

Galilee Energy Limited

Quarterly Activities Report : September 2010

Overview

28 October 2010

As announced in early September, I have been appointed to the role of Chief Executive Officer for Galilee Energy Limited, replacing Campbell Smith who has resigned as Managing Director. My focus will be on overseeing Galilee's development as a valuable hydrocarbon energy company in Australia through a strategy of establishing the Company as a recognised coal seam gas entity with booked gas reserves in the Galilee Basin, and by pursuing new initiatives to expand our existing portfolio of assets.

Underpinning this strategy, in October Galilee confirmed that it intended to proceed with an IPO of its New Zealand coal assets into a separate ASX listed entity, Eastern Resources Group Limited. Galilee will retain a significant cornerstone investment in the new company.

Operational activities during the quarter included the recommencement of the Glenaras 5 spot production pilot. Despite further inclement weather conditions in the Galilee Basin, ground conditions improved enough to enable the installation of new equipment and dewatering has now resumed.

In closing I would like to acknowledge the contribution made to the company by Campbell Smith. Campbell remains on the Board of Galilee in the capacity of non-executive director and intends to take the role of Executive Chairman for the New Zealand entity.

The enclosed report further outlines the activities for the quarter.



Glenn Haworth

Chief Executive Officer

Galilee Energy Limited

Quarterly Activities Report : September 2010

Coal Seam Gas – Queensland

The highly prospective coal seam gas and hydrocarbon tenements, ATP 529P and the adjoining ATP 799P tenement to the north continue to be the focus of exploration and evaluation efforts.

ATP 529 P

AGL Energy Limited : 50% (Operator)
Galilee Energy Limited : 50%

During the quarter work recommenced on the Glenaras 5 Spot production pilot. Operations had previously been suspended due to equipment failures; however, new Progressive Cavity Pumps have now been installed in 4 of the 5 holes and dewatering operations have restarted. 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 which was completed in late 2009, and a seven core hole exploration program. The final hole, Stockholm-1 was spudded in August however coring operations were interrupted again due to adverse weather conditions and the well remains suspended. The encouraging results of the seismic and analysis of the cores obtained has assisted in planning the next work program to be agreed with AGL. It is envisaged this will comprise further core holes to help identify additional pilot locations and aid future reserve booking.

The groundwater monitoring equipment installed at Rodney Creek 8 has now been commissioned and is actively assessing groundwater conditions in relation to the production pilot.

ATP 799 P

Galilee Energy Limited : 100%

Further to the completion of the 2009/2010 exploration program of seismic acquisition and core holes, attention is now focussed on planning the next stages of development for this tenement.

The results from this exploration will determine the next phase of appraisal in the permit which will include identifying potential locations for a production pilot targeted at defining reserves. Timing for these activities are aimed to coincide with similar programs in ATP 529P to share mobilisation costs.

The Galilee Basin Operators Forum has now been established to co-ordinate a groundwater study in the Galilee Basin.

Galilee Energy Limited

Quarterly Activities Report : September 2010

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 period at either mine site.

Production for Cascade & Takitimu mines to 30 September 2010

Coal Extracted (Tonnes)	Overburden (BCMs)	Sales (Tonnes)	Sales (NZ\$)
57,865	409,114	50,625	4,547,859

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.

Stripping of overburden has commenced in the second push back of Gravel Pit 5; this is second in a series of three push back stages. Coal recovery is underway in Durkins Block, push back 1 and also in Gravel Pit 4, push back 3.

Further hydroseeding and planting is planned to commence shortly in back filled areas as part of the mine rehabilitation program.

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 area.

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, known as Area 1.

Stripping Area 1 was undertaken during the previous quarter and coal recovery has now commenced. Mining in this area is by way of a royalty arrangement with the neighbouring landowner. At the same time, exploration drilling continued into the Coaldale area, north of Area 1, also within the Ohai permit. The 60th drill hole has now been completed and cores recovered indicate that the Morley and Beaumont seams extend well into this part of the permit. Work is underway on the consenting process to enable mining in the Coaldale area to be undertaken once the coal in Area 1 has been recovered. As part of this baseline hydrology and ground stability studies have commenced.

Galilee Energy Limited

Quarterly Activities Report : September 2010

During the quarter a revised JORC statement was obtained for an area covering part of the existing Takitimu licence (taking into account depletion of resources) and extending into areas within the Ohai permit, as set out in the tables below.*

a) Takitimu Upper Morley Seams MEASURED	
Area	Tonnes (MT)
Takitimu South	0.54
ROM stock/bridge	0.05
Takitimu East	0.20
TOTAL	0.79

b) Takitimu Beaumont Seam INFERRED	
Area	Tonnes (MT)
Takitimu South	0.13
ROM stock/bridge	0.01
Takitimu East	0.01
TOTAL	0.15

c) Coaldale Upper Morley Seams plus Beaumont INDICATED	
Area	Tonnes (MT)
Coaldale unmined	1.70
Coaldale old UG	0.09
Carmichaels old UG	0.61
TOTAL	2.40

Galilee Energy Limited

Quarterly Activities Report : September 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.

An 11-hole work programme has been submitted to the Department of Crown Minerals to take place over the next stage of the current permit and a submission for drilling approvals has been made to the Department of Conservation.

The Wildlife Act authority has been granted for the current drilling program which is scheduled to commence in November. A draft access arrangement for this program has also been agreed with the Department of Conservation. The final agreement is expected to be signed by month end.

Albury (PP 52484)

In October, subsequent to period end, the Albury Prospecting Permit was granted. 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.

**The information in this report that relates to Mineral Resources for ML37079 Takitimu and EP51260 Ohai is based on information compiled by Mr Ian Poppitt who is a Member of the Australasian Institute of Mining and Metallurgy. Mr Poppitt is a Consultant Geologist working for Rokmode Pty Ltd.*

Mr Poppitt has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2004 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves.' Mr Poppitt has consented in writing to the inclusion in this report of the matters based on the information in the form and context in which it appears.

Galilee Energy Limited

Quarterly Activities Report : September 2010

Corporate

Proposed IPO of New Zealand assets

In June, the GLL announced it was undertaking a strategic review of its New Zealand coal assets held under subsidiary Eastern Resources Group Limited (formerly Eastern Coal Holdings (NZ) Limited). As a result of that review, the Company has announced that it intends to proceed with an IPO of the NZ coal assets. A prospectus is expected to be lodged by the end of October.

It is intended that Eastern Resources Group Limited will initially list on the ASX although a later listing on the NZX is also under consideration. GLL intends to retain a significant cornerstone investment of 21.9%. Becamal, an entity associated with Non-executive director, Campbell Smith, intends to subscribe for 19.9%.

Galilee shareholders resident in Australia will have the opportunity to participate in a priority offer of Eastern Resources shares under the IPO.

Funds raised will be directed to advancing the exploration and development of the coal tenements in New Zealand, in particular, the Whareatea West coking coal prospect.

Board/Management

On September 1, Glenn Haworth was appointed Chief Executive Officer. Glenn was previously General Manager, Operations for Galilee Resources Limited. At the same time Campbell Smith resigned as Managing Director. He remains on the Board of GLL as non-executive director. It is intended that Mr Smith will assume the role of Executive Chairman of Eastern Resources Group Limited.

Financials

The attached statement provides further details of the cash flows for Galilee Energy Limited.

For further information contact:

Sam Aarons
Manager, Business Development & Corporate Relations

Tel: 07 3216 1155
Fax: 07 3216 1199
Email: info@galilee-energy.com.au
Website: www.galilee-energy.com.au

Appendix 5B

Mining exploration entity quarterly report

Introduced 1/7/96. Origin: Appendix 8. Amended 1/7/97, 1/7/98, 30/9/2001, 01/06/10.

Name of entity

Galilee Energy Limited

ABN

11 064 957 419

Quarter ended ("current quarter")

30 September 2010

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from product sales and related debtors	4,029	4,029
1.2 Payments for (a) exploration & evaluation (b) development (c) production (d) administration	(380) - (2,649) (1,398)	(380) - (2,649) (1,398)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	150	150
1.5 Interest and other costs of finance paid	(78)	(78)
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	104	104
Net Operating Cash Flows	(222)	(222)
Cash flows related to investing activities		
1.8 Payment for purchases of: (a) prospects (b) equity investments (c) other fixed assets	- - (196)	- - (196)
1.9 Proceeds from sale of: (a) prospects (b) equity investments (c) other fixed assets	- - 529	- - 529
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)	-	-
Net investing cash flows	333	333
1.13 Total operating and investing cash flows (carried forward)	111	111

+ See chapter 19 for defined terms.

Appendix 5B
Mining exploration entity quarterly report

1.13	Total operating and investing cash flows (brought forward)	III	III
	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	(725)	(725)
1.18	Dividends paid	-	-
1.19	Other (provide details if material)	(512)	(512)
	Net financing cash flows	(1,237)	(1,237)
	Net increase (decrease) in cash held	(1,126)	(1,126)
1.20	Cash at beginning of quarter/year to date	11,435	11,435
1.21	Exchange rate adjustments to item 1.20	324	324
1.22	Cash at end of quarter	10,633	10,633

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	180
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 \$180k per 1.23 above represents fees paid to non-executive directors for the 3 months to 30/9/2010.

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

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	3,467	3,056
3.2 Credit standby arrangements	-	-

Estimated cash outflows for next quarter

	\$A'000
4.1 Exploration and evaluation	530
4.2 Development	-
4.3 Production	2,450
4.4 Administration	990
Total	3,970

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	1,768	1,248
5.2 Deposits at call	8,865	10,187
5.3 Bank overdraft	-	-
5.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.22)	10,633	11,435

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			
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 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 Dec 2012
7.8 Issued during quarter				
7.9 Exercised during quarter				
7.10 Expired during quarter				
7.11 Debentures <i>(totals only)</i>				

+ See chapter 19 for defined terms.

7.12	Unsecured notes (totals only)		
------	-------------------------------	--	--

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 4).
- 2 This statement does ~~not~~* (delete one) give a true and fair view of the matters disclosed.

Sign here:



Print name: Campbell Smith
(Director/~~Company secretary~~)

Date: 28 October 2010

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 1022: Accounting for Extractive Industries* and *AASB 1026: Statement of Cash Flows* apply to this report.
- 5 **Accounting Standards** ASX will accept, for example, the use of International Accounting 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.

== == == == ==

+ See chapter 19 for defined terms.