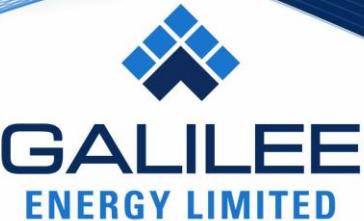


# December 2016 Quarterly Report & Appendix 5B

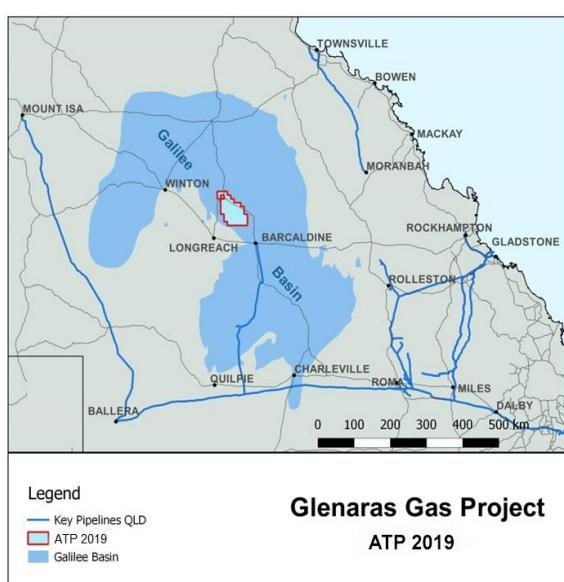
ASX/MEDIA ANNOUNCEMENT

30 January 2017



## Highlights:

- ❖ Glenaras Gas Project remains the flagship and primary focus of the Company
- ❖ Glenaras lateral well continues to produce strongly, flowing water and continuous gas through the separator
- ❖ Sustained reliable pump performance and horizontal wellbore integrity
- ❖ Strong evidence of connectivity through the coal cleat system with pressure drawdown at all monitoring wells
- ❖ Commercial discussions underway with prospective domestic and export gas customers and potential infrastructure and investment partners
- ❖ Australia's East Coast gas market, continues to represent attractive market for new entrants
- ❖ Strong balance sheet with sufficient cash for all current work



## Glenaras Gas Project (ATP 529, now ATP 2019) – GLL 100%

The Company's flagship Glenaras Gas Project ("Project") lies within the highly prospective ATP2019 permit ("Permit"), strategically located in western Queensland's Galilee Basin. The Permit covers an area of approximately 4000 km<sup>2</sup> and is 100% owned and operated by Galilee Energy Limited. (Figure 1)

The Project contains a significant independently derived and certified coal seam gas <sup>+Contingent Resource</sup> within 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.

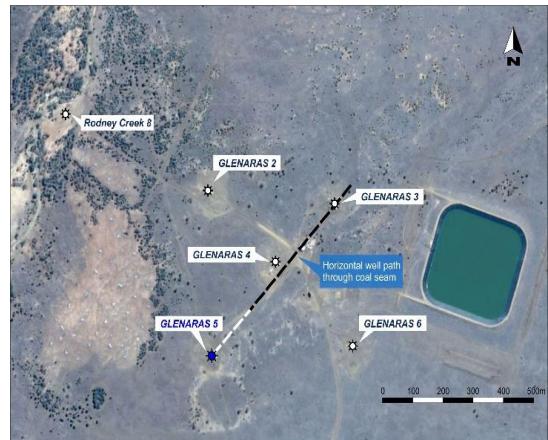
Figure 1

## OPERATIONS

During the reporting period we continued to see significant activity in the Permit. Following the successful drilling of the lateral well and the related completion activity in the September 2016 quarter, the Company's focus during the December quarter has remained the continued production testing of the lateral well Glenaras 5.

The Glenaras 5 lateral well is now producing at full drawdown through the separator and is still producing strong water rates along with small, but continuous, gas flow.

Figure 2



Importantly, we are seeing strong pressure depletion in the coal at the vertical observation well Glenaras 4, as well as pressure depletion at the outer Glenaras 2 and 6 wells. The strong drawdown at Glenaras 4 highlights the dominant master cleat system in the Betts Creek coals where these master cleats have a strong orientation in the northwest - southeast direction.

These results are important for development planning and establish that excellent connection through the coal reservoir over large areas has been achieved, meaning that fewer wells will be required in a future development than previously anticipated. The strong drawdown at Glenaras 4 also confirms water production is coming from the coal only, and not from neighbouring sandstones which is a key positive result for the Project.

The artificial lift pumping system continues to perform superbly, overcoming what was a major issue for the previous Operator in the pilots it drilled in the Permit. The vertical production well, Glenaras 3 has also produced minimal coal fines, a common issue with lateral wells, and the integrity of the lateral section of the well remains strong. This result confirms the completion design and bodes well for a development where lateral well technology is utilised.

All production and pressure monitoring data has now been submitted to MHA Petroleum Consultants, the Company's independent reserve's certifier. MHA will now model the high quality data gathered to date to assess the forward plans for the Project.

While gas rates are not yet at a level that would enable a Reserve booking, the modelling will assist in determining the additional time or further steps needed to achieve this result. The Company should be in a better position to evaluate timelines at the end of the current quarter, when this modelling has been completed, which is expected in 6-8 weeks.

During the quarter, the Company acquired a small four-man camp and AWD vehicle for its Glenaras pilot operations. This will allow on site accommodation for the operations team, rather than their having to travel to and from Longreach. Not only does this represent time economies, this is an important safety initiative to reduce driving risk as well as being a critical logistical advantage during the summer months when heavy rainfall can limit site access.

## ADMINISTRATION

During the quarter, the Company held discussions with the Queensland Government regarding the Permit renewal, which was due in December 2016. ATP529 has been administered under the QLD Govt. Petroleum Act 1923, which is an out-dated legislation. All new Permits and most existing permits are now administered under the Petroleum and Gas (Production and Safety) Act 2004 ("2004 Act"). During the quarter, the Company applied for conversion of the Permit to the 2004 Act. On the 28<sup>th</sup> November 2016, ATP 529 was converted to the new Act and is now called ATP2019. The Permit area remains the same.

This conversion allows much greater flexibility in moving the Permit to higher forms of tenure such as retention leases (or Potential Commercial Areas) or to Petroleum Leases for production. The tenure is now fully secure for its final four-year exploration term.

## COMMERCIAL

With the projected 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 is well underway with 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 to both the domestic Eastern Australian gas market and the export LNG market at Gladstone. The East coast gas market is forecast by AEMO to require new developments to meet demand from 2019. A combination of robust spot and contract gas pricing and limited competing projects give Galilee Energy the confidence that it will be able to develop a robust gas development supplying either of these gas markets.

## **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

The Company completed its evaluation and study of the Coal Seam Gas (CSG) potential in the Southern Magallanes Basin in Chile late 2015. 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 \$6.1 million and no debt.

The Company continues to investigate areas for administration cost reductions. During the quarter the Company was able to sublease its primary office space at 235 Edward Street for the remainder of the lease term. This is a significant saving and company personnel in Brisbane will now be using a small serviced office space.

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.

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### **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 – 48.6% \***  
**Directors and Management – 8.3%**

\*As at 24 January 2017

*Rule 5.5*

## 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”)

December 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6months) \$A'000
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) exploration & evaluation	(291)	(2,881)
(b) development	-	-
(c) production	-	-
(d) staff costs	(108)	(194)
(e) administration and corporate costs	(127)	(298)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	20	81
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)		
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(506)</b>	<b>(3,292)</b>

#### 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

(84)

(84)

+ See chapter 19 for defined terms.

**Appendix 5B**  
**Mining exploration entity and oil and gas exploration entity quarterly report**

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (6months) \$A'000</b>
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	<b>Net cash from / (used in) investing activities</b>	<b>(84)</b>	<b>(84)</b>
<b>3.</b>	<b>Cash flows from financing activities</b>		
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 (movement in bonds)	(11)	(11)
3.10	<b>Net cash from / (used in) financing activities</b>	<b>(11)</b>	<b>(11)</b>
<b>4.</b>	<b>Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1	Cash and cash equivalents at beginning of period	6,692	9,478
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(506)	(3,292)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(84)	(84)

+ See chapter 19 for defined terms.

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (6months) \$A'000</b>
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(11)	(11)
4.5	Effect of movement in exchange rates on cash held	(1)	(1)
<b>4.6</b>	<b>Cash and cash equivalents at end of period</b>	<b>6,090</b>	<b>6,090</b>

<b>5. Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts		<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	447	746
5.2	Call deposits	5,643	5,946
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>6,090</b>	<b>6,692</b>

<b>6. Payments to directors of the entity and their associates</b>		<b>Current quarter \$A'000</b>
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	

<b>7. Payments to related entities of the entity and their associates</b>		<b>Current quarter \$A'000</b>
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	

<b>8. Financing facilities available</b>		<b>Total facility amount at quarter end \$A'000</b>	<b>Amount drawn at quarter end \$A'000</b>
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.		

<b>9. Estimated cash outflows for next quarter</b>		<b>\$A'000</b>
9.1	Exploration and evaluation	389
9.2	Development	-
9.3	Production	-
9.4	Staff costs	109
9.5	Administration and corporate costs	126
9.6	Other (provide details if material)	-
<b>9.7</b>	<b>Total estimated cash outflows</b>	<b>624</b>

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: 30 January 2017

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.

+ See chapter 19 for defined terms.