

Galilee Energy

Oil and Gas, Exploration and Production

22 June 2022

Rating
SPECULATIVE BUY
unchanged

Price Target
A\$0.58
unchanged

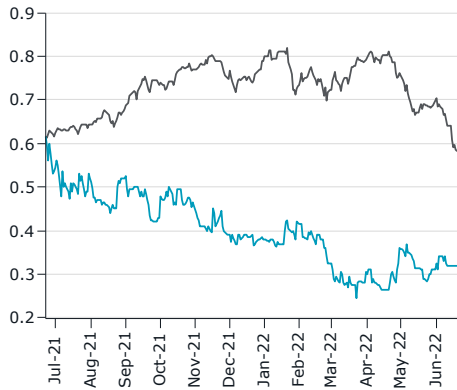
GLL-ASX

Price
A\$0.32

Market Data

52-Week Range (A\$) :	0.25 - 0.88
Avg Daily Vol (M) :	2.1
Market Cap (A\$M) :	111.7
Shares Out. (M) :	338.5
Dividend /Shr (A\$) :	0.00
Dividend Yield (%) :	0.0
Net Debt (Cash) (A\$M) :	(19.0)
Enterprise Value (A\$M) :	92.7
NAV /Shr (A\$) :	0.58

FYE Jun	2021A	2022E	2023E	2024E
EBITDA (A\$M)	(18.5)	(15.6)	(8.2)	(8.2)



GLL
S&P/ASX Emerging Companies (rebased)

Source: FactSet

Priced as of close of business 22 June 2022

Canaccord Genuity, and its associates, holds an option position in GLL.AU.

Please refer to the important disclosure section of this report.

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Glenaras site visit

We recently visited GLL's Glenaras CSG development in the Galilee Basin. Clearly risks remain, but the size of the prize is very large and the macro backdrop has only improved.

Drilling all but completed...

The six-well program is essentially completed with G29 having reached total depth without incident. This well was easily the highest risk of the program as it sits essentially in the centre of the pilot and could have been exposed to differential sticking. With it now completed the pilot consists of 17 wells (five lateral and 12 vertical) which, based on Schlumberger modelling, will be sufficient for the pilot to reach the critical desorption pressure of ~600psi and deliver gas desorption over a meaningful area.

...GLL is now set to tackle de-watering head on

At its February capital raising, GLL acknowledged that seismic data supported the presence of a previously unidentified fault along the south-west boundary of the pilot, which was connecting the targeted Betts Creek Coals with the Colinlea Sandstone. The base of this sandstone has very high porosity/permeability and is highly likely to be the major source of water at Glenaras.

The six-well program is designed to increase shielding of the main producing wells with G27 and G28 located within the fault zone to maximise water offtake.

With the power station upgrade completed and the gathering system nearing completion we expect de-watering to commence by mid-July.

This will take time...

Based on Schlumberger modelling it will take six months to achieve critical desorption pressure over a 1.1km² area and 12 months for >2.0km². As such we do not believe that material desorbed gas flows (i.e. not solution gas) will be recorded until after ~4 months of de-watering.

...but it is a large prize

GLL's acreage represents one of the largest uncontracted potential gas resources on the East Coast. With 2,508PJ of 2C gas resource the company's target of an 800-1,000PJ 2P reserve booking remains very much in play assuming they can successfully deliver desorbed gas flows. With a gas content of 5.9m³/t it does not have a high gas content relative to some other basins but this is offset by high perm (as evidenced by observed depressurisation at G8) and an isotherm which supports high gas recovery rates.

Cash boosted by R&D refund

During the quarter GLL received a cash refund of \$6.1mn from the Australian Government for works conducted during the 2020/21 financial year. We expect the company to finish the JunQ with ~\$16mn.

Appendix: Important Disclosures

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Investment Recommendation

Date and time of first dissemination: June 22, 2022, 02:22 ET

Date and time of production: June 22, 2022, 02:22 ET

Target Price / Valuation Methodology:

Galilee Energy - GLL

Our target is primarily DCF based.

Risks to achieving Target Price / Valuation:

Galilee Energy - GLL

Like any oil and gas company GLL is subject to a number of company specific and macro risks. These include, but are not limited to:

Price risks – Oil and gas prices can be quite volatile, with no certainty of future trends. Events in the Middle East regularly cause oil price fluctuations, and new technologies such as fracking can change the supply fundamentals, as evidenced in US natural gas and oil price trends in the last few years. Long term Australian gas prices could (dependent on contract structure) also be difficult to forecast, as the relative strengths of the LNG export market and the domestic market will change over time.

Currency risks – Exchange rate trends are inherently volatile, which implies that revenues and costs could differ from the assumptions made.

Operational and environmental risks - Dealing with explosive and highly flammable products create operational and environmental risks. Having said that, safety is of paramount importance and the record of the industry is generally good.

Geological risk – Geological risks exist for all oil and gas companies, which can impact on reserves and productivity.

Engineering/Technical risk – The key risks in oil and gas wells relate to the correct placement of wells and the right technical completion techniques. Above ground infrastructure needs to be appropriately sized and configured for optimal extraction.

Weather risks – delays in project development or production deferment due to weather events are not uncommon in industry.

Political / regulatory / fiscal risks – Australia is considered a relatively stable nation from both a regulatory and fiscal regime standpoint but the recent moves to 1) lock-up gas resources; 2) ban fracking in certain states; and 3) revise tax policy suggests risks cannot be discounted.

Distribution of Ratings:

Global Stock Ratings (as of 06/22/22)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	646	68.36%	37.00%
Hold	128	13.54%	16.41%
Sell	11	1.16%	18.18%
Speculative Buy	155	16.40%	42.58%
	945*	100.0%	

*Total includes stocks that are Under Review

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SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

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SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

12-Month Recommendation History (as of date same as the **Global Stock Ratings** table)

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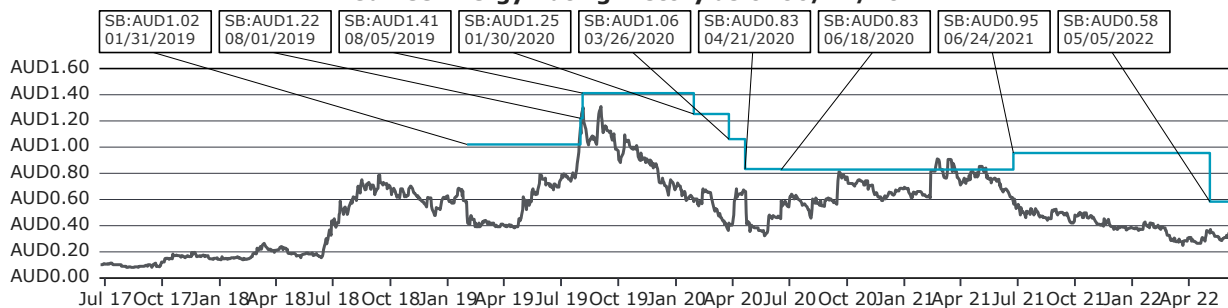
An analyst has visited the material operations of Galilee Energy. Full payment was received for the related travel costs.

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Ticker	Quantity	Strike	Date of Expiry
GLL	1,107,677	\$0.4480	31/12/2024
GLL	1,107,677	\$0.5120	31/12/2024

Galilee Energy Rating History as of 06/21/2022



Buy (B); Speculative Buy (SB); Sell (S); Hold (H); Suspended (SU); Under Review (UR); Restricted (RE); Not Rated (NR)

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