

September 2015 Quarterly Report & Appendix 5B

27 September 2015



Galilee Energy Limited (ASX:GLL) (Galilee) continues to implement its focussed strategy with a material upgrade in the resource potential of the Glenaras Gas Project demonstrating its significant potential.

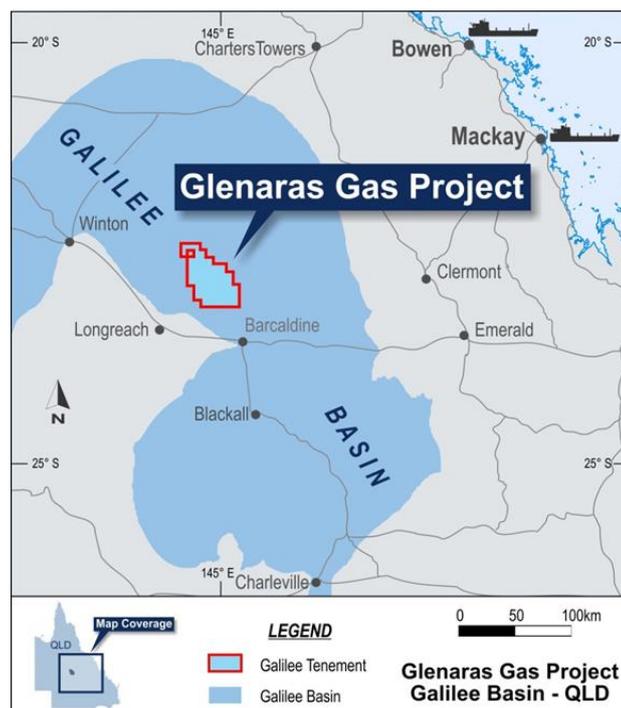
Highlights:

- ❖ **Completed the transaction to acquire 100%** of ATP 529P which includes the Glenaras Gas Project from AGL Energy Limited.
- ❖ **2C Resource for Galilee Gas Project increased 868% to 2507 PJ** as a result of the additional step out wells and production data.
- ❖ Approval received for the R1 work over program, **Rig mobilised within 3 weeks** of completion of the transaction.
- ❖ **Production testing at Hoffer B1** in Lavaca County with aggregate Midcox production of ~ 6 MMscfd.
- ❖ **Exploration plan presented to Ministry of Energy in Chile** as part of the negotiation for exploration permit.

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

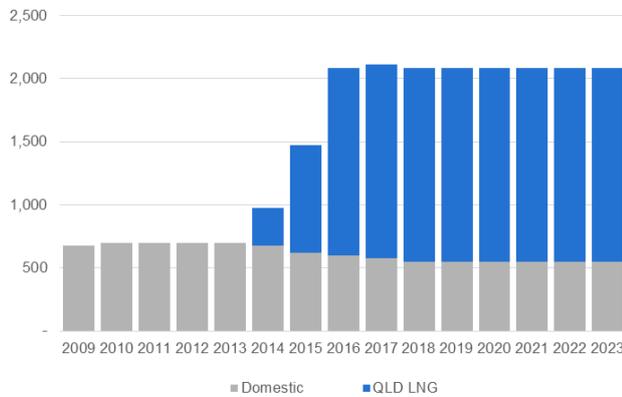
On 4 June 2015 Galilee announced that AGL Energy Limited ("AGL") had agreed to transfer its 50% interest in ATP 529P to Galilee. The transaction had no upfront cost to Galilee and, as part of the transaction, AGL also contributed \$590,000 to Galilee to support future operations at Glenaras. The transaction was completed on the 27th August 2015.

Galilee believes this permit has the potential to become a material new source of gas supply for the east coast of Australia. As observed by a variety of market participants, the Company shares the view that the Eastern Australia gas supply market is structurally short with demand to more than triple with large scale LNG projects GLNG, APLNG and QCLNG all online in the coming months.

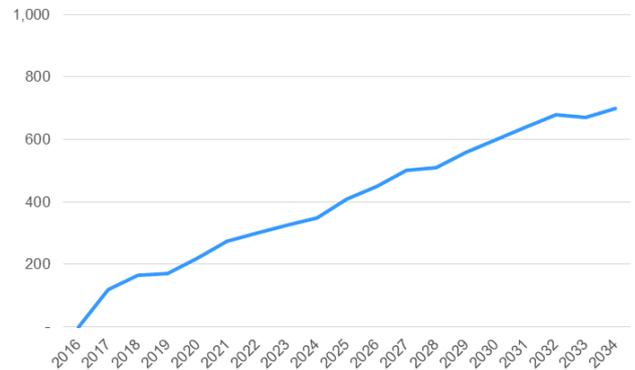


This provides a significant opportunity for a new entrant to build a significant supply position.

East Coast aggregate demand (PJ/a)



Forecast supply gap (PJ)



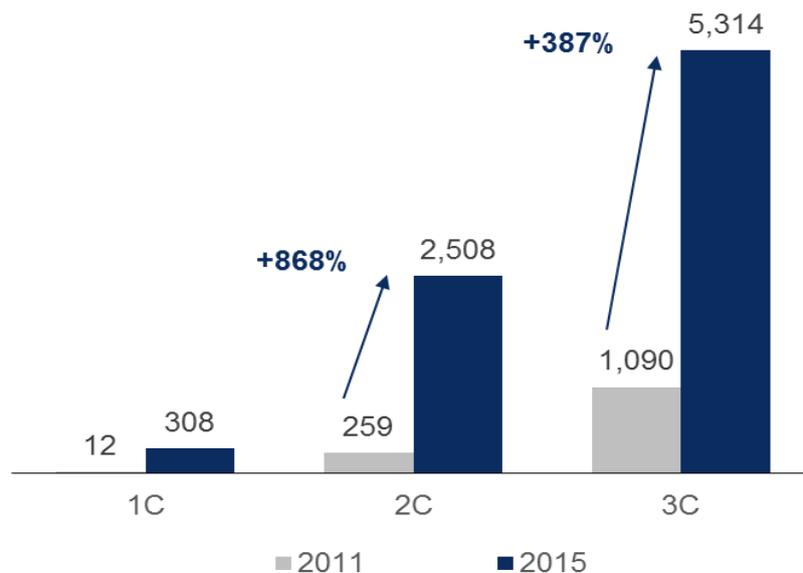
Source: Company presentations (Santos, AGL)

Following an extensive internal review of the potential of the permit, in particular an examination of the additional data available as a result of work completed on the permit since the 2011 SRK Resource Study, Galilee decided to obtain an updated resource assessment of the permit.

On 1 September 2015, the company announced a significant upgrade to all resource categories.

The updated ATP 529P 2015 Contingent Resource estimation increases contingent resources by 868% (2C) and 388% (3C). The following figure summarises the changes to the ATP 529P Contingent Resource.

ATP 529P estimated resources (PJ)



* Refer ASX Announcement made 1 September 2015 Source: MHA Petroleum Consultants LLC (2015), SRK Consulting (2011)

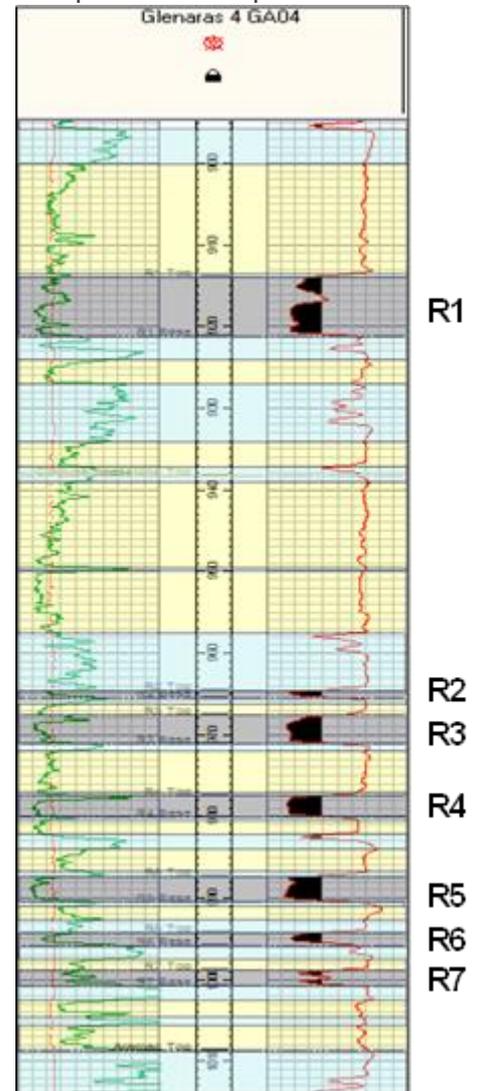
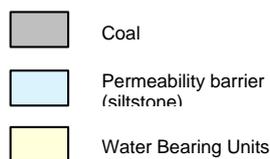
This upgrade was as a result of incorporating the step out drilling and pilot production testing completed in the permit since the previous 2011 SRK assessment. The 2015 Contingent Resource estimation, completed by MHA Petroleum Consultants LLC (MHA), covers a significantly larger area than previously assessed. This upgrade includes data from eight step out exploration wells within the permit as well as the pilot and pressure monitoring data from the Glenaras Pilot completed subsequent to the 2011 SRK Consulting resource report.

MHA have attributed the increase in the Contingent Resources to Galilee’s net equity interest (being 100%) in ATP 529 using the deterministic method to prepare the estimates of the Contingent Resources as at 28 August 2015.

Galilee has expedited the R1 coal seam test program at ATP 529P. The R1 coal seam test will target the production potential of the uppermost R1 coal seam, allowing pressure drawdown of the coal without any contribution from neighbouring sands.

On 17 September 2015, Galilee announced that it had mobilised a rig to site to complete the proposed workover program. The program involved setting a bridge plug below the R1 seam to isolate the lower seams previously tested in these pilot wells. The R1 coal seam was then perforated and production pumps re-installed. The workover program was completed on 9 October 2015.

Currently the pumps and surface equipment are being commissioned ahead of commencing production testing. The initial phase of the production testing is expected to take between 6-9 months. This programme is low cost and a simple test that leverages the almost \$100M spent on the permit to date. If successful, the company expects to be able to convert a significant portion of the Contingent Resource into Reserves.



Lavaca County - Texas Gulf Coast

Hoffer B1 Well (Galilee 35% WI, reducing to 28% after payout)

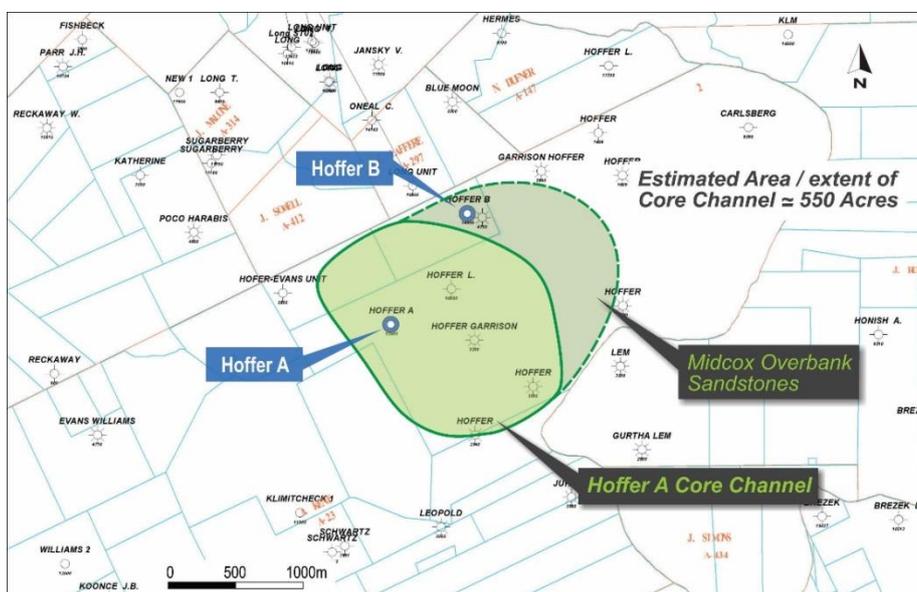
The Hoffer B1 well was spudded on 6 January 2015 and reached total depth (TD) at 14,150 ft (4,313m) measured depth on 12 March 2015.

On 7 July 2015 Galilee announced the results of testing on this well. In aggregate, the zones tested in the Midcox units flowed approximately 6 million standard cubic feet of gas per day (MMscfd), with demonstrated liquids content ranging as high as 50 barrels of condensate per million cubic feet of gas produced (bbls/MMscf).

Further testing was carried out across the Yegua unit which intersected a 40 ft pay zone in this shallow formation during drilling, again as a result of poor cement bond the operator was unable to obtain a sustained commercial flow rate.

The first development well targeting the Midcox sands discovered in Hoffer B1 is being planned for drilling in the fourth quarter 2015. The location of this well has been optimised to maximise the potential of the middle Midcox sands. The 3D seismic across the area suggests Hoffer B1 intersected overbank sandstones on the edge of a thick channel (see figure below). The Hoffer A1 well will be located in the centre of the main channel development. The well will be drilled as a turnkey project and the dry hole cost is expected to be ~US\$1.9 million (100% JV).

A successful well in the Hoffer prospect could deliver flow rates up to 7.5mmcf/d with 50bbl/mmcft and at current prices this could generate c. US\$2.0m net annual revenue to Galilee. The prospect contains multiple follow up wells if successful.



Galilee is participating on equal terms with the other Joint Venture partners for a 35% working interest (WI) (reducing to 28% after payout) in the Hoffer Prospect in Lavaca County, Texas.

Hoffer Extension Area (Galilee 37.5% WI)

Work has continued on the 3D seismic data set that covers the Hoffer extension area. This has included a variety of discussions with other groups already working in the area, and a focus on a smaller number of high quality prospects. The Joint Venture (JV) now has over 1,500 acres under lease covering a number of quality prospects.

Spikes East Prospect Area (Galilee 38.94% WI reducing to 31.15% after payout)

The Spikes East Prospect area is located 10 miles south-southwest of Hallettsville in Lavaca County.

Williams 2

The first well to be drilled to test the channel axis, Williams 2, is located 2500 ft northeast of the Williams 1 flank well which had poor sandstone development. The 3D seismic data indicates greatly increased thickness (approximately 200 ft) of Middle Midcox sandstone at this location, at a structural position

high to the previous wells. The prospective area of the axial portion of the Williams Channel covers in excess of 1000 acres providing for multiple follow wells if successful.

Given the results from the Hoffer B1 well and the desire to start development activities in that field to address the Midcox discovery, Galilee and the other members of the group have agreed to defer drilling of the Williams 2 well until 2016 or potentially even later subject to the activity in the Hoffer Prospect area.

Galilee has a 38.94% WI before payout (31.15% WI after payout) in the Spikes Creek East prospects.

Illinois Basin (75% WI)

No activity during the quarter.

Galilee, through its wholly owned US subsidiary funds 100% of the dry hole cost for the first well on each prospect to earn a 75% working interest in the prospect.

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

Galilee has a binding Joint Venture Agreement (JVA) to acquire selected leases within a 345,600 acre Area of Mutual Interest (AMI) in Meade County, Kansas. Galilee is the Operator for the JVA.

Galilee continues to refine the prospects identified in the earlier seismic work.

Galilee to earn up to a 75% WI via a farmin (25% WI for 3D Seismic – 25% for each well drilled to casing point to a total of 75% WI).

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 application over an area of almost 6,000 sq.km. During August, Galilee presented the exploration program to the government, and is now working to negotiate the terms of the CEOP (exploration permit) to cover the area.

Financials

The company continues to maintain a very strong cash position of \$14.9 million and no debt. The forecast expenditure for the next quarter sees a significant investment in exploration for the company. The forecast amount includes all of the workover and surface equipment costs associated with the Glenaras R1 pilot and the full drilling and testing costs of the Hoffer A1 well in Lavaca County, Texas. As 100% owner, Galilee is also required to increase the environmental bond held by the Queensland government by approximately \$0.6M. This bond is included in the exploration expenditure forecast but will be recovered upon relinquishment of the permit. 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.

Peter Lansom
Managing Director
Galilee Energy Limited
+61 (0) 7 3211 8555

plansom@galilee-energy.com.au

Competent person's statement

The estimates of contingent resource estimates were determined by Mr Tim Hower, a full time employee of MHA Petroleum Consultants LLC., Denver, Colorado, USA, on 1 September 2015, in accordance with Petroleum Resources Management System guidelines. Mr Tim Hower is a Licensed Petroleum Engineer in the State of Colorado, a qualified person as defined under the ASX Listing Rule 5.41 and has consented to the use of the contingent resource figures in this announcement.

***Listing Rule 5 - Reporting of Oil & Gas Activities**

Contingent Resource estimates appearing in the Table have been prepared in accordance with the Society of Petroleum Engineers ("SPE") 2007 Petroleum Resource Management System ("PRMS") Guidelines as well as the 2011 Guidelines for Application of the PRMS approved by the SPE.

The previous assessment of Contingent Resources attributed to ATP 529 was prepared by SRK Consulting (Australasia) Pty Ltd and details of these were released to the market in the company's announcement on 30 June 2011 (2011SRK).

SRK the author of the report attributing contingent resources to Galilee Energy as at 30 June 2011 has consented to the reporting of these resource figures in the context and manner in which they appear in this announcement.

For the purposes of Listing Rule 5.25.3 the Table records the total estimate of Contingent Resources attributable to Galilee Energy. No petroleum reserves have been attributed to Galilee Energy.

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 30 June 2011 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. Galilee has a clear plan to grow shareholder value and the capacity to execute.

- Strong Balance sheet
- Proven successful Board and Management
- New strategic direction

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 – 55.2% *

Directors and Management – 10.6%

*As at 30 September 2015

Appendix 5B
Mining exploration entity quarterly report

		Current quarter	Year to date (3 months)
		\$A'000	\$A'000
1.13	Total operating and investing cash flows (brought forward)	(1,134)	(1,134)
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		(1,134)	(1,134)
1.20	Cash at beginning of quarter/year to date	16,016	16,016
1.21	Exchange rate adjustments to item 1.20	8	8
1.22	Cash at end of quarter	\$14,890	14,890

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	188
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	3,210
4.2	Development	
4.3	Production	
4.4	Administration	440
Total		

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	2,465	2,266
5.2 Deposits at call	12,425	13,750
5.3 Bank overdraft	-	-
5.4 Other (provide details)		
Total: cash at end of quarter (item 1.22)	14,890	16,016

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	ATP 529P Acquisition of AGL's 50% interest in the tenement	50%	100%

+ 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>	Unquoted 1,150,000 1,150,000 1,150,000	Nil	<i>Exercise price</i> 25 cps 30 cps 35 cps	<i>Expiry date</i> 1.12.15 1.12.16 1.12.17
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
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: 27/10 /15
(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.

== == == == ==