

MAGELLAN PETROLEUM AUSTRALIA LIMITED

ABN 62 009 728 581



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22 December 2005

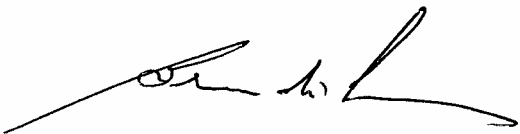
Company Announcements Office
Australian Stock Exchange Limited
Level 10, 20 Bond Street
SYDNEY NSW 2000

The Manager,

**LETTER TO SHAREHOLDERS OF MAGELLAN PETROLEUM AUSTRALIA
LIMITED SUMMARISING THE TARGET'S STATEMENT**

Please find the abovementioned attached letter.

Yours faithfully,



Bruce McInnes
Company Secretary

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Dear Magellan Petroleum Australia Limited Shareholder,

You should by now have received a Bidder's Statement from Magellan Petroleum Corporation ("MPC") in relation to its Offer to acquire all of your Magellan Petroleum Australia Limited ("MPAL") shares.

MPC is offering seven (7) MPC shares for every ten (10) MPAL shares held by each MPAL shareholder. In the case of MPAL shareholders with a registered address in Australia, the MPC shares would be issued to you in the form of CHESS Depository Interests ("CDIs") (which will be traded on ASX), or MPC shares (which will be traded in the USA on NASDAQ and the Boston Stock Exchange). In the case of MPAL shareholders with a registered address in the United States, you would receive MPC shares. In the case of MPAL shareholders whose registered address is outside Australia and the United States, you would receive the net proceeds from the sale of the CDIs which you would otherwise have received.

The Independent Directors have prepared the Target's Statement and it has been served on MPC and lodged with both ASIC and ASX. It is currently being printed and will be despatched to MPAL shareholders on or about 3 January 2006. The Target's Statement is now available on MPAL's website at www.magpet.com.au.

INDEPENDENT DIRECTORS' RECOMMENDATION

MPAL's Independent Directors have considered all available information and have reached the conclusion that the Offer is materially inadequate and does not reflect the fair value of your MPAL shares.

Therefore, the Independent Directors unanimously recommend that you **REJECT** the MPC Offer. To **REJECT** the Offer, simply ignore all documents sent to you by MPC.

MPAL's Independent Chairman, Mr. Rodney F. Cormie (the only Independent Director holding MPAL shares), has indicated that he does not intend to accept the current Offer from MPC for those MPAL shares he holds, unless there is a material change in circumstances or a superior offer is announced.

INDEPENDENT EXPERT'S REPORT

As announced to the market on 18 November 2005, PricewaterhouseCoopers Securities Ltd was commissioned pursuant to section 640 of the Corporations Act as an Independent Expert to opine on whether the Offer is fair and reasonable to MPAL shareholders.

The Independent Expert has now completed its report and has concluded that MPC's Offer is **neither fair nor reasonable**.

Fairness

The Independent Expert has valued MPAL in the range of \$1.72 to \$2.58 per share with a preferred value of \$2.06, including a premium for control. The valuation reflects the value of MPAL's production and exploration assets, as well as its significant cash reserves.

The Independent Expert has also assessed the value of the consideration being offered by MPC for each MPAL share to be in the range of \$1.02 to \$1.61 with a preferred value of \$1.25.

As the value of the consideration is less than the value of MPAL shares at each point in the valuation range, the Independent Expert has concluded that the Offer is **NOT FAIR**.

Reasonableness

As well as not being fair, the Independent Expert has also concluded that the Offer is **NOT REASONABLE**.

The Independent Expert has indicated that there may be some potential benefits to MPAL shareholders if MPC's Offer is successful. These benefits relate mainly to the potential for MPC shareholders to obtain a control premium in the future, the potential benefits related to MPC's ability to raise capital in the future and the potential opportunity to realise a value for MPAL shares in excess of current values if MPC shares continue to trade at existing levels.

However, the Independent Expert weighed these factors against the significant negative factors for MPAL shareholders if MPC's Offer is successful, including the following:

- dilution of MPAL shareholders' interests in the assets of MPAL;
- loss of dividends and franking credits;
- the potential for higher volatility of MPC shares and CDI prices compared with existing MPAL shares; and
- the voting rights of MPAL shareholders who accept CDIs will be negatively impacted.

After assessing these various factors, the Independent Expert concluded:

"In summary, there are benefits to MPAL shareholders of the Offer and therefore it may be reasonable for MPAL shareholders to accept some dilution in their interest in the assets of MPAL. However, in our view and based on the Offer ratio, in this case the dilution is significant and the advantages of accepting the Offer are not sufficient to justify accepting the dilution. Therefore we do not consider the Offer to be reasonable".

The Independent Expert's Report is included in the Target's Statement that will be sent to all MPAL shareholders on or about 3 January 2006. A copy of this report is now available on MPAL's website at www.magpet.com.au.

WHY YOU SHOULD REJECT MPC'S OFFER

The Independent Directors' reasons for recommending that you **REJECT** the MPC Offer are outlined in detail in the Target's Statement which you should read carefully and in its entirety. These reasons are summarised briefly below.

1. Your ownership of the underlying value of MPAL will be substantially diluted.

The underlying assets of MPAL and MPC are materially the same. By accepting the Offer, MPAL minority shareholders will be exchanging an aggregate 44.9% shareholding in MPAL for an aggregate 36.3% shareholding in MPC. Your pro-rata share of the assets of MPAL will therefore be reduced by 19.2% relative to your existing interest and by 8.6% in absolute terms, although this dilution will be partially offset by gaining ownership of 36.3% of MPC's non-MPAL assets. Based on the Independent Expert's valuation analysis, the net impact of the dilution will be a loss of value by MPAL minority shareholders of \$9.9m or \$0.47 per MPAL share (not currently owned by MPC).

2. The Independent Expert's opinion is that the Offer is neither fair nor reasonable.

As outlined above, the Independent Expert has concluded that the Offer is neither fair nor reasonable.

3. The exchange ratio of the Offer is materially lower than the exchange ratio offered to another MPAL shareholder in 2003.

MPC acquired shares from Origin Energy in 2003 at an exchange ratio of 1.083 MPC shares per MPAL share. This exchange ratio is 54% greater than the exchange ratio MPC is now offering for your MPAL shares and supports the Independent Directors' view that the current MPC Offer is materially inadequate.

4. The premium offered by MPC for your MPAL shares may be illusory.

The Offer does not contain a cash component and is comprised solely of MPC shares. The price of MPC shares has exhibited significant volatility over the past two years, and particularly over the past six months. The value of the Offer could therefore increase or decrease materially during the Offer period and afterwards. If there are unfavourable movements in the price of MPC shares and/or the AS:US\$ exchange rate, the premium claimed by MPC in its Bidder's Statement could be reduced or eliminated entirely.

5. If you elect to receive CDIs you will likely suffer from a reduction in liquidity and short term downward price pressure.

The Offer provides MPAL shareholders with the choice to receive ASX-listed CDIs. Those MPAL shareholders who elect to receive CDIs are likely to suffer from both a reduction in liquidity and potential short term downward pressure on the CDI price due to:

- a likely reduction in the number of CDIs on issue as compared to the current number of MPAL shares as some shareholders may choose to receive MPC shares;
- the conversion of CDIs into MPC shares to access the improved liquidity of the NASDAQ market which will further reduce the pool of CDIs; and
- the overhang of CDIs that will be created by the requirement to sell the CDI holdings of any non-US foreign MPAL shareholders.

6. There are potential adverse tax implications for MPAL shareholders that elect to accept the MPC Offer.

The Independent Directors understand that there may be adverse tax implications associated with the issue of MPC shares and CDIs including the potential loss of tax deductibility of interest on borrowed funds, the loss of franked dividends and a new exposure to CGT on the MPC shares or CDIs acquired for those who acquired MPAL shares prior to the introduction of CGT.

If MPC waives the 90% relevant interest condition (see item 10 below) and the Offer becomes unconditional but MPC does not acquire over 80% of MPAL, then CGT rollover relief will not be available to Australian resident MPAL Shareholders who accept the Offer.

MPAL shareholders should consult their professional tax adviser in relation to the tax implications of the Offer.

7. No operational benefits are apparent from the Offer.

The Independent Directors consider that, based on the information contained in the Bidder's Statement, there is no likelihood of meaningful operational benefits arising from the Offer.

8. There are practical impediments for Australian residents involved in selling MPC shares.

For those MPAL shareholders with a registered address in Australia who seek to access the more liquid NASDAQ market by either accepting MPC shares under the Offer or converting the CDIs they accept under the Offer to MPC shares and then selling those shares, there will be additional costs and a material time delay involved relative to selling MPAL shares or CDIs. These material costs and time disadvantages reduce any potential benefit of improved liquidity that may be achieved through owning MPC shares.

9. MPC does not intend to pay dividends even if its Offer is successful.

MPAL has paid a dividend to MPAL shareholders in each of the past 15 years (since 1991). MPC does not currently pay dividends and has stated that it does not intend to pay dividends if its Offer for MPAL is successful. MPAL's Independent Directors believe this will disadvantage MPAL shareholders who are focused on income from dividends, as the total return from MPC shares (or CDIs) will depend solely on capital gains, which are uncertain in both timing and quantum. Further, MPAL has a significant franking credit balance and the value of the credits will not be available to MPC Shareholders if the Offer is successful.

10. The Offer is highly conditional and uncertain.

MPC's Offer includes a number of conditions, including the requirement that it obtain a relevant interest in 90% of the MPAL shares and MPC shareholders approve the Offer and its implementation at an MPC meeting currently anticipated by MPC to be held in early February. It is uncertain whether all of the conditions will be satisfied or waived. If you accept the Offer, you will be locked in and will not be able to otherwise dispose of your MPAL shares, such as through selling on market.

Key Dates

3 January 2006	Anticipated date of dispatch of Target's Statement to MPAL shareholders
Early February 2006	Anticipated date of MPC shareholder meeting, from which an affirmative vote is required for MPC to continue with its Offer
16 February 2006	Closing date of the Offer (unless extended)

Shareholders are advised that, notwithstanding that the Independent Directors have recommended that you should reject the MPC Offer, should you wish to accept the Offer, you should **NOT ACCEPT** prior to the time that the outcome of the MPC shareholder meeting is known, as you will lose the ability to deal with your MPAL shares in any way and will not know until at least early February 2006 whether the Offer will proceed or not.

I encourage you to read the Target's Statement and the Independent Expert's Report in their entirety and to carefully consider the Independent Directors' reasons for their recommendation. As outlined above, there is ample time for shareholders to consider their intentions with respect to the Offer and, if you have any queries with respect to the Offer, you should seek the advice of your stockbroker or other professional adviser.

Yours sincerely



RODNEY F. CORMIE

Chairman

Magellan Petroleum Australia Limited