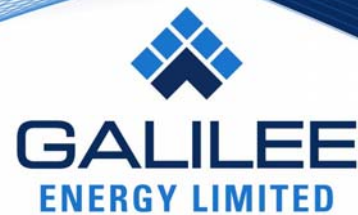


December 2015 Quarterly Report & Appendix 5B

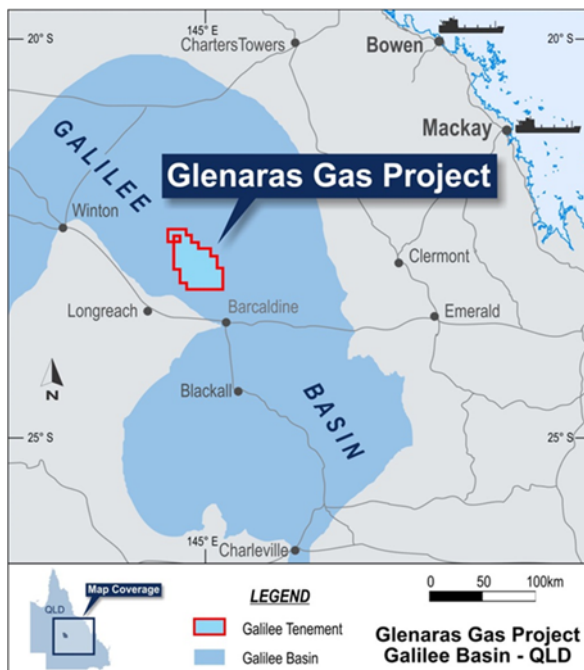
29 January 2016



Highlights:

- ❖ **Completed the R1** workover program for all five Glenaras wells.
- ❖ **Commenced** testing of the R1 seam at Glenaras, with initial gas desorption now observed in all five Glenaras Wells.
- ❖ **Drilled Hoffer A1** well in Texas.
- ❖ Ongoing negotiation of exploration permit with **Ministry of Energy in Chile**.
- ❖ **Completed a strategic review** of the company's operations, with the Company to cease activities in the US and refocus on the Glenaras Gas Project.

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



In early October, Galilee successfully completed a workover program at its 100% owned Glenaras Gas Project in the Galilee Basin, Queensland.

The workover program focused on the five existing Glenaras pilot wells. The program involved setting a bridge plug below the R1 seam to isolate the lower seams previously tested in the pilot wells, then perforating the R1 coal seam and installing pumps.

The program was completed on time and under budget, highlighting that with the recent transfer of project operatorship to Galilee, the Company is able to deliver cost effective and responsive operational capacity to this important project.

These five wells were then commissioned and have been on pump since late October 2015.

Given the numerous failures of previous lifting systems utilised at both the Glenaras and Rodney Creek pilots, Galilee elected to change lifting system design, installing traditional oil field rod pumps in all wells. These systems have operated flawlessly to date, a major step forward for well operations and operating costs in this area.

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.

The pressure in the wells is continuing to be drawn down, and initial gas desorption has now been observed in all wells with positive casing pressure now evident in each well.

The R1 seam has a lower permeability than the other key Betts Creek coals in the Glenaras pilot area so time is required to draw down the coal over a sufficient area to build gas rates.



Operations will continue through the first half of 2016 when the Company anticipates it will achieve sufficient gas flow to facilitate the conversion of a portion of the reported Contingent Resource (currently in excess of 5,300 PJ 3C+) to Reserves.

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 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

Lavaca County - Texas Gulf Coast

Hoffer A1 Well (Galilee 43.5% WI, reducing to 34.8% after payout)

The Hoffer A1 well was spudded on 8 November 2015 and reached total depth (TD) at 12,730 ft (3,770m) measured depth on 8 December 2015.

The gross reservoir intersection as shown on logs confirmed the seismic interpretation, with over 140 ft of Middle and Upper Midcox sandstones intersected at a structurally similar subsurface elevation to the Hoffer B1 well drilled earlier in the year. While the target reservoir section intersected was significantly thicker than that in the Hoffer B1 well, based on electric log data across the section none of the sandstones intersected were interpreted to have potential for commercial production. The Operator consequently decided to plug and abandon the well.

Hoffer Extension Area (Galilee 37.5% WI)

No activity occurred in this area over the period.

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 JVA.

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

Given the disappointing results from the Hoffer A1 well, and the continued decline in the commodity prices, in late December 2015 the Company carried out a Strategic Review of its strategy and Operations.

In carrying out the strategic review, the Company took into account a variety of shareholder feedback.

The review was announced on 21 December 2015, and the outcomes are summarised as follows:

1. The key focus for the Company going forward will be the Glenaras Gas Project, and the outcome of the current cost effective programme to demonstrate gas flow from the R1 seam.
2. The company will cease all expenditure on its US projects and will test the market to actively seek divestment or farmout opportunities if they make commercial sense.
3. The company will continue its negotiations on the exploration permit application (CEOP) for the significant potential of the CSG project in the southern Magallanes Basin. This requires negligible investment to completion and the forward strategy for the project will be reviewed once the outcome of the negotiations is known.
4. Cash costs will be reduced as far as practical with Non-Executive Directors agreeing to forgo receiving their directors fees, a 20% reduction in all executive salaries, and a reduction of other costs where practical.

These changes will be reviewed at the end of June 2016.

Financials

The company continues to maintain a very strong cash position of \$11.7 million and no debt. The forecast expenditure for the next quarter is predominantly related to the Glenaras Gas project, and includes a payment of the \$0.6M Government bond not paid in the previous quarter. The total bond for ATP 529P will be ~ \$1.2M, which is not included in the cash position. Other costs cover the plug and abandonment of Hoffer A1 and late invoices from the Glenaras workovers. The estimated administration expenditure for the coming quarter includes a provision for the Company's annual insurance premiums. 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.

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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
Executive Director – Paul Bilston
Non-executive Director – Ray Shorrocks

Shares

Shares on issue – 152,140,466
Top 20 holders – 54.9% *
Directors and Management – 10.7%

*As at 10 December 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")

31 December 2015

Consolidated statement of cash flows

Cash flows related to operating activities		Current quarter \$A'000	Year to date (6 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 (includes office fit-out expenditure recoverable from Landlord next quarter \$44k)	(2,693)	(3,303)
1.3	Dividends received		
1.4	Interest and other items of a similar nature received	110	162
1.5	Interest and other costs of finance paid		
1.6	Income taxes paid		
1.7	Other Contract termination	- -	
	Net Operating Cash Flows	(2,938)	(3,934)
Cash flows related to investing activities			
1.8	Payment for purchases of: (a) prospects (b) equity investments (c) other fixed assets	- (28)	- (166)
1.9	Proceeds from sale of: (a) prospects (b) equity investments (c) other fixed assets	- -	- -
1.10	Loans to other entities	-	-
1.11	Loans repaid by other entities	-	-
1.12	Other (bond refunds)	(260)	(260)-
	Net investing cash flows	(288)	(426)
1.13	Total operating and investing cash flows (carried forward)	(3,226)	(4,360)

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

		Current quarter \$A'000	Year to date (6 months) \$A'000
1.13	Total operating and investing cash flows (brought forward)	(3,226)	(4,360)
	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	(3,226)	(4,360)
1.20	Cash at beginning of quarter/year to date	14,890	16,016
1.21	Exchange rate adjustments to item 1.20		8
1.22	Cash at end of quarter	\$11,664	11,664

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	147
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

--

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	1,241
4.2 Development	
4.3 Production	
4.4 Administration	420
Total	1,661

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	1,489	2,465
5.2 Deposits at call	10,175	12,425
5.3 Bank overdraft	-	-
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	11,664	14,890

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 and conditions)	<i>Unquoted</i>			<i>Vesting Date</i>
	1,150,000	Nil	Nil	1.12.16
	1,150,000	Nil	Nil	1.12.17
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter	1,150,000	Nil	Nil	1.12.15
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: 29/ 01 /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.