

# December 2014 Quarterly Report & Appendix 5B



**Galilee Energy Limited (ASX:GLL) (Galilee) continues to execute its growth strategy, investing in high margin, near term production plays while continuing to progress its large scale exploration projects.**

## ***Highlights:***

- ❖ **Technical Study** of the coal seam gas potential in the Magallanes Basin in southern Chile was completed and reviewed with Chile's state owned oil and gas company ENAP. Galilee is in advanced discussion on the preparation of a joint exploration concession (CEOP application) with ENAP.
- ❖ **Finalised drilling** of the first four prospects in Illinois. Encouraging results have confirmed a viable petroleum system and a potential shallow oil resource play. **Evaluation continuing ahead of further exploration.**
- ❖ **Expansion** of interests in Lavaca County Texas. Ground floor participation in an early stage project extending its interest in the Lower Wilcox. Multiple prospects already identified and leased and direct participation in two new prospects. **Hoffer B 1 currently drilling with Dworsky Haas 1 to spud in early February.**
- ❖ **Completed seismic operations in Kansas.** Finalised permitting and surveying of a ~ 40 square mile 3D seismic survey in Kansas during the quarter with recording completed in January 2015.

The past weeks and months has seen a dramatic fall in the world price of crude oil. This 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 focus is currently on natural gas plays through our exploration programme in Texas, Kansas, Chile and the Galilee Basin.

There is no consistent correlation between the drop in oil and natural gas prices around the world. This fall initially had only a modest impact on US natural gas prices; however these have continued to fall in recent weeks. As previously advised, despite the drop in commodity prices, the success case economics for our current field activities remain robust. As an example using one of the expected Lavaca County well type curves and the current futures strip pricing for US oil and gas, the single well individual rate of return (IRR's) remains in excess of 90% and the payback is less than 10 months. The Company has already observed a significant (20%) decrease in the rig rate initially quoted for the current Lavaca wells, and expects to see that level of drop across the broader service sector which will significantly improve these economics.

These strong economics, even in this subdued commodity price environment, reinforce our ongoing focus on high margin conventional oil and gas which are more robust in the current commodity price environment compared to the capital intensive, lower margin unconventional resource plays.

## **Chile**

Galilee has completed its evaluation and study of the Coal Seam Gas (CSG) potential in the Southern Magallanes Basin in Chile. Under the terms of the MOU with Empresa Nacional del Petróleo (ENAP) the detailed results of the study remain confidential at this time. However, the company is able to confirm that the study supports the likely presence of a significant gas resource in the coals of the Oligocene age Loreto Formation.

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 work ahead of applying for an exploration concession (CEOP) in the coming months.

## **Illinois Basin**

Galilee drilled four wells in the Illinois Basin shallow oil exploration programme during the quarter, with results of the first three wells detailed in the previous quarterly report. These low cost tests have provided strong evidence to support further exploration in the area. Each well confirmed the presence, in multiple horizons, of hydrocarbon charge and migration.

A significant portion of the hydrocarbon indications in the programme was from the deeper targets in the wells. These targets are much more difficult to map using the "surface geology and shallow coal bore and well data" technique. These techniques can map simple structural traps but will need to be supplemented with additional data for the deeper targets due to the presence of unconformities in the section. The amount of data available on these deeper horizons is limited as historically the drilling success targeting shallow oil has resulted in little need to drill to the deeper targets. For this same reason, and due to the relatively high cost compared to the drilling of wells, very little seismic data has been acquired in the areas around the programme wells.

The fourth and final well of the current programme, Wenzel 1 located in Bond County, was drilled to a total depth of 2,757 ft after losing circulation in the Silurian Racine formation. Good live oil shows were encountered in the lower portion of the Benoist sand. A drill stem test conducted on this interval from 1,115 – 1,130 ft did not recover oil or other commercial hydrocarbons. No other zones of interest were identified during drilling or on the logs, and the well was not deep enough to recover samples from shale in the Maquoketa Group.

Given the current winter season, which creates rig access problems in the high quality black soil farmland, Galilee and its JV partners decided to suspend further field activity in the basin until early in Q2, 2015. During this period, Galilee has been reviewing the results of the four well program including laboratory studies on sampling and fracture logging of the resource targets and will consider options for improving the subsurface control before carrying out further drilling. The results indicate strong evidence to support further exploration in this area.

## Lavaca County - Texas Gulf Coast

Following its earlier agreement to acquire a 35% WI (24% WI after payout) and participate in the 14,100 ft exploration well “Hoffer B” on the Hoffer Prospect, Galilee has continued to build its portfolio in this exciting province.

On 28 October 2014 Galilee entered into a number of agreements to expand its portfolio and participate in a number of new prospects in the region.

### Hoffer B 1

The Hoffer B 1 well spudded on 6 January 2015 and has now reached 11,209 ft measured depth. Currently the rig is preparing to run the intermediate casing string prior to drilling ahead to the primary and secondary sandstone targets in the Paleocene and Eocene Middle and Lower Wilcox Group. Very strong gas shows were observed in two shallower sandstone intervals during drilling. Early indications suggest that these zones may provide an additional commercial completion interval.

The Lower Wilcox reservoir has proven to be a prolific producer in the region and this, combined with the large size of the prospect and the moderate cost of onshore drilling provides the company an excellent risk return profile.

The 3-D seismic (see Figure 1) over this area shows the main target horizon, the Lower Wilcox sandstone, has created an “umbrella structure” with a prognosed 200m of gross reservoir development, down-faulted on a ~3.6 sq km (~900 acre) structural closure.

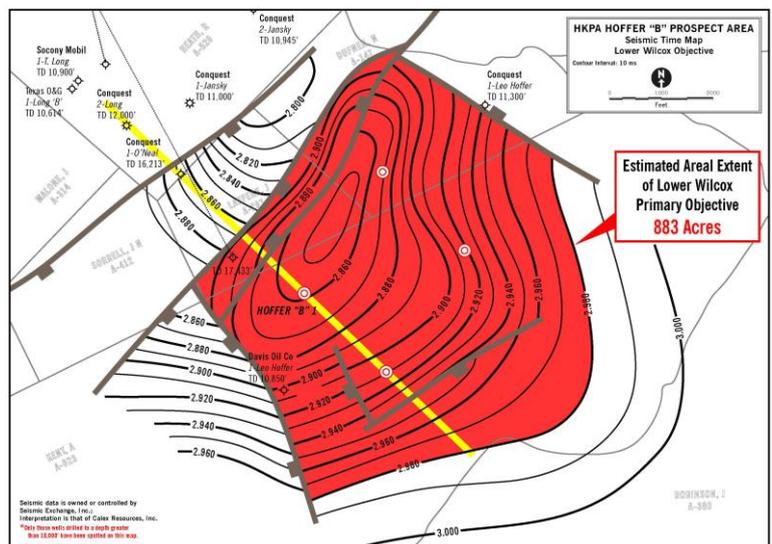


Figure 1 – Seismic time structure map of the Hoffer prospect

Galilee expects the well to deliver sweet natural gas with a good liquids yield. Successful testing of the target would result in immediate follow up development wells and rapid commercialisation with an existing pipeline infrastructure located approximately 500m from the well.

### **Hoffer Extension Area**

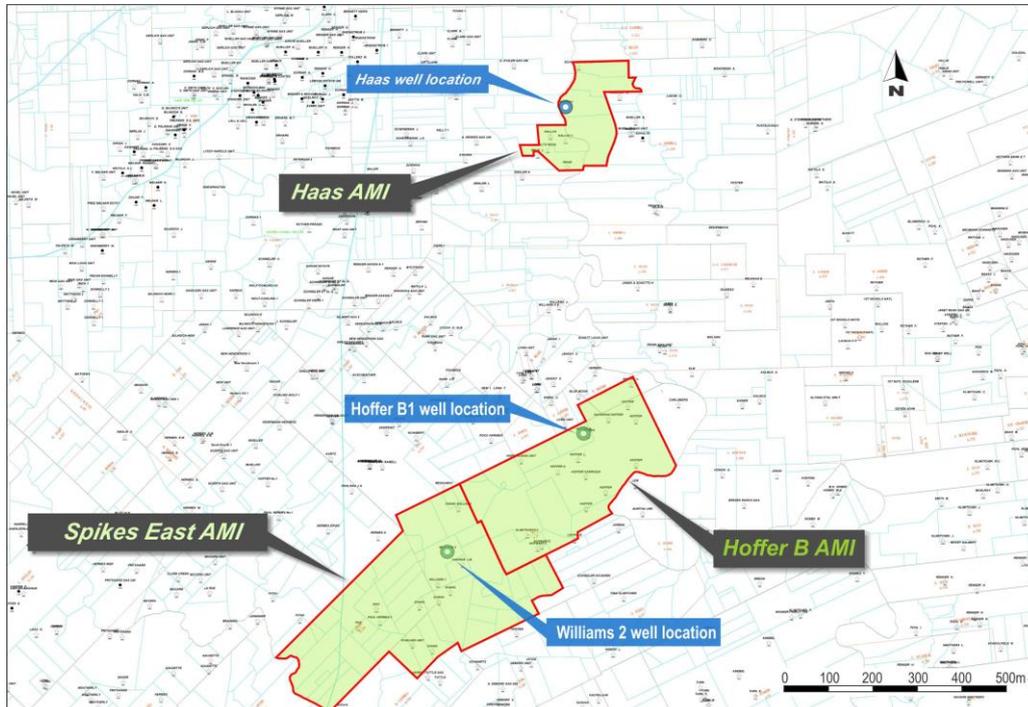
Recent technical studies have indicated that the Middle and Lower Wilcox plays extend to the northeast of the Hoffer area and Galilee has agreed to participate with a 37.5% working interest in a newly formed Joint Venture with an AMI extending over this area.

As part of this agreement, the parties have acquired and are evaluating a significant additional 3D seismic data set. The initial results from the evaluation are very exciting with a large number of material prospects and leads identified across both the Middle and Lower Wilcox zones of interest.

The JV is continuing to prioritise areas for leasing and has commenced negotiations with mineral owners for new leases. Approximately 1,000 acres has been leased to date.

As previously advised, recent developments in the play have seen the aggressive entry of a major US based E&P company acquire leases on trend and permit a 14,000' test well less than two miles from the Hoffer B well. This well has now been drilled and Galilee understands that production casing has been set, albeit at a shallower depth than originally permitted. This is thought to be below 12,000 feet. It is understood that a completion attempt is under way on the well. A successful test of any zone in this well, or gas flows of any size, would have very positive implications for both the Hoffer prospect and Hoffer Extension Area.

### **Midcox Trend**



**Figure 2 – Lavaca Interest Map – Note the extension area not shown for confidentiality reasons.**

In order to balance its risk profile, Galilee has agreed to participate in some shallower (lower cost) wells in this updip trend, which still provide material reserve targets and follow-up drilling.

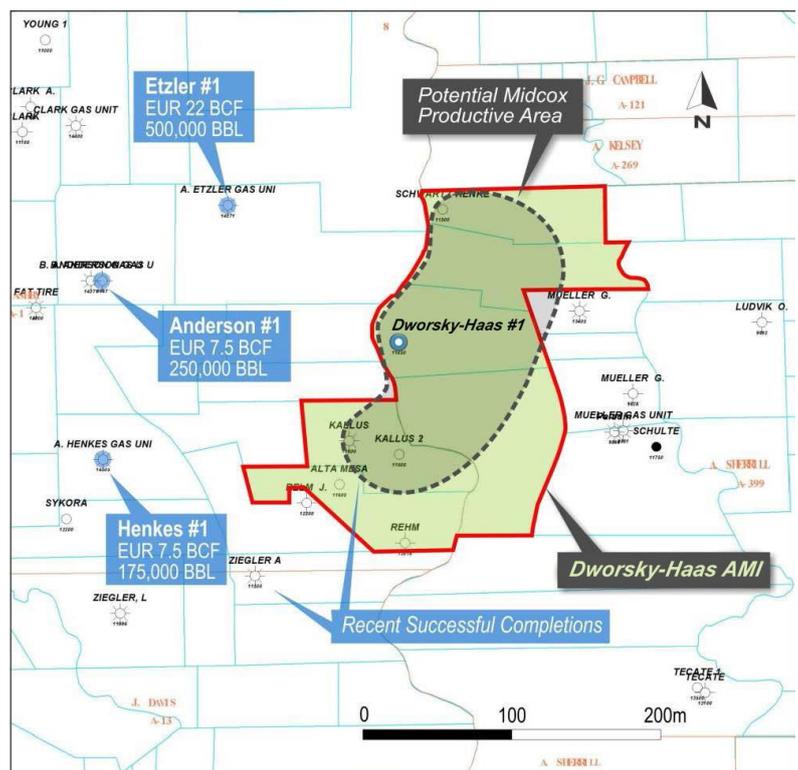
Calex Resources and its partners have been extremely successful in identifying and successfully drilling shallower (predominantly Midcox) wells structurally up dip from the deeper trend being tested in Hoffer B. As a result of its historical drilling program there is a deep understanding of the critical success factors for new wells in this play – significantly reducing the exploration risk faced.

Within the Midcox, discrete point bar and channel sandstones ranging from 15 ft to 65 ft thick have been found to be highly productive. Porosities are generally in the range of 18-22%, with permeabilities of 20-80 millidarcies.

### Dworsky Prospect Area

The Dworsky Prospect area covers an existing 440-acre lease position. The primary objectives for exploration in this area lie in the Midcox section, which is in the depth interval 9,700-11,300 ft. The top of the Midcox section is marked by overpressure at about 9,700-10,100 ft and the base by the erosional unconformity at the Lavaca Channel Erosion Surface at around 11,300 ft.

The analogue wells for the Dworsky prospect area are the three main producers on Hallettsville South field; the Anderson 1 (Middle Midcox, EUR 22 Bcf and 500 Mstb), the Henkes 1 (Lower Wilcox, EUR 7.5 Bcf and 175 Mstb) and the Etzler 1 (Lower Midcox EUR 7.5 Bcf and 250 Mstb). All three wells produce from different Midcox and Lower Wilcox sandstones indicating potential exists for further undrained sandstones in areas away from existing drilling.



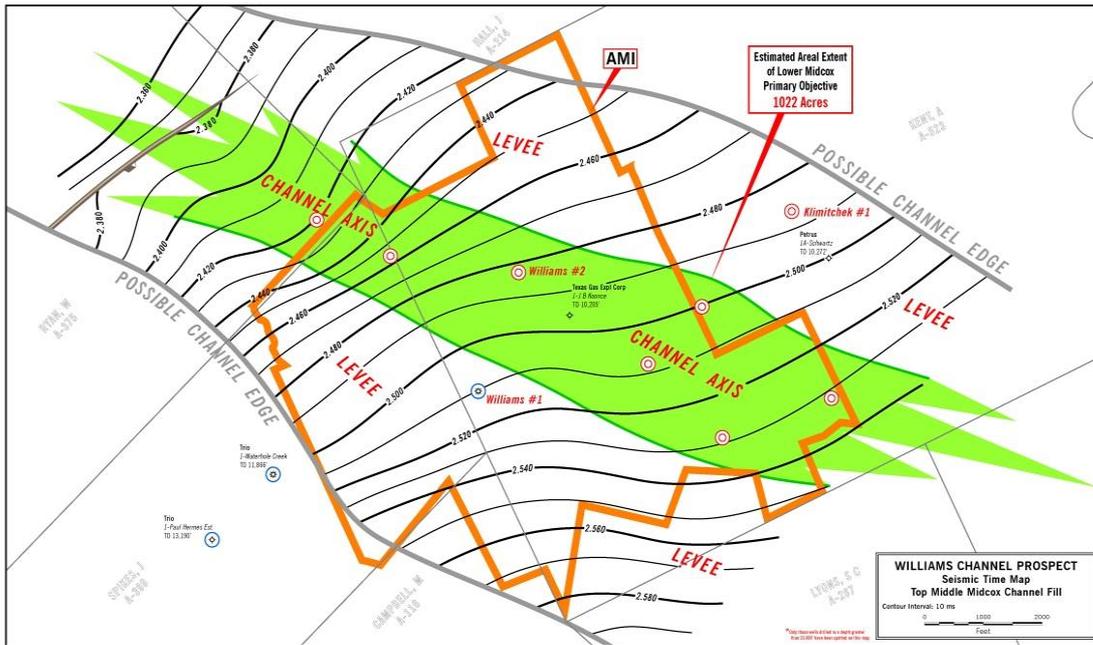
**Figure 3 – Dworsky Hass Prospect Area**

### Dworsky Haas 1

Drilling on Dworsky Haas 1 is now expected to commence in early February 2015 and will test multiple zones identified on 3D seismic data, including three different Midcox sandstones and one of the lower Wilcox sandstones. Galilee has agreed to a 32% WI to casing point (24% WI after casing point) in the Dworsky prospect. The expected total cost to Galilee to casing point is ~US\$786,000.

### Spikes East Prospect Area

The Spikes East Prospect area is located 10 miles south-southwest of Hallettsville in Lavaca County. The acreage lies on the downdip one third of the Midcox producing trend, south of the highly productive Exxon Koerth, Trio Hoffer and Trio Hermes Midcox wells. 3D seismic data indicates the presence of a 2000-2500 acre Middle Midcox depositional channel complex, named the Williams Channel, which contains multiple individual sandstone build-ups ranging in size from 50 to 150 acres which have not been adequately tested by previous drilling.



**Figure 3** – Seismic time structure map of the Williams Channel

### 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. 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.

The Williams 2 well is forecast to be drilled to depth of 12,500 ft and is currently scheduled to be drilled in Q3 2015.

Galilee has agreed to a 40% WI before payout (32% WI after payout) in the Spikes Creek East prospects.

## **Kansas Shallow Oil & Gas**

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

The key reservoir targets are shallow (4,000-6,000 ft) limestones and sandstones in the Carboniferous section, primarily in the Missourian Lansing and Kansas City groups. The reservoirs are generally from 5 to 40 feet thick and often have more than 20% porosity.

Secondary objectives exist in the slightly deeper Cherokee Group, Marmaton Group, Morrow Sandstone and Mississippi Lime.

Galilee has now built a comprehensive geological model incorporating well data and selected 2D data that it has acquired over the area. The model has identified a number of significant structure features across the area.

As part of the JVA, Galilee commissioned a ~ 40 square mile 3D seismic survey over the eastern portion of the AMI. Work on this survey commenced with permitting completed in early November and surveying completed in December. The acquisition company, Lonestar Geophysical Surveys LLC, completed recording on 26 January 2015 following the end of the reporting period. Rehabilitation and de-permitting is currently underway and the data processors expect preliminary results to be ready in early March.

## **Galilee Gas Project (ATP 529P - Galilee 50%, AGL 50% and operator)**

Subsequent to the update provided to the market in the last quarterly, no further activity has taken place with respect to ATP 529.

## **Financials**

At the end of the Quarter the company had a very strong cash position of \$19.6 million and no debt. This quarter has seen the company make prudent investments in a number of areas that provide foundations for its growth. This includes the acquisition of projects and lease positions across a number of different basins, acquisition and evaluation of seismic in both Kansas and Lavaca County, Texas as well as drilling costs for Illinois and the Hoffer B 1 well. The cash flow for the Quarter is presented in the attached Appendix 5B report.

# 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 2014

### 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		
1.2 Payments for (a) exploration & evaluation (b) development (c) production (d) administration	(4,820)	(5,541)
	(449)	(873)
1.3 Dividends received		
1.4 Interest and other items of a similar nature received	209	511
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Other Contract termination	-	(268)
	-	-
<b>Net Operating Cash Flows</b>	<b>(5,060)</b>	<b>(6,171)</b>
<b>Cash flows related to investing activities</b>		
1.8 Payment for purchases of: (a) prospects (b) equity investments (c) other fixed assets	-	-
	-	-
1.9 Proceeds from sale of: (a) prospects (b) equity investments (c) other fixed assets	-	129
1.10 Loans to other entities	-	-
1.11 Loans repaid by other entities	-	-
1.12 Other (provide details if material)		(1)
<b>Net investing cash flows</b>	<b>-</b>	<b>128</b>
1.13 Total operating and investing cash flows (carried forward)	<b>(5,060)</b>	<b>(6,043)</b>

+ See chapter 19 for defined terms.

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

	Current quarter \$A'000	Year to date (3 months) \$A'000
1.13 Total operating and investing cash flows (brought forward)	(5,060)	(6,043)
<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	-	-
1.17 Repayment of borrowings	-	-
1.18 Dividends paid	-	-
1.19 Other (provide details if material)	-	(26)
<b>Net financing cash flows</b>	-	(26)
<b>Net increase (decrease) in cash held</b>	(5,060)	(6,069)
1.20 Cash at beginning of quarter/year to date	24,678	25,687
	(87)	(18)
1.21 Exchange rate adjustments to item 1.20		
1.22 <b>Cash at end of quarter</b>	\$19,600	19,600

**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	187
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

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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**

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	-	-

+ See chapter 19 for defined terms.

3.2 Credit standby arrangements	-	-
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**Estimated cash outflows for next quarter**

		\$A'000
4.1	Exploration and evaluation	2,000
4.2	Development	
4.3	Production	
4.4	Administration	303
<b>Total</b>		<b>2,303</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	2,174	1,153
5.2	Deposits at call	17,426	23,525
5.3	Bank overdraft	-	-
5.4	Other (provide details)		
<b>Total: cash at end of quarter</b> (item 1.22)		<b>19,600</b>	<b>24,678</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>				
<b>Performance Rights</b> (vesting date and conditions)	Unquoted 1,150,000 1,150,000 1,150,000	Nil	<i>Exercise price</i> Nil	<i>Expiry date (Unless Vested Prior)</i> 1.12.15 1.12.16 1.12.17
7.8 Performance Rights Issued during quarter	Unquoted 1,150,000 1,150,000 1,150,000	Nil	<i>Exercise price</i> Nil Nil Nil	<i>Expiry date (Unless Vested Prior)</i> 1.12.15 1.12.16 1.12.17
7.9 Exercised during quarter				

+ See chapter 19 for defined terms.

7.1	Expired during quarter				
7.1	<b>Debentures</b>				
1	<i>(totals only)</i>				
7.1	<b>Unsecured notes</b>				
2	<i>(totals only)</i>				

## 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: 30/01/15  
 .....  
 (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.

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+ See chapter 19 for defined terms.