# Market and Operations Update

ASX/MEDIA ANNOUNCEMENT

15 December 2014

GALILEE ENERGY LIMITED

- **Energy price declines reinforce strategy to focus on low cost, high margin projects**
- **Clear evidence of a significant reduction in US rig rates and service costs**
- **Kansas seismic program underway with completion expected end December**
- **Drilling in Lavaca to commence within next 3-4 weeks**
- **Chile workshop re-enforces robust potential with gas prices current ~ US$8.00/mmbtu**

Galilee Energy Limited (ASX: **GLL**) ("**Galilee**" or the "**Company**") is pleased to provide an update on its operations, and the impact of the recent fall in commodity prices on its portfolio. The past weeks have seen a dramatic fall in the world price of crude oil. This impact has had a material impact on the share price of almost all exploration and production companies around the world. While Galilee's exploration portfolio has exposure to both oil and gas, the core exposure is to natural gas through our exploration programme in Lavaca County, Kansas, Chile and the Galilee Basin.

There is no consistent correlation between the drop in the oil price and natural gas prices around the world. This fall has had only a modest impact on US natural gas prices which have for many years traded at a discount to oil on an energy equivalent basis. As an example in the US, the closing price for Henry Hub gas price (9/12/14) was US$3.80/mmbtu, which is only an 8% reduction year on year and is close to the US$4.00/mmbtu assumed in the Company's economic assessment for the Lavaca projects.

When the company acquired its interests in Lavaca County it carried out an economic assessment on a range of technical assumptions. Following the recent commodity price changes, these have changed but remain very robust. As an example a decrease in the commodity price assumption of a flat US$90/bbl for oil and US$4.00/mmbtu for natural gas to a flat US$65/bbl for oil and US$3.80/mmbtu for natural gas reduces one of the expected single well IRR's from 125% to 100%, and the payback from seven to eight months.

In Kansas the company is targeting shallow oil and gas, however its acquisition economics were based solely on the oil potential.

Like the interests in Texas, the Company carried out an economic assessment on a range of technical assumptions ahead of acquiring its interests in Kansas. In Kansas as an example a decrease in the commodity price assumption of a flat US$90/bbl to a flat US$65/bbl for oil and reduces the target type curve single well IRR's from 242% to 130%, and the payback increases from five to eight months. This also increases the volume required to payout the well from 10,000 to 14,000 bbl.

These robust economics even in a subdued commodity price environment reflect the focus on high margin conventional oil and gas as compared to the higher cost, lower margin unconventional resource plays often targeted in the US.

Seismic operations in Kansas are ongoing and the Company expects these to be completed by the end of the calendar year.

In both the current US projects, the Company has already observed a significant (20%) decrease in the rig rate initially quoted for its upcoming Lavaca wells, and expects to see that level of drop across the broader service sector which will significantly improve even these robust economics.

As is always the case, the commencement of drilling in Lavaca County is subject to the rigs being released from current operations. The operator has advised that they expect a minor delay with mobilisations now likely late December 2014 and mid January for the Hoffer B and Dworsky #1 wells respectively.

The Company has scheduled a workshop to evaluate the recent Illinois drilling activities and will incorporate the results from this before carrying out any further at activities in the area.

In Chile, natural gas prices remain high, and in its recent visit to Chile, the Company was advised that gas prices in the area are in the order of US$8/mmbtu which will be relatively insensitive to world prices due to the project location. The Company believes this price can support the proposed Magallanes Basin project and is continuing to work with Empresa Nacional del Petróleo (ENAP) to finalise its study ahead of applying for an exploration concession (CEOP) in the coming months.

The Company remains in a very good position with a strong cash balance. In recent weeks the Company has seen a number of quality corporate opportunities develop and will continue to monitor and assess these opportunities.

Further information will be provided in due course.

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## 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 – 54.23% *
Directors and Management – 6.29%

*As at 30 November 2014

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