



Galilee Energy: Operational Update and Response to Open Letter from Malt

Dear Shareholders

Firstly, I would like to take this opportunity to express to all shareholders of Galilee Energy Limited ("Galilee or the "Company") my enthusiasm for, and dedication to, my role as Chairman and the success of your Company. I have been in the role for almost four weeks now and in that time I have had the opportunity to work with the Galilee Board and Management in what is a very difficult time for your Company. We have a great team who are similarly dedicated to the success of the Galilee Gas Project and to the future growth of this Company.

Galilee Gas Project and Glenaras Pilot

As you may be aware, in AGL's financial report of 28 August 2013, it included a number of write-downs of exploration assets, including the Galilee Gas Project. AGL's accounting treatment for the exploration asset is now in line with Galilee's own policy, as we have always expensed all costs on exploration assets until a reserve is declared. It is also now in line with many upstream resources companies.

AGL is continuing as the Joint Venture Operator of the Glenaras Pilot as planned and it is in the process of applying for a 12 month extension of the production test from 1 December 2013 in order to complete the present activity and be ready for its next phase. This evidences both AGL's and Galilee's confidence and continued commitment to this project. Consequently Galilee wishes to advise shareholders that this program is proceeding on schedule.

Open Letter from Malt

As you may be aware, on or about 28 August 2013, Malt Energy Pty Ltd ("Malt") published on its website and sent to a number of shareholders an open letter in relation to the Notice of Meeting sent to shareholders of Galilee on 13 August 2013 ("Open Letter"). In the Open Letter, Malt has sought to quite unnecessarily attack members of your Board and your Company itself, and in doing so, it has made a number of erroneous, misleading and untrue statements. It is imperative for us to correct those statements to ensure that you as shareholders are fully informed when deciding how to vote on the resolutions being put to the General Meeting.

Agreed Board Structure

Your Directors are of the view that while a number of demands were made by Malt both before and after the notice requisitioning the General Meeting was sent by Malt to Galilee, there was only one genuine attempt at reaching an agreed Board structure. This was the Board structure proposed by another significant shareholder. The Directors believe that all other demands made by Malt were not genuine attempts to agree the Board structure. Rather, they were demands to impose on Galilee a Board and Management structure that would see your Company controlled by Malt, a single shareholder with only 16.125% of your Company's shares.

Share Price Performance

Malt's statements regarding the share price trading below cash backing ignore the fact that the share price is controlled by a number of factors, and that there are a number of ASX listed companies presently trading at a discount to cash backing. Moreover, of all these small market capitalisation companies (sub A\$100 million), Galilee is actually trading at one of the highest share prices of all these companies (relative to cash backing). In addition, the purported "plan" which Malt has sought to articulate in the Open Letter is



the same as the current strategy of the Board and Management of Galilee, which, if taken to its natural conclusion, should mean that there would be no change in how Galilee is viewed by the market even if Malt's resolutions are successful.

Independence

Malt asserts that Dr King is independent but fails to acknowledge that the matter of appointing a Chairman, independent or otherwise, is a matter for all Directors and not one just for Malt's nominees. This statement, when coupled with Malt's suggestion that I am highly aligned with Cam Rathie (which I acknowledge has subsequently been withdrawn from the Open Letter on Malt's website), is hypocritical and plainly incorrect.

Management Control

The Directors cannot see any basis for Malt's argument that it is not seeking management control. Not only is Malt seeking to remove the Managing Director and appoint two executive directors, it has also stated more recently, that it intends to replace the Chief Financial Officer. We have made numerous requests to Malt asking it to provide the Company and shareholders with an explanation of why it believes that appointing all of the executives of the Company does not amount to management control but it has not done so.

Remuneration

Replacing one executive director with two cannot be cost neutral. Malt must explain what the "utilisation of other resources more appropriate to the current scale of the company in other areas" means, as on any rational calculation two salaries totalling approximately \$700,000 cannot "net out" one salary of approximately \$400,000.

Entrenching the Board

At all times since the initial approach by Malt, each of the Directors has acted in the manner in which his duties as a Director require him to act, that is in the best interests of the Company and its shareholders.

Appointment of Chairman

The search for a new Chairman for Galilee's Board began immediately after the unfortunate passing of Steven Koroknay. I was appointed as Chairman following a successful search for a suitable successor. Cam Rathie assumed the Chairman role of Galilee on an interim basis and shareholders were kept well informed (ASX releases on 7 June 2013, 31 July 2013 and 13 August 2013) as to Galilee's intentions to identify and appoint a suitable Chairman, which it has done. It is entirely appropriate for the Directors of Galilee to have implemented a previously articulated strategy of identifying and appointing a new Chairman.

Directors Have No Equity

Malt has expressed its concern that Glenn Haworth and Cam Rathie have negligible equity in Galilee. There is no requirement that directors hold shares in a company of which they are a director and best practice for ASX listed companies is to have a majority of independent directors. To represent that because the Directors do not hold a significant number of shares that they would exercise their duties in any way other than appropriately and in accordance with their duties is completely incorrect and is offensive to Cam Rathie and Glenn Haworth.

Please do not hesitate to telephone me on 0412 306 030 or our office (number below) if you would like to discuss any of these matters or seek further information.

Yours faithfully,



Andrew A Young
Chairman



Galilee Energy Limited

+61 (0) 7 3216 1155

info@galilee-energy.com.a

About Galilee

Galilee Energy Limited (ASX: **GLL**) is an emerging energy company with coal seam gas interests in Australia.

Galilee holds two highly prospective coal seam gas and hydrocarbon tenements in the Galilee Basin in central Queensland through subsidiary, Galilee Resources. The tenements, ATP 529P and 799P, cover approximately 7,000 km².

The Galilee Gas Project, ATP 529P, is held in a 50/50 joint venture with AGL Energy Limited (AGL, ASX: **AGK**) under which AGL is the Operator. ATP 799P is wholly owned and operated by Galilee. In June 2011 the joint venture announced a Contingent Resource Best Estimate (2C) of 259 petajoules (PJ) and Contingent Resource High Estimate (3C) of 1,090 PJ from 450km² of ATP 529P, centred on the Glenaras pilot. The pilot has restarted and is undergoing flow testing, having produced 1,170 mscf in May 2012.

Galilee has an experienced Board and Management with collective track records in growing junior resource companies. It is pursuing growth through hydrocarbon development opportunities.

