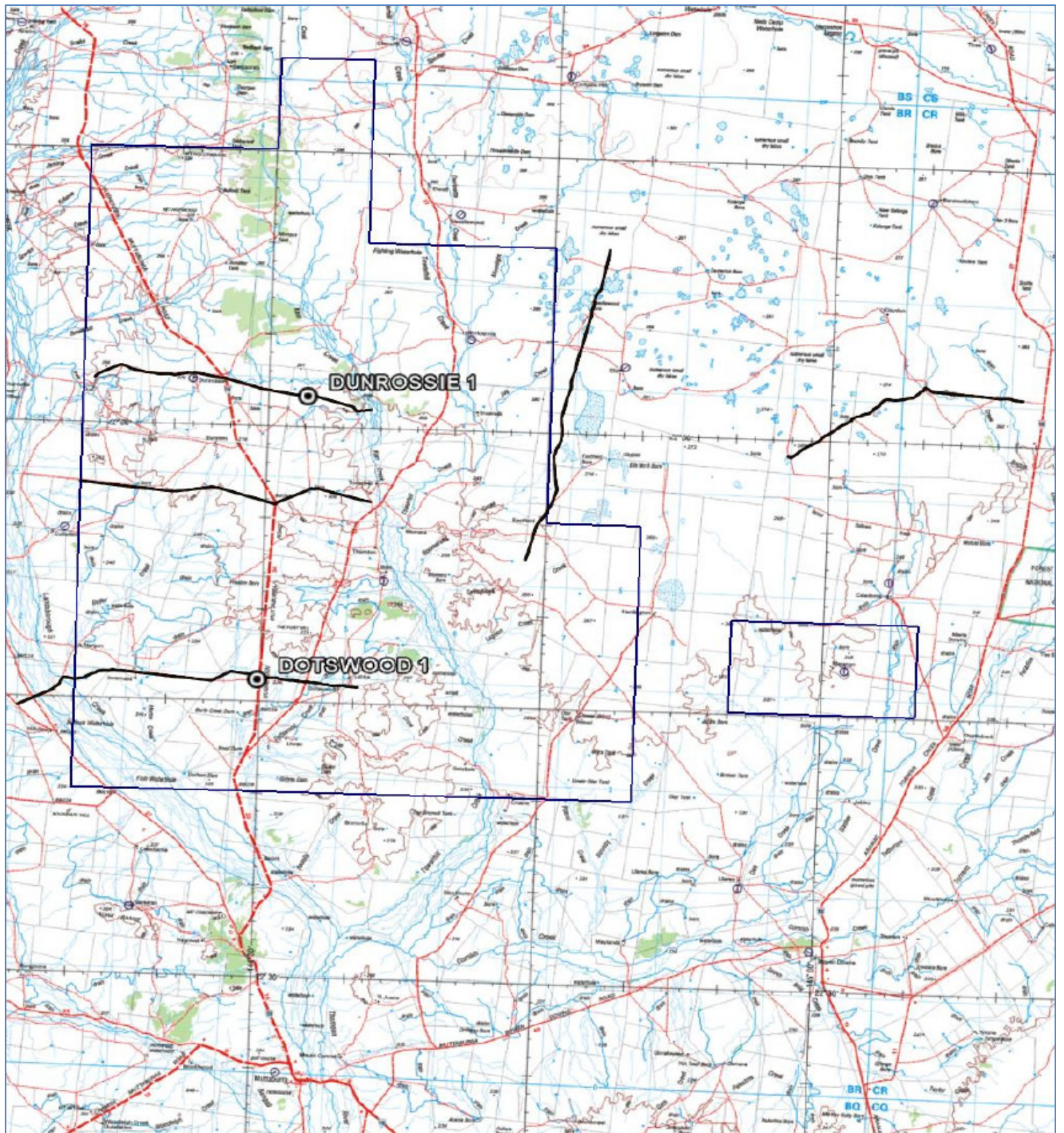
Legend

- ATP529P
- AGL 2D Seismic
- AGL Coreholes






Disclaimer: While AGL has taken great care and attention to ensure the accuracy of the data represented on this map, no liability shall be accepted for any errors or omissions. No part of this map may be reproduced without prior permission of AGL.

# ATP799P Activities



**GALILEE**  
ENERGY LIMITED

## LEGEND

-  ATP799P
-  GLL 2D Seismic
-  GLL Corehole

Project  
Title  
Date  
Doc Number

ATP799P 2009-10 Work Program  
Activities  
10/07/2010

0 12.5 25 Kilometres

# Galilee Energy Limited

## Quarterly Activities Report : June 2010

### New Zealand Coal Operations

#### Production

Production at the Company's two operating mines remained as forecast for the quarter. No Lost Time Injuries were reported for the period at either mine site.

#### Cascade Coal Limited (MP 41455)

The Cascade open cut mine is situated on the West coast of the South Island. The mine produces on average 45,000 tonnes per annum of high value low contaminant coal for the local industrial market.

Overburden removal is continuing in the Durkins block. This will be completed in a series of five push back stages. Coal recovery will commence in this area once the Gravel Pit area has been exhausted, leaving the Adams block the final target for recovery of coal. Consideration may also be given to accessing final coal by way of underground mining.

#### Takitimu Coal Limited (ML 37079)

The Takitimu mine is located in the Nightcaps area, north of Invercargill. The mine's largest customer is dairy producer, Fonterra. Sub-bituminous coal from the open cut operations is railed to Fonterra's Clandeboye milk processing plant at Temuka. The mine also supplies other large industrial users in the Southland area.

During the quarter coal winning continued in the main pit although production scaled down towards the end of June as the dairying industry entered its seasonal 'low' period. During this period attention will focus on plant and equipment maintenance before operations ramp up to full production again leading into the summer months. During the period stripping activities commenced in Area 1. This land sits adjacent to the northern boundary of the mining permit lease and is accessible under the terms of an agreement with the adjoining landowner. Whilst further coal remains in the main licence area the more efficient mine plan is for an initial push into this area of private coal outside the tenement boundary.

#### Production for Cascade & Takitimu mines to 30 June 2010

Coal Extracted (Tonnes)	Overburden (BCMs)	Sales (Tonnes)	Sales (NZ\$)
<b>221,082</b>	<b>2,012,797</b>	<b>238,544</b>	<b>18,333,576</b>

# Galilee Energy Limited

## Quarterly Activities Report : June 2010

### Exploration

#### Whareatea West (EP 40591)

This tenement, located on the Denniston Plateau near the Cascade mine, is highly prospective for coking and thermal coal.

An 11-hole work programme has been submitted to the Department of Crown Minerals to take place over the next stage of the current permit and a submission for drilling approvals has been made to the Department of Conservation. The exploration programme has been devised to obtain cores for further coal quality analysis and to gain further understanding as to the extent and nature of the resource.

Site meetings are to be held with the Department of Conservation to ensure that drilling activities comply with current access arrangements.

#### Ohai (EP 51260)

The Ohai permit covers an extensive area immediately surrounding the existing Takitimu mining lease area and is prospective for sub bituminous coal. During the period the tenement was upgraded from a Prospecting Permit to an Exploration Permit.

A 20 hole drilling programme has been completed at Ohai in an area north of the existing Takitimu mine licence area and work will commence on obtaining the appropriate consents and approvals to enable mining in this area as the next extension to the current mining operations.

### Australian Coal

#### Broughton Coal Mining Pty Ltd

The sale of the Company's 90% interest in the Broughton coal tenement to Resource Portfolio Partners Pty Ltd was finalised in May for a consideration of \$8.5 million.

# Galilee Energy Limited

## Quarterly Activities Report : June 2010

### Corporate

#### Galilee Buyout

In May, the company received 100% acceptances of its offer to buy out the 32% of shares in subsidiary, Galilee Energy Limited, not already held. At an EGM on 1 June, Eastern shareholders approved the issue of shares to complete the transaction on a basis of 1 Eastern share for every 7 Galilee shares held. At the same time, shareholders approved a change of company name and on 4 June 2010, Eastern Corporation Limited (ASX: ECU) officially commenced trading as Galilee Energy Limited (ASX:GLL). The subsidiary previously known as Galilee Energy Limited is now Galilee Resources Pty Ltd.

Shareholder approval was also obtained to convert part of a loan to the Company from Becamal Pty Ltd, (an entity associated with Managing Director, Campbell Smith) by way of issue of shares.

#### Board/Management

Further to the minority holder buyout and change of company name, a new Board was appointed for Galilee Energy Limited. Steve Koroknay was appointed non-executive Chairman and Cam Rathie and Rino Camarri were appointed non-executive directors. Campbell Smith remained on the Board as Managing Director. All were previously on the board of Galilee Resources Pty Ltd. Non-executive Chairman, Richard May and non-executive Director, John McIntyre both resigned. Campbell Smith will step down in his capacity as Managing Director once a new executive appointment is announced. He will then assume the role of non-executive Director.

During the quarter non-executive Director, Cam Rathie, received an Order of Australia Member award in the Queen's Birthday Honours List for services to the oil and gas industry.

#### Financials

The attached statement provides further details of the cash flows for Galilee Energy Limited.

---

#### For further information contact:

Sam Aarons  
Manager, Business Development & Corporate Relations

Tel: 07 3216 1155  
Fax: 07 3216 1199  
Email: [info@galilee-energy.com.au](mailto:info@galilee-energy.com.au)  
Website: [www.galilee-energy.com.au](http://www.galilee-energy.com.au)

# Appendix 5B

## Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

Galilee Energy Limited

ABN

11 064 957 419

Quarter ended ("current quarter")

30 June 2010

### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from product sales and related debtors	6,823	25,156
1.2 Payments for (a) exploration & evaluation (b) development (c) production (d) administration	(24) (51) (6,071) (424)	(5,547) (441) (18,889) (3,768)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	43	232
1.5 Interest and other costs of finance paid	159	(382)
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	8,500 (Sale of Broughton interest)	8,547
<b>Net Operating Cash Flows</b>	<b>8,955</b>	<b>4,908</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects (b) equity investments (c) other fixed assets	- - (384)	- - (594)
1.9 Proceeds from sale of: (a) prospects (b) equity investments (c) other fixed assets	- - 26	- - 154
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	(263)	(626)
<b>Net investing cash flows</b>	<b>(621)</b>	<b>(1,066)</b>
1.13 Total operating and investing cash flows (carried forward)	<b>8,334</b>	<b>3,842</b>

+ See chapter 19 for defined terms.



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

1.13	Total operating and investing cash flows (brought forward)	8,334	3,842
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	(138)	5,472
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	-	113
1.17	Repayment of borrowings	(377)	(2,249)
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	-	-
	<b>Net financing cash flows</b>	(515)	3,336
	<b>Net increase (decrease) in cash held</b>	7,819	7,178
1.20	Cash at beginning of quarter/year to date	3,443	4,356
1.21	Exchange rate adjustments to item 1.20	173	(99)
1.22	<b>Cash at end of quarter</b>	11,435	11,435

**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	198
1.24	Aggregate amount of loans to the parties included in item 1.10	-

1.25 Explanation necessary for an understanding of the transactions

The amounts paid to the directors in this quarter of \$198k per 1.23 above represents fees paid to non-executive directors for the 3 months to 30/6/2010.

**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

-
---

**Financing facilities available**

Add notes as necessary for an understanding of the position.

+ See chapter 19 for defined terms.

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	4,219	3,781
3.2 Credit standby arrangements	-	-

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	180
4.2 Development	150
4.3 Production	4,056
4.4 Administration	558
<b>Total</b>	<b>4,944</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	1,248	2,165
5.2 Deposits at call	10,187	1,278
5.3 Bank overdraft	-	
5.4 Other (provide details)	-	
<b>Total: cash at end of quarter (item 1.22)</b>	<b>11,435</b>	<b>3,443</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			
7.4 Changes during quarter (a) Increases through issues (b) Decreases through returns of capital, buy-backs	49,387,807			
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>			<i>Exercise price</i>	<i>Expiry date</i>
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 <b>Debentures</b> <i>(totals only)</i>				

+ See chapter 19 for defined terms.

7.12	Unsecured notes (totals only)		
------	-------------------------------	--	--

## 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 4).
- 2 This statement does /does not\* (*delete one*) give a true and fair view of the matters disclosed.



Sign here: \_\_\_\_\_ Date: 30 July 2010  
(Director/~~Company secretary~~)

Print name: Campbell Smith

## 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 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting 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.

== == == == ==

+ See chapter 19 for defined terms.