

DE-RISKING OUR VALUATION

Investment Highlights

- **The Glenaras 10L and 12L wells are now on continuous production and are flowing water at 2,400 bwpd in aggregate, with communication between the lateral wells enhancing pressure drawdown. The pressure in the well still needs to fall below the critical desorption pressure before gas will be desorbed from the coal. This desorption process was previously expected to take around three to four months before a representative gas flow can be measured. However given the strong water flows to date and the physical nature of the coals encountered, we estimate a gas flow may be reported within weeks.**
- **Increasing our valuation.** We continue to feel our valuation is grounded in a tangible reality, as it is based on the contingent resource valuation range of \$0.03/GJ to \$0.05/GJ contained in the Central Petroleum (CTP) Contingent Value note which formed part of Macquarie's unsuccessful acquisition of CTP. Using this value range, and GLL's 2,508 PJ of 2C contingent resource, we estimate GLL is valued between \$0.40 and \$0.66/share. Given the positive news flow to date, we are increasing our valuation towards the upper end of this range, to \$0.64/share.
- **What is the upside?** GLL plans to book a potential 500 PJ of 2P reserves from the current Glenaras gas project. Using the lowest recent industry 2P reserves transaction multiple (\$0.44/GJ) would imply a value GLL of around \$1.16/share. We note that some of GLL's east coast gas explorer peers trade at over \$1.20/GJ on a 2P basis. However we believe such metrics are ambitious at this early stage as there is still plenty of water to pass under the bridge before we will know whether gas can flow from Glenaras at an economic rate.
- **Buy rating maintained.** GLL has been the top performer in our coverage universe, and is up 133% over the last three months, outperforming the ASX-200 by 125%. Despite this strong performance, and based on \$/GJ metrics, it continues to look cheap relative to its other east coast gas exploration peers.
- **Valuation: \$0.64/share (prior \$0.40/share).** Our GLL valuation is based on \$0.05/GJ value for its 2,508 PJ of 2C contingent resource at the Glenaras Gas Project. We do not include value for its Chilean and US assets. We have factored in the impact of the recent 14.155m share placement.

Year End June 30	2017A	2018F	2019F	2020F	2021F
Reported NPAT (\$m)	(3.8)	(3.0)	(3.3)	(3.5)	(4.2)
Recurrent NPAT (\$m)	(5.2)	(2.8)	(3.3)	(3.5)	(4.2)
Recurrent EPS (cents)	(3.4)	(1.9)	(1.6)	(1.7)	(2.1)
EPS Growth (%)	na	na	na	na	na
PER (x)	(14.8)	(27.5)	(31.4)	(29.5)	(24.8)
EBITDA (\$m)	(5.4)	(3.0)	(3.4)	(2.9)	(2.9)
EV/EBITDA (x)	(13.2)	(21.6)	(29.0)	(34.8)	(35.3)
Free Cashflow	(3.4)	(4.7)	(5.5)	(3.5)	(2.7)
FCFPS (cents)	(2.3)	(3.1)	(2.7)	(1.7)	(1.3)
PFCF (x)	(22.6)	(16.5)	(18.8)	(29.7)	(37.9)
DPS (cents)	0.0	0.0	0.0	0.0	0.0
Yield (%)	0.0	0.0	0.0	0.0	0.0
Franking (%)	0.0	0.0	0.0	0.0	0.0

10 July 2018

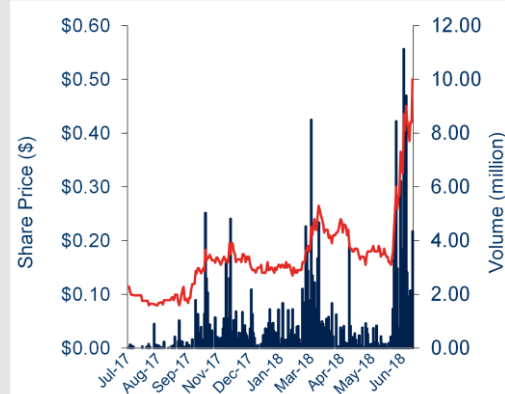
12mth Rating		BUY
Price	A\$	0.51
Target Price	A\$	0.64
12mth Total Return	%	25.7

RIC: GLL.AX		BBG: GLL AU
Shares o/s	m	189.7
Free Float	%	97.0
Market Cap.	A\$m	96.8
Net Debt (Cash)	A\$m	-6.1
Net Debt/Equity	%	na
3mth Av. D. T'over	A\$m	0.446
52wk High/Low	A\$	0.50/0.08
2yr adj. beta		1.00

Valuation:		DCF
Methodology		DCF
Value per share	A\$	0.64

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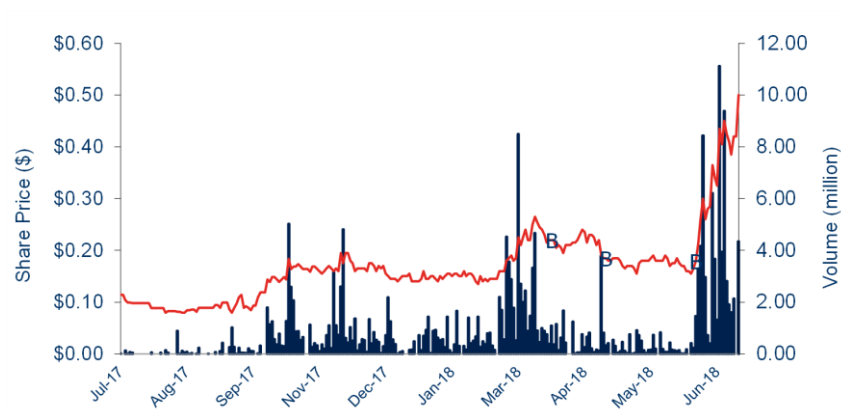
12 Month Share Price Performance



Performance %	1mth	3mth	12mth
Absolute	212.5	132.6	338.4
Rel. S&P/ASX 300	208.5	124.7	328.6

Galilee Energy		Price		\$0.51		Year End 30 June							
Valuation		\$m	\$/sh	Commodity Assumptions		2017A	2018F	2019F	2020F				
Glenaras Gas Project		125	0.62	A\$/US\$		0.75	0.77	0.76	0.75				
Other Assets		0	0.00	Brent oil (US\$/bbl)		51.19	63.00	65.00	61.50				
Net Cash (Debt)		12	0.06										
Corporate Costs		-7	-0.03										
Total Valuation (10% discount rate)		131	0.64	Profit & Loss (A\$m)		2017A	2018F	2019F	2020F				
Production Summary		2017A	2018F	2019F	2020F								
Oil (mmbbl)		0.0	0.0	0.0	0.0								
Gas (PJ)		0.0	0.0	0.0	0.0								
Reserves & Resources													
Resource Estimates					Total (PJ)								
1C					308								
2C					2,508								
3C					5,314								
EBITDA						(5.4)	(3.0)	(3.4)	(2.9)				
DD&A						0.0	(0.0)	0.0	0.0				
EBIT						(5.4)	(3.0)	(3.4)	(2.9)				
Net interest income (expense)						0.2	0.2	0.0	(0.6)				
Tax expense						0.0	0.0	0.0	0.0				
NPAT (underlying)						(5.2)	(2.8)	(3.3)	(3.5)				
Diluted EPS (cps)						(0.0)	(0.0)	(0.0)	(0.0)				
DPS (cps)						0.0	0.0	0.0	0.0				
Ratios					2017A	2018F	2019F	2020F	Cash Flow (A\$m)				
P/E (x)					-27.2	-31.1	-29.2	-24.5	Operating income (EBIT)				
Enterprise Value					71	65	96	100	(5.4)				
EV/EBITDAX (x)					-44.4	-45.3	-65.9	-66.6	Net interest income (expense)				
EV/Free Cash Flow					-15.0	-11.7	-27.5	-36.3	0.2				
EV/2C (\$/GJ)					-16.3	-18.6	-29.4	-37.5	Exploration & evaluation expense				
PFCF (x)									(3.8)				
Div. Yield (%)					0.0	0.0	0.0	0.0	Tax paid				
Franking (%)					0.0	0.0	0.0	0.0	0.0				
Directors & Senior Management													
Name					Position								
Ray Shorrocks					Non-executive Chairman								
Peter Lansom					Managing Director								
Stephen Kelemen					Non-executive Director								
David King					Non-executive Director								
Substantial Shareholders													
					Shares (m)	%	Balance Sheet (A\$m)						
Ecarlate Pty Ltd					18.3	9.0	Cash		6.1		12.3	16.8	13.3
Nero Resource Fund					6.9	3.4	Total Assets		7.8		14.4	19.7	16.8
Becamal Pty Ltd					5.5	2.7	Creditors		0.4		0.4	0.4	0.4
Peter Lansom					5.2	2.6	Current borrowings		0.0		0.0	0.0	0.0
Slade Technologies Pty Ltd					5.0	2.5	Non-current borrowings		0.0		0.0	10.0	10.0
Top 5 shareholders					41.0	20.1	Provisions		1.2		(1.2)	(1.4)	(1.1)
						Total Liabilities		1.6		0.4	9.0	9.6	
						Shareholders Funds		6.2		14.1	10.7	7.2	

Recommendation History



Date	Type	Target Price	Share Price	Recommendation	Return
28 Aug 15	Research Note	na	0.09		
21 Mar 18	Research Note	0.40	0.23	B	150.0%
23 Apr 18	Hot off the Press	0.40	0.19	B	-17.8%
14 Jun 18	Hot off the Press	0.40	0.19	B	0.0%
	Current Share Price		0.50		170.3%

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