

MAGELLAN PETROLEUM AUSTRALIA LIMITED

ABN 62 009 728 581



ADMINISTRATIVE OFFICE
10th Floor, 145 Eagle Street,
Brisbane, Queensland, Australia 4000
Postal Address:
GPO Box 2766, Brisbane 4001

Telephone: (07) 3224 1600
Facsimile: (07) 3832 6411
Email: magadmin@magpet.com.au
Website: www.magpet.com.au

3 January 2006

Company Announcements Office
Australian Stock Exchange Limited
Level 10, 20 Bond Street
SYDNEY NSW 2000

The Manager,

MAGELLAN PETROLEUM AUSTRALIA LIMITED (MAG) SUPPLEMENTARY TARGET'S STATEMENT

Enclosed is a Supplementary Target's Statement to be read in conjunction with the Target's Statement of Magellan Petroleum Australia Limited ACN 009 728 581 dated 22 December 2005 in relation to an offer by Magellan Petroleum Corporation.

Yours sincerely

Bruce McInnes
Company Secretary



Supplementary Target's Statement

This is a Supplementary Target's Statement dated 3 January 2006 ("Supplementary Target's Statement"), and is to be read with the Target's Statement of Magellan Petroleum Australia Limited ACN 009 728 581 ("MPAL") dated 22 December 2005 in relation to an offer by Magellan Petroleum Corporation.

A copy of this Supplementary Target's Statement has been lodged with ASIC and sent to ASX. Neither ASIC, ASX nor any of their respective officers takes any responsibility for the content of this Supplementary Target's Statement. Terms used in this Supplementary Target's Statement have the same meaning as defined in the Target's Statement.

1. Northern Territory Government Announcement (22 December 2005)

On 22 December 2005, the Northern Territory Government announced the signing of a Heads of Agreement between the Northern Territory's Power and Water Corporation ("Power and Water") and Eni Australia Limited ("Eni") to work exclusively together to conclude the necessary commercial terms to develop a gas sale agreement, for the supply of gas from the Blacktip field, to meet the Northern Territory's long term gas requirements from 2009 ("the Announcement").

Mereenie gas field

The Mereenie gas field (MPAL 35% owned) currently supplies gas to Power and Water under three long term supply agreements which expire between June 2008 and June 2009 (see pages 22 to 28 of the Independent Expert's Report contained in Annexure A of the Target's Statement for further details of these agreements and the Mereenie gas field).

If a final, binding gas sales agreement is reached between Power and Water and Eni, it will impede MPAL's ability to secure immediate contracts for its resources from the Mereenie gas field following the expiry of the current contracts in 2009.

However, MPAL Shareholders should note the following:

- the Announcement indicates that the Heads of Agreement with Eni only contemplates exclusive negotiations, and therefore there is no certainty that a final, binding agreement will be concluded with Eni; and
- MPAL will continue to explore other opportunities to commercialise its Mereenie gas resources after expiry of the existing gas sale agreements.

Palm Valley gas field

The Palm Valley gas field (MPAL 52% owned) currently supplies gas to Power and Water under a long term supply agreement which expires in January 2012 (see pages 28 to 31 of the Independent Expert's Report for further details of this agreement and the Palm Valley gas field).

MPAL has not yet commenced specific negotiations in relation to new gas sales agreements for the Palm Valley gas field. However, due to the competitive positioning of the Palm Valley gas field in relation to Alice Springs, the Independent Directors believe that there are reasonable prospects of entering into new agreements in due course.

2. Conclusion of the Independent Expert

The Independent Expert, PricewaterhouseCoopers Securities Ltd, has advised the Independent Directors that the Announcement does not alter the conclusion of the Independent Expert that the Offer is neither fair nor reasonable.

The Independent Expert states on page 28 of the Independent Expert's Report, in relation to the valuation of MPAL's interest in the Mereenie gas field:

"We recognise that even our low case places some value on uncontracted gas. In our view this is reasonable given the existing circumstances in the NT gas market. That is, we do not think a willing but not anxious seller would be prepared to accept a value for Mereenie which placed no value on uncontracted gas. In any event, we have considered the impact on our final opinion as to whether the Offer is fair and reasonable. **If we placed no value on uncontracted gas we note that because of the flow on impact on our value of MPC, our final opinion would not change.**" (emphasis added).

3. Recommendation of the Independent Directors

The Announcement does not alter the recommendation of the Independent Directors that shareholders should **REJECT** the Offer.

The key factors which the Independent Directors have considered in reaching this conclusion are as follows:

- At this point in time, there is a lack of certainty that a binding agreement will be realised between Eni and Power and Water;
- The Independent Expert has advised the Independent Directors that its preferred valuation of the Mereenie gas field has attributed a value of approximately \$19.3 million to gas sales following expiry of the existing gas sales agreements in 2009. Notwithstanding the Announcement, the Independent Directors believe that this uncontracted gas has some value, even if immediate gas sales agreements with Power and Water are not available following expiry of the existing gas sales agreements. This is consistent with the statement by the Independent Expert (extracted above) that "... we do not think a willing but not anxious seller would be prepared to accept a value for Mereenie which placed no value on uncontracted gas."

MPAL will continue to investigate other potential opportunities to secure new markets for this uncontracted gas;

- In the Chairman's Letter and in section 1.1 of the Target's Statement, reference is made to a total value dilution to MPAL Shareholders of \$9.9 million, representing \$0.47 per MPAL Share (not held by MPC) or a 23% dilution.

That value dilution was assessed by the Independent Expert based on its preferred value of the MPAL Shares of \$2.06 (see section 6.4 of the Independent Expert's Report).

Even if no value is placed on gas sales from the Mereenie gas field after the expiry of existing contracts in 2009, there will still be a value dilution to MPAL Shareholders (other than MPC). The dollar amount of that dilution will be less than as described in the Target's Statement, but the percentage dilution will not be materially different; and

- Even if no value were ascribed to the uncontracted gas resources from the Mereenie gas field, the Independent Expert's opinion that the Offer is neither fair nor reasonable would not change.

4. Consents

The following persons have given and have not, before the date of this Supplementary Target's Statement, withdrawn their consent to the inclusion of the following information in the form and context in which it is included, and to all references in this Supplementary Target's Statement to that information in the form and context in which they appear:


- each Independent Director – to the inclusion of statements made by him or by the Independent Directors collectively; and
- PricewaterhouseCoopers Securities Ltd – to being named as the Independent Expert, to the references to the Independent Expert's Report in this Supplementary Target's Statement, and to the references to the advice given to the Independent Directors.

5. Approval

This Supplementary Target's Statement has been approved by a resolution of the Directors.

Dated 3 January 2006

Signed for and on behalf of Magellan Petroleum Australia Limited



John Kelly
Director