

# Galilee Energy Limited

## Quarterly Activities Report : December 2010

### Overview

28 January 2011

Galilee Energy Limited (GLL) is a Brisbane based emerging energy company with coal seam gas (CSG) interests in Australia and an operating coal business in New Zealand. Activities during the last Quarter have seen the Company take measured steps to transition from a coal based company to a focussed hydrocarbon energy company. Our strategy is to demonstrate value in our large-scale, long-term coal seam gas tenements in the Galilee Basin through a resource booking program. In addition we plan to seek a more balanced portfolio of short-term growth opportunities in Australia's conventional and unconventional on-shore hydrocarbon sector.

In October 2010 Galilee lodged a prospectus to float its New Zealand coal business in an Initial Public Offer (IPO). In November 2010, Bathurst Resources Limited (BTU) made a cash offer to purchase the New Zealand coal business for A\$35M. The Board determined that the BTU offer represented far greater value for GLL shareholders than would have been received under the IPO. Consequently the prospectus was withdrawn and the sale, subject to regulatory approvals, is expected to complete in late March 2011. The injection of funds provided by this sale coupled with the proceeds from the Broughton sale will see the company in a strong financial position to pursue its growth strategy in 2011.

Operational highlights include strong cash flow generation from our New Zealand coal business and completion of the AGL \$37M farm-in to ATP 529 P. AGL and GLL have approved the 2011 calendar year Joint Venture work program that includes three step-out wells plus one contingent core well and continued operation of the Glenaras Pilot for \$12M (\$6M each) in order to support an initial resource booking in the first half of 2011 and a material resource booking upgrade in the second half.

During the Quarter Campbell Smith resigned as non-executive director of GLL. At the time, the Board acknowledged his contribution to the development of the company and his support as a major shareholder.

Finally, I would like to welcome Simon Brodie, who has been appointed to the full-time position of Chief Financial Officer. Warwick Parker was previously engaged in this capacity on a part-time consultancy basis and I would also like to thank him for his contributions during his time with Galilee.

The enclosed report further outlines the activities for the Quarter.



Glenn Haworth  
Chief Executive Officer



# Galilee Energy Limited

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### Coal Seam Gas – Queensland

GLL owns two highly prospective coal seam gas and hydrocarbon tenements; ATP 529 P and the adjoining ATP 799 P covering an area of 9,000km<sup>2</sup> in the Galilee Basin.

Encouraging exploration results suggest a large resource potential of over 20 TCF<sup>1</sup> gas in place.

#### ATP 529 P

<b>AGL Energy Limited (ASX: AGK)</b>	<b>50% (Operator)</b>
<b>Galilee Energy Limited (ASX: GLL)</b>	<b>50%</b>

During the Quarter work continued on the operation of the Glenaras 5 spot production pilot. Despite flooding, the pilot remains on-line with encouraging early signs that should support initial resource booking towards the end of Q1 or early Q2 2011. The Glenaras production pilot is Stage 1 of the AGL farm-in.

Stage 2 of the AGL farm-in comprised 540 km of 2D seismic acquisition and a seven core hole exploration program. The final hole, Stockholm-1 was spudded in August however coring operations were interrupted by access and equipment issues and as a result of the continuing wet weather conditions the well was suspended and the rig released.

The \$37 million spend by AGL to earn its 50% interest in the ATP 529 P tenement has now been completed. During the Quarter a work program and budget was agreed with AGL for the next 12 months for an estimated total spend of \$12M (\$6M each).

2011 Joint Venture Work Program Summary:

- continue the Glenaras 5 spot production pilot test
- drill three core wells (two firm and one contingent) and one production well
- engage independent experts to provide Resource Estimate Reports
- investigate schemes of beneficial use of produced water.

The aim of this program is to deliver a maiden reserve estimate and to provide enough additional data to allow a material reserve upgrade that will potentially underwrite future investment.

#### ATP 799 P

<b>Galilee Energy Limited</b>	<b>100% (Operator)</b>
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Activities in ATP 799 P in the coming year will concentrate on the next phase of appraisal based on the results from the exploration program and analysis conducted in ATP 529 P.

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<sup>1</sup> JR Holland & Associates

# Galilee Energy Limited

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### 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 Quarter at either mine site.

#### Production for Cascade & Takitimu mines to 31 December 2010

	Coal Extracted (Tonnes)	Overburden (BCMs)	Sales (Tonnes)	Sales (NZ\$)
<b>December Quarter</b>	<b>64,738</b>	<b>379,201</b>	<b>74,784</b>	<b>5,738,821</b>
<b>Year to date</b>	<b>122,603</b>	<b>788,315</b>	<b>125,409</b>	<b>10,286,680</b>

#### 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.

Some minor disruptions to operations at Cascade were experienced during the Quarter due to heavy rainfall which is typical of the region but coal recovery continued as planned.

A new Hitachi 670 Excavator was delivered during December to replace the Komatsu PC600 Excavator.

#### Takitimu Coal Limited (ML 37079)/Ohai (EP 51260)

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 and Canterbury areas.

The Ohai permit covers an extensive area immediately surrounding the existing Takitimu mining lease area and is prospective for sub-bituminous coal. Operations at Takitimu have now extended into an adjacent area of private coal that sits within this Exploration Permit. Mining in this area is by way of a royalty arrangement with the neighbouring land owner. Further to the recent drilling program a mine plan has been submitted for the Coaldale area, also within the Ohai permit, to the northwest of the Takitimu licence area. Baseline environmental studies addressing water management, land use and incorporating mine design and geotechnical assessments have now been completed and the appropriate consents applications have been lodged.

# **Galilee Energy Limited**

## **Quarterly Activities Report : December 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.

In December 2010 drilling commenced on a planned eleven hole program to be conducted in two phases. The initial stage comprises six core holes to be geophysically logged to infill gaps in the current drill spacing which will allow the resource to be more accurately delineated.

By Quarter end drilling had commenced on the third hole in the program. Subsequent to period end five of the planned six core holes were drilled to an average total depth of 75 metres. Drilling of the final hole has now commenced and the program is expected to complete during the first week of February.

Proximate analysis and washability testing of the cores will be undertaken; a significant requirement for the development of this deposit. A mining scoping study is also being completed as part of the work program to December 2011.

#### **Albury (PP 52484)**

The Albury Prospecting Permit was granted in October 2010. The permit covers an area of 835 hectares near Albury, northeast of Timaru. Historical data suggests the area is prospective for thermal coal. Initial activities planned under the permit will include land owner negotiations, field mapping and spot sampling however no activity was undertaken during the Quarter.

# Galilee Energy Limited

## Quarterly Activities Report : December 2010

### Corporate

#### Bathurst Transaction

On 15 November 2010 GLL entered into an agreement with Bathurst Resources Limited (ASX: BTU) for the sale of its New Zealand coal business held under wholly owned subsidiary, Eastern Resources Group Limited (ERG) for A\$35M.

GLL had earlier announced its intention to float the assets held in ERG into a separate ASX listed entity by way of an Initial Public Offering (IPO). A prospectus was lodged with ASIC on 29 October 2010. However the GLL Board determined that the BTU offer represented far greater value for GLL shareholders than the quantum and nature of the consideration the Company would have received under the IPO. Under the terms of the sale the prospectus was withdrawn and the IPO cancelled.

The transaction is now subject only to NZ regulatory approvals and is expected to complete in March 2011. A non-refundable deposit has been received of A\$2.4M. The net benefit after allowing for expenses relating to the transaction itself and the IPO will be in the order of A\$30M.

#### Board/Management

Campbell Smith resigned as non executive director for GLL effective 15 November 2010.

Simon Brodie was appointed as Chief Financial Officer on 23 December 2010. Simon has over 22 years experience in finance with a strong background in resources having worked as CFO and Company Secretary for several listed gold and base metals producers. He has a track record in growing listed juniors into production and has led several successful takeovers.

#### Financials

The cash flows for the Quarter are presented in the attached Appendix 5B report.

#### For further information contact:

##### Sam Aarons

Manager, Business Development & Corporate Relations

Tel: +61 (0) 7 3216 1155  
Fax: +61 (0) 7 3216 1199  
Email: [info@galilee-energy.com.au](mailto:info@galilee-energy.com.au)

# 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 2010

### Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (...6... months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from product sales and related debtors	8,050	12,079
1.2 Payments for (a) exploration & evaluation	(815)	(1,195)
(b) development	-	-
(c) production	(4,572)	(7,221)
(d) administration	(1,389)	(2,787)
	-	-
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	181	331
1.5 Interest and other costs of finance paid	(54)	(132)
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	2	106
	<b>1,403</b>	<b>1,181</b>
<b>Net Operating Cash Flows</b>		
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	(945)	(1,141)
1.9 Proceeds from sale of: (a) prospects	-	-
(b) equity investments	-	-
(c) other fixed assets	247	776
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	21	21
	(677)	(344)
<b>Net investing cash flows</b>		
1.13 Total operating and investing cash flows (carried forward)	726	837

+ See chapter 19 for defined terms.

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

1.13	Total operating and investing cash flows (brought forward)	726	837
	<b>Cash flows related to financing activities</b>		
1.14	Proceeds from issues of shares, options, etc.	-	-
1.15	Proceeds from sale of forfeited shares	-	-
1.16	Proceeds from borrowings	449	449
1.17	Repayment of borrowings	(342)	(1,067)
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	204	(308)
	Net IPO costs		
	<b>Net financing cash flows</b>	311	(926)
	<b>Net increase (decrease) in cash held</b>	1,037	(89)
1.20	Cash at beginning of quarter/year to date	10,633	11,435
1.21	Exchange rate adjustments to item 1.20	(4)	320
1.22	<b>Cash at end of quarter</b>	11,666	11,666

**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	80
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 \$80k per 1.23 above represents fees paid to non-executive directors for the 3 months to 31/12/10.

**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**

*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	3,573	3,163
3.2 Credit standby arrangements	-	-

### Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	1,853
4.2 Development	-
4.3 Production	2,692
4.4 Administration	808
<b>Total</b>	<b>5,353</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	1,033	1,768
5.2 Deposits at call	10,633	8,865
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.22)</b>	<b>11,666</b>	<b>10,633</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				
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>	Unquoted 8,000,000 1,000,000		<i>Exercise price</i> 30-87 cents 24 cents	<i>Expiry date</i> 4.12.11-3.12.12 3.12.12
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)		
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## 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 /does not\* (*delete one*) give a true and fair view of the matters disclosed.

Sign here:  ..... Date: 28/1/2011  
(~~Director~~/Company secretary)

Print name: Bill Lyne  
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## 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.