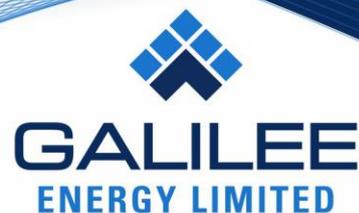


25 October 2016



Highlights:

- ❖ Glenaras Gas Project continues to be the primary focus of the Company
- ❖ Glenaras lateral well proves to be a resounding success with flow rate significantly better than the aggregate of existing vertical wells
- ❖ Lateral well now flowing below critical desorption pressure and flowing first gas through separator
- ❖ Commercial discussions underway with prospective domestic and export gas customers and potential infrastructure and investment partners
- ❖ Strong balance sheet with sufficient cash for all current work

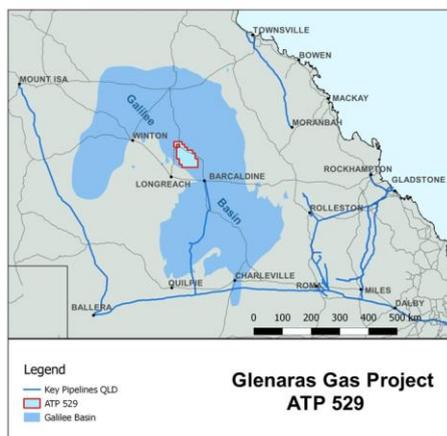


Figure 1

Glenaras Gas Project (ATP 529) – GLL 100%

The Company's flagship Glenaras Gas Project lies within the highly prospective ATP529 permit, in western Queensland's Galilee Basin. The permit covers an area of approximately 4000 km² and is 100% owned and operated by Galilee Energy Limited. (Figure 1)

The project contains a significant independently derived and certified coal seam gas Contingent Resource position in the Betts Creek coals with a 1C of 308 PJ, a 2C of 2508 PJ and a 3C of 5314 PJ, as a result of the extensive exploration activity within the permit to date.

The quarter has seen significant activity in the permit. Despite adverse weather conditions restricting access and movement in the area, the Company successfully drilled a lateral well through the middle of the Glenaras Gas Pilot in order to accelerate reservoir pressure drawdown and the onset of gas production. The well was drilled over late August/early September and was completed with no safety incidents and within budget. The lateral well, drilled from Glenaras 5 across to Glenaras 3 (Figure 2) was drilled with excellent geological control and stayed in the target R1 coal seam as planned for a total 400m horizontal in-seam section.

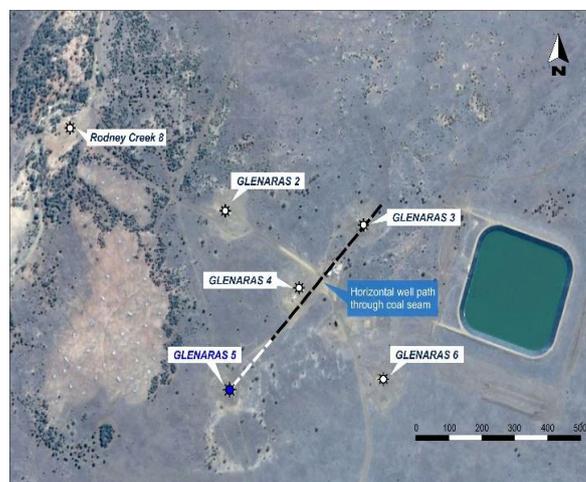


Figure 2

As announced in our market update of 10 October 2016, the results from the lateral well have been very encouraging. The well is continuing to be drawn down to full production rates, and is now producing on its own at over 4 times the aggregate rate of the existing 5 vertical wells which comprised the pilot. We continue to see strong pressure communication at the surrounding vertical wells confirming the excellent connectivity of the master cleat system within these Betts Creek coals in this permit. This also confirms that all production is coming from coal and not neighbouring sandstones.

The flowing pressure of the well is now below critical desorption pressure and is flowing water and, encouragingly, first gas through the on site separator. The well will continue to be drawn down slowly, and the focus over the coming months will be to keep the well steadily producing, enabling the stable desorption over a large area of the R1 coal necessary to build gas production rates. Production operations at the pilot are expected to continue through the remainder of 2016.

With the onset of material gas production the next step for Galilee will be the conversion of a significant portion of the reported Contingent Resource (currently in excess of 5,300 PJ 3C) to Reserves, which will be transformational for the Company.

In parallel with field operations, the Company has commenced a number of commercial initiatives including discussions with potential gas customers, infrastructure and investment partners. These will continue to progress in the coming months.

The company is targeting gas supply into the Eastern Australian gas market, which is forecast by AEMO to require new developments to meet demand from 2019. A combination of robust gas pricing and limited competing projects provide an excellent opportunity for Galilee Energy to leverage its large gas resource and supply into this attractive market.

US Assets

As previously announced following the Company's strategic review conducted in December 2015, no additional exploration activities are currently being undertaken in the US. The primary focus of the Company is on delivering on the Glenaras Gas Project. There are no significant expenditure plans elsewhere within the US portfolio.

Lavaca County - Texas Gulf Coast

Galilee holds a large lease position in JV with other parties over the Lower Wilcox play in Lavaca County, Texas. While the existing JV parties plan no activity at this stage, there is farm-in interest for the acreage from third parties. The JV is currently assessing these proposals and will advise the market in due course if there is any planned activity, including divestment opportunities.

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

Galilee has a 345,000-acre Area of Mutual Interest in Meade County, Kansas. Galilee completed a 3D seismic survey over a portion of this acreage in early 2015. Since that time Galilee has refined the prospects identified by the survey and has identified a number of drillable prospects. Galilee is the Operator for the JV. There is no planned activity for this asset at this stage.

Chile

Late last year Galilee completed its evaluation and study of the Coal Seam Gas (CSG) potential in the Southern Magallanes Basin in Chile. Galilee has submitted a draft application to the Chilean government for an exploration permit application (CEOP) over an area of almost 6,000 sq.km. There has been no significant activity on this application during the quarter.

Financials

The cash flow for the Quarter is presented in the attached Appendix 5B report. The Company continues to maintain a very strong cash position of \$6.7 million and no debt.

The expenditure forecast for the next quarter is predominantly related to the Glenaras Gas Project, and includes operating expenditure for the lateral well pilot and a contingent workover of Glenaras 3 should that be required. At the report date limited expenditure is anticipated elsewhere in the portfolio.

Peter Lansom
Managing Director
Galilee Energy Limited
+61 (0) 7 3177 9970

plansom@galilee-energy.com.au

Listing Rule 5.42

+ The details of Contingent Resources referenced at page 1 of this Quarterly Activities report was announced to the market on 1 September 2015. 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 1 September 2015 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 Energy is focused on creating a mid-tier exploration and production company building on its core strengths in coal seam gas appraisal and development. Its primary area of focus is Queensland where it is appraising the Galilee Basin whilst looking to add further acreage to its portfolio. It is also evaluating prospective exploration acreage in Chile.

Directors

Chairman - David King

Managing Director – Peter Lansom

Non-executive Director – Ray Shorrocks

Shares

Shares on issue – 152,140,466

Top 20 holders – 52.5% *

Directors and Management – 8.1%

*As at 3 October 2016

Appendix 5B

Mining exploration entity and oil and gas exploration entity quarterly report

Name of entity

GALILEE ENERGY LIMITED

ABN

11 064 957 419

Quarter ended ("current quarter")

September 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3.months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(2,590)	(2,590)
(b) development	-	-
(c) production	-	-
(d) staff costs	(86)	(86)
(e) administration and corporate costs	(171)	(171)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	61	61
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Research and development refunds	-	-
1.8 Other (provide details if material)		
1.9 Net cash from / (used in) operating activities	(2,786)	\$2,786

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-
(b) tenements (see item 10)	-	-
(c) investments	-	-
(d) other non-current assets	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3.months) \$A'000
2.2	Proceeds from the disposal of:		
	(a) property, plant and equipment	-	-
	(b) tenements (see item 10)	-	-
	(c) investments	-	-
	(d) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	-	-

3.	Cash flows from financing activities		
3.1	Proceeds from issues of shares	-	-
3.2	Proceeds from issue of convertible notes	-	-
3.3	Proceeds from exercise of share options	-	-
3.4	Transaction costs related to issues of shares, convertible notes or options	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (provide details if material)	-	-
3.10	Net cash from / (used in) financing activities	-	-

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	9,478	9,478
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(2,786)	(2,786)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	-	-

Mining exploration entity and oil and gas exploration entity quarterly report

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3.months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	-	-
4.5	Effect of movement in exchange rates on cash held		
4.6	Cash and cash equivalents at end of period	6,692	6,692

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	746	3,078
5.2	Call deposits	5,946	6,400
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	6,692	9,478

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter \$A'000
61
-

7. Payments to related entities of the entity and their associates	Current quarter \$A'000
7.1 Aggregate amount of payments to these parties included in item 1.2	-
7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

9. Estimated cash outflows for next quarter	\$A'000
9.1 Exploration and evaluation	555
9.2 Development	-
9.3 Production	-
9.4 Staff costs	109
9.5 Administration and corporate costs	151
9.6 Other (provide details if material)	-
9.7 Total estimated cash outflows	815

Mining exploration entity and oil and gas exploration entity quarterly report

10.	Changes in tenements (items 2.1(b) and 2.2(b) above)	Tenement reference and location	Nature of interest	Interest at beginning of quarter	Interest at end of quarter
10.1	Interests in mining tenements and petroleum tenements lapsed, relinquished or reduced				
10.2	Interests in mining tenements and petroleum tenements acquired or increased				

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here: 
(Director/Company secretary)

Date: ...25/10/16.....

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 that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, 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. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standards apply to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.