

March 2016 Quarterly Report & Appendix 5B

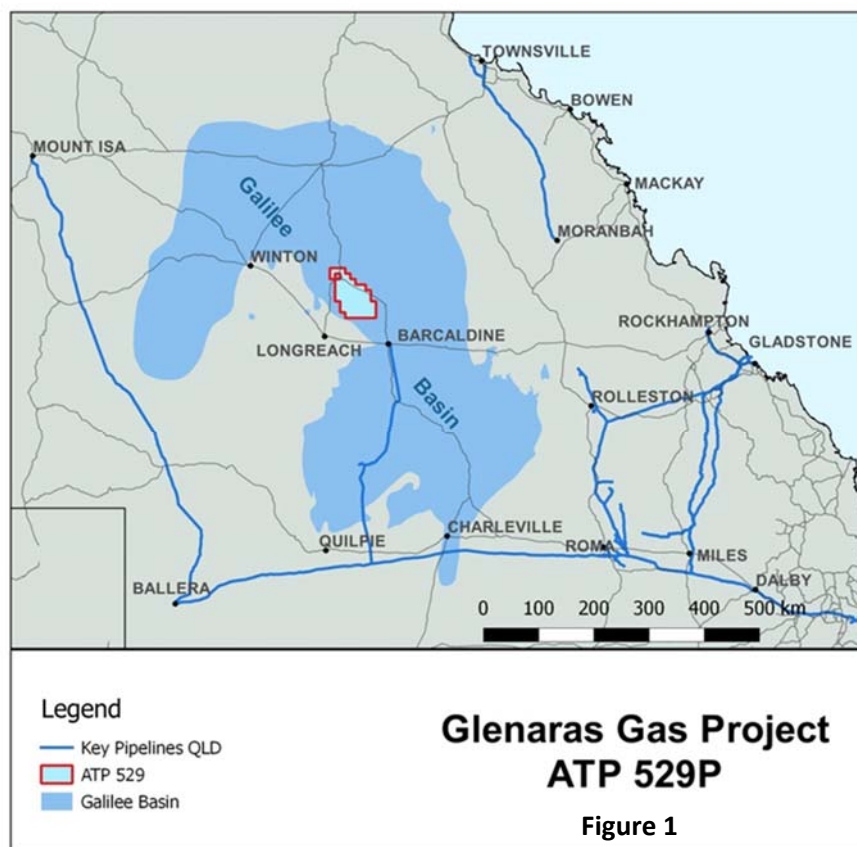
20 April 2016



Highlights:

- ❖ Continued testing of the R1 seam at Glenaras Gas Project, with initial gas observed in all five wells. The central well in the pilot is flowing gas and water through the surface facilities
- ❖ New artificial lift system performing well with no significant well downtime
- ❖ Given the successful testing, Galilee is now investigating drilling a lateral well through the centre of the pilot to expedite gas flow results and first Reserves booking
- ❖ Ongoing negotiation of exploration permit with Ministry of Energy in Chile
- ❖ Administration expenditure reduced significantly

Glenaras Gas Project (ATP 529P) – GLL 100%



The Glenaras Gas Project incorporates the highly prospective ATP529 permit in western Queensland within the Galilee Basin. The permit covers an area of approximately 4000 km² and is 100% owned and operated by Galilee Energy Limited. (Figure 1)

The project 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.

The Glenaras Gas Project – R1 pilot is aimed at recompleting a single Betts Creek coal seam, the uppermost R1 seam, (Figure 2) without accessing any of the neighbouring water bearing sands. Direct connection to these water sands via poor completion methods such as fracture stimulation has been the main cause of poor pilot production results under previous operatorship. The aim of this new test is to:

- Conduct a low-cost test to isolate a single coal and attempt to produce and drawdown the coal below critical desorption pressure, achieving gas flow.
- Trial an alternate, more reliable artificial lift system.

Importantly on achieving the requisite gas rate, results can be scaled to the full Betts Creek section to enable first Reserves booking.

The Glenaras Gas Project – R1 pilot was completed and put on production in late October 2015. The project was completed on time and budget.

The five wells in the pilot were flowed under a slow controlled drawdown, with each of the five pilot wells fully drawn down to coal depth by mid-January. The wells have now been producing at that drawdown for approximately three months, coincident with where reservoir modelling of the pilot indicates first gas may be observed.

The R1 seam has a lower permeability in this Glenaras pilot area so time is required to drawdown the coal over a sufficient area to build gas rates.

Initial gas desorption has now been observed in all wells with positive casing pressure evident in each well. The central well, Glenaras 4, is the best producer and has been flowing water and gas through the separator for approximately three to four weeks.

The performance of the wells to date clearly demonstrates that the completion design being trialled by the Company has not connected the wells to the surrounding water bearing units. This is an extremely significant step forward for the project allowing drawdown of the coal only for the first time. In addition, the new rod pump artificial lift system has been extremely successful and will be the preferred lift system in any development planning.

The results to date are highly encouraging and consistent with internal modelling. Based on this modelling, and the pilot results to date, the Company is now investigating drilling a lateral well through the middle of the pilot to expedite results. Recent work in many CSG pilots in Eastern Australia has shown that horizontal drilling can dramatically improve reservoir drawdown and accelerate gas production in such lower permeability pilots.

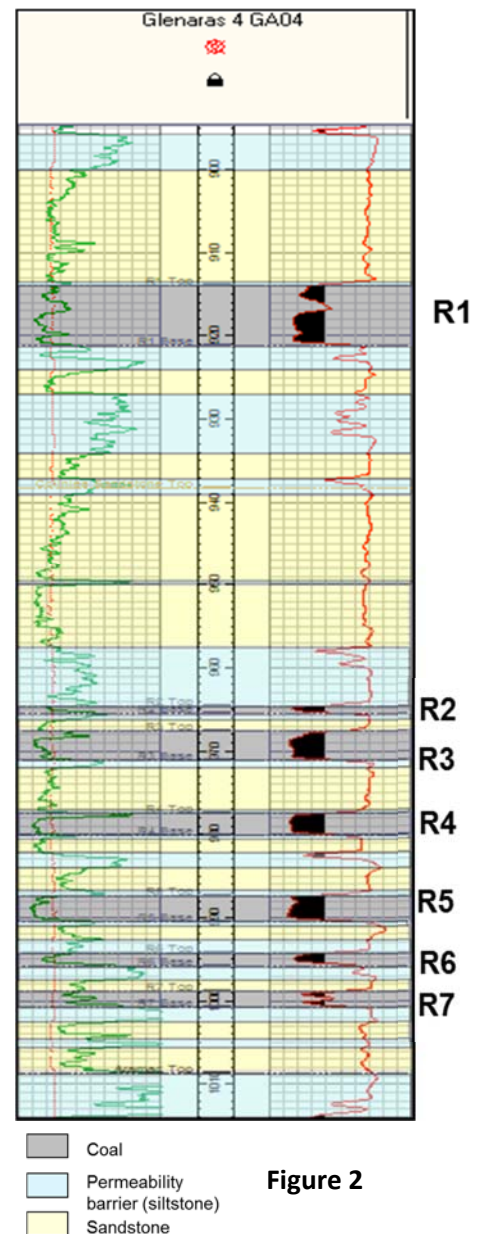


Figure 2

That, combined with large reductions in rig rates and improved steering technology, means this technology is a perfect fit to the Glenaras pilot project. Final design work is underway and current timing for such a well would be mid-year with an expected cost of \$1.8 million, which includes all workover and recompletion costs.

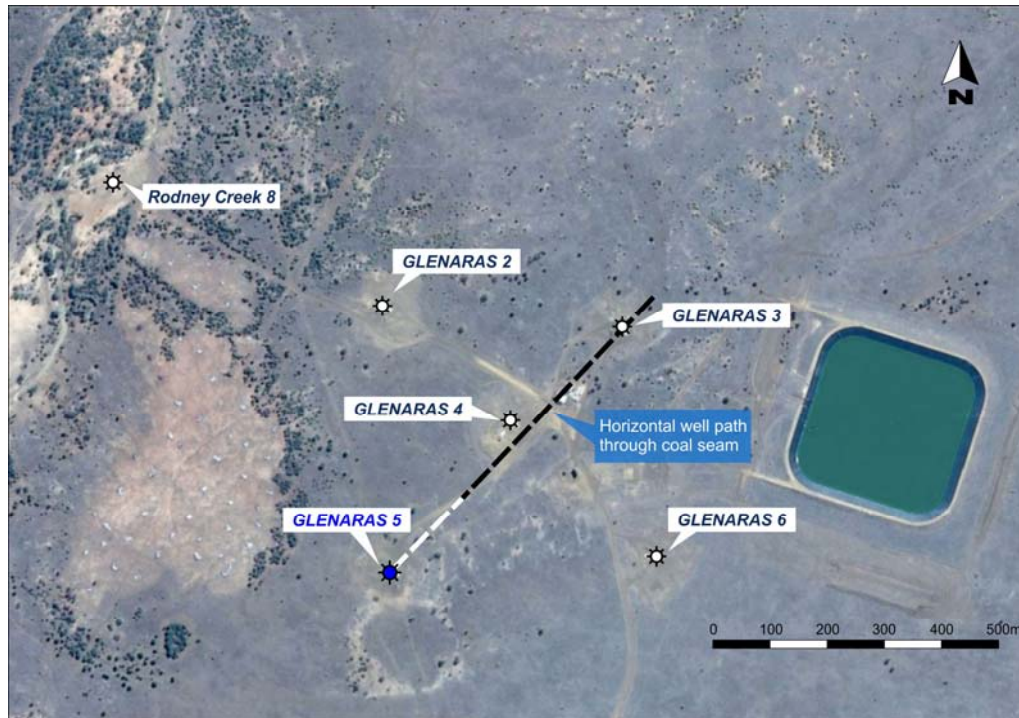


Figure 3

Two existing vertical wells will be utilised for the lateral with the kick-off lateral exiting from Glenaras 5 wellbore and intersection of the horizontal well into Glenaras 3. The lateral will commence at Glenaras 5, drill past Glenaras 4 and intersect Glenaras 3 (see Figure 3 & 4). 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.

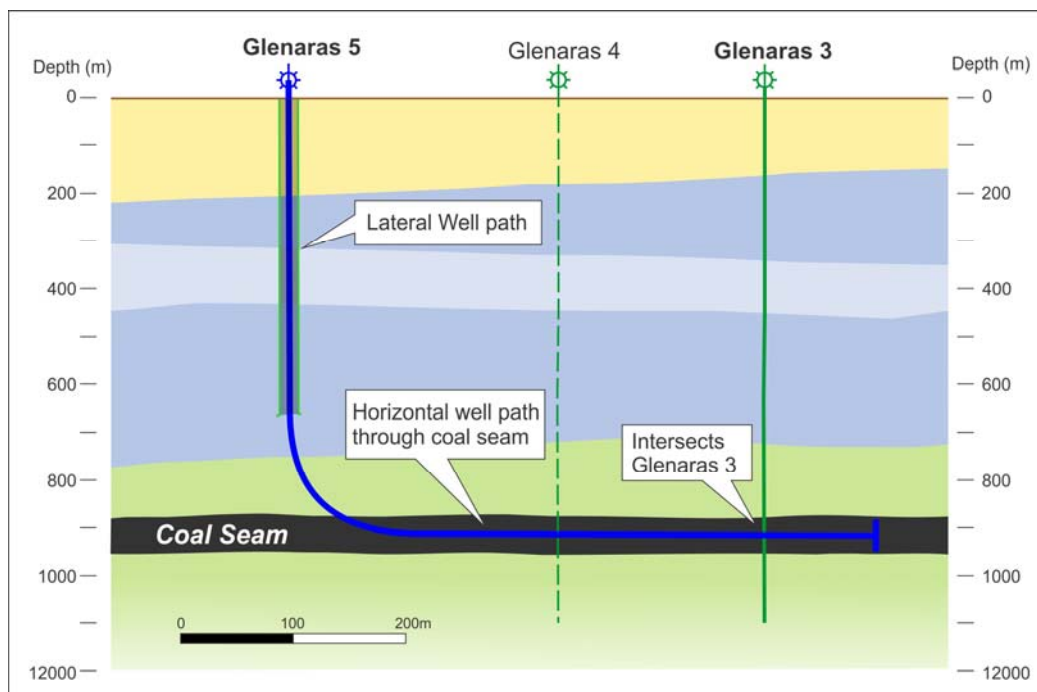


Figure 4

Operations at the pilot are expected to continue through most of 2016. While the vertical wells will likely achieve sufficient regional drawdown to book reserves, modelling suggest that the addition of a lateral will expedite the results. 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.

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

During the course of Q4 2015, the production of gas into the Gladstone LNG plants has increased dramatically with both trains of the QCLNG plant and the first trains of the GLNG and APLNG now in operation. Daily consumption in Gladstone is now more than 2.7 PJ/day more than three times the recent consumption for the rest of eastern Australia. Consumption at Gladstone is expected to continue to grow as the remaining trains are commissioned.

The Moomba Sydney Pipeline, which has supplied gas to Sydney for almost 40 years, is now predominantly flowing in reverse with gas supply from Victoria being delivered to Moomba and on to Gladstone.

These changes continue to support the expectation that the Australian east coast gas market is structurally short, with gas prices already increasing and expected to increase further as all of the LNG plants in Gladstone become fully operational. This provides an excellent opportunity for Galilee to leverage its large gas resource position and supply into this attractive market.

US Assets

As previously announced following the Company's strategic review conducted in December 2015, no additional exploration activities are currently being undertaken in the US. The primary focus of the Company is on delivering on the Glenaras Gas Project. There are no significant expenditure plans elsewhere within the US portfolio.

Lavaca County - Texas Gulf Coast

Galilee holds a large lease position in JV with other parties over the Lower Wilcox play in Lavaca County, Texas. While the existing JV parties plan no activity at this stage, there is farm-in interest for the acreage from third parties. The JV is currently assessing these proposals and will advise the market in due course if there is any planned activity.

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

Galilee has a 345,000 acre Area of Mutual Interest in Meade County, Kansas. Galilee completed a 3D seismic survey over a portion of this acreage in early 2015. Since that time Galilee has continued to refine the prospects identified by the survey and has identified a number of drillable prospects. Galilee is the Operator for the JV. There is no planned activity for this asset at this stage.

Chile

Late last year Galilee completed its evaluation and study of the Coal Seam Gas (CSG) potential in the Southern Magallanes Basin in Chile. In June Galilee submitted an application to the Chilean government for an exploration permit application (CEOP) over an area of almost 6,000 sq.km. During the quarter the Company continued to work through the terms of the CEOP, the agreement that would govern the Company's exploration and exploitation of hydrocarbon resources in Chile.

Strategic Review

Implementation of strategies developed from the strategic review has achieved considerable cost reductions and the Company continues to pursue avenues to further reduce overhead. As announced these changes will be reviewed at the end of June 2016.

Corporate

Executive Director, Paul Bilston resigned during the quarter to take up a senior management position in a gas infrastructure business based in Melbourne. The Company wishes him well in this exciting and challenging new role and thanks him for his outstanding contribution to Galilee.

There are no current plans to replace the role of Executive Director with the forward plan being the appointment of a suitably qualified Non-Executive Director at the appropriate time.

Payments to Non-Executive Directors have been suspended for the current financial year.

Financials

The cash flow for the Quarter is presented in the attached Appendix 5B report. The company continues to maintain a very strong cash position of \$10.24 million and no debt.

The expenditure forecast for the next quarter is predominantly related to the Glenaras Gas project, and includes contingent expenditure of \$1.8 M to drill a lateral well at the pilot. At the report date limited expenditure is anticipated elsewhere in the portfolio.

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Listing Rule 5.42

+ The details of Contingent Resources referenced at page 2 of this Quarterly Activities report was announced to the market on 1 September 2015. In accordance with Listing Rule 5.34.3, Galilee Energy confirms that it is not aware of any new information or data that materially affects the information in the announcement to the market of the Contingent Resources 1 September 2015 and that all of the material assumptions and technical parameters underpinning the estimates in that announcement continue to apply and have not materially changed.

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

Chairman - David King

Managing Director – Peter Lansom

Non-executive Director – Ray Shorrocks

Shares

Shares on issue – 152,140,466

Top 20 holders – 54.5%*

Directors and Management – 7.8%

*As at 18 April 2016

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")

31 March 2016

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A'000	Year to date (9 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	(842) (237)	(3,558) (1,030)
1.3	From Dividends received		
1.4	Interest and other items of a similar nature received	178	340
1.5	Interest and other costs of finance paid		
1.6	Income taxes paid		
1.7	Other Contract termination	- -	
Net Operating Cash Flows		(901)	(4,248)
Cash flows related to investing activities			
1.8	Payment for purchases of: (a) prospects (b) equity investments (c) other fixed assets	- - -	- (95)
1.9	Proceeds from sale of: (a) prospects (b) equity investments (c) other fixed assets	 71	
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (bond refunds)	(587)	(1,434)
Net investing cash flows		(516)	(1,529)
1.13	Total operating and investing cash flows (carried forward)	(1,417)	(5,777)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

		Current quarter \$A'000	Year to date (9 months) \$A'000
1.13	Total operating and investing cash flows (brought forward)	(1,417)	(5,777)
	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	-	-
	Net financing cash flows	-	-
	Net increase (decrease) in cash held	(1,417)	(5,777)
1.20	Cash at beginning of quarter/year to date	11,664	16,016
1.21	Exchange rate adjustments to item 1.20	(5)	3
1.22	Cash at end of quarter	\$10,242	10,242

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	130
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	2,498
4.2 Development	
4.3 Production	
4.4 Administration	220
Total	2,718

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	977	1,489
5.2 Deposits at call	9,265	10,175
5.3 Bank overdraft	-	-
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	10,242	11,664

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	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>			<i>Exercise price</i>	<i>Expiry date</i>
Performance Rights (vesting date & conditions)	Unquoted 600,000 600,000	Nil	Nil	Vesting Date 1.12.16 1.12.17
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter	550,000 550,000	Nil Nil	Nil Nil	31.03.16 31.03.16
7.11 Debentures <i>(totals only)</i>				
7.12 Unsecured notes <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 :20/ 04 /16
(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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+ See chapter 19 for defined terms.