CONTENTS

Corporate Directory	2
Directors' Report to the Shareholders	
The Year in Review	3
Financial Summary	4
Review of Operations	
Petroleum Exploration	5
Production and Development	10
Staff and Management	14
Concession Ownership Chart	15
Statutory Information	16
Auditor's Independence Declaration	21
Directors' Declaration	22
Corporate Governance Statement	23
Stock Exchange Information	29
Financial Report	
Financial Statements	30
Notes to the Financial Statements	33
Independent Audit Report	59

The Forty-first Annual General Meeting of Members of Magellan Petroleum Australia Limited will be held in the Stamford Plaza, River Room, Level 1, Cnr Edward & Margaret Streets, Brisbane on Friday, 28 October 2005, at 10:00 a.m.

CORPORATE DIRECTORY

DIRECTORS

Rodney F. Cormie (Chairman)
John P. Kelly
Walter McCann
Timothy L. Largay
Norbury Rogers AO
Robert Mollah
Ronald P. Pettirossi

COMPANY SECRETARY

Bruce McInnes, ACA

SOLICITORS

Corrs Chambers Westgarth
1 Eagle Street, Brisbane Qld 4000

AUDITOR

Deloitte Touche Tohmatsu
123 Eagle Street, Brisbane Qld 4000

SHARE REGISTRAR

ASX Perpetual Registrars Limited
Locked Bag A14
SYDNEY SOUTH NSW 1235
Telephone: (02) 8280 7111
Facsimile: (02) 9287 0303
Email: registrars@asxperpetual.com.au
Internet: www.asxperpetual.com.au

STOCK EXCHANGE LISTING

The Company's shares are listed on the
Australian Stock Exchange
Trading Symbol: MAG

REGISTERED AND ADMINISTRATIVE OFFICE

10th Floor, 145 Eagle Street, Brisbane Qld 4000
Telephone: (07) 3224 1600

WEBSITE

Internet: www.magpet.com.au
Email: magadmin@magpet.com.au

The Year in Review

- Oil and gas sales totalled 1.4 million Barrels of Oil Equivalent for a daily average of 3,870 BOE in 2004-05.
- Magellan's natural gas sales from the Mereenie and Palm Valley fields in the Northern Territory were steady at 7.8 PJ (6.8 Bcf) for the year.
- Gas sales revenue rose by 3 percent to $18.085 million.
- The Company's crude oil and condensate sales from Mereenie increased by 4 percent to 136,000 barrels (370 BOPD), reflecting increased condensate sales.
- Oil sales from the Nockatunga fields in Queensland totalled approximately 35,000 barrels (95 BOPD) for the year.
- Magellan's total oil sales revenue rose 47 percent to $11.022 million, reflecting the significant strengthening of world and Australian dollar oil prices over the year.
- Consolidated operating profit, before write off of capitalised exploration expenditure and income tax, rose 113 percent to $8.998 million. After deducting write-off of capitalised exploration expenditure and income tax, a consolidated profit of $1.534 million resulted, which is 52 percent lower than last year.
- The Directors have recommended the payment of a fully franked dividend of 5 cents per share.
- Two gas development wells were drilled at the Mereenie field, both of which were completed as Pacoota gas producers and brought on line early in 2005.
- The company is refocussing its exploration activities to two core areas, the Australian Cooper Basin and the Weald-Wessex Basin, onshore UK.
- The Sandhills-2 well in the Weald-Wessex Basin of the Southern United Kingdom encountered heavily bio-degraded remnant oil in the Great Oolite Formation. Further exploration drilling is planned in 2005-06 to test the same oil play elsewhere in the basin adjacent to producing oil fields.
- Magellan expanded its exploration acreage position in the Weald-Wessex Basin with the acquisition of interests in eight new exploration licences.
- The Company participated in three exploration wells in the Cooper Basin in South Australia, three exploration wells in the Taranaki Basin of New Zealand and one in the southern Browse Basin offshore Western Australia. The Kiana-1 well in the Cooper Basin flowed oil at 1100 BOPD and gas at 2.8 MMcf/D on test during drilling.
- A 238 km^2 3D seismic survey was conducted in the Nockatunga oil fields area which identified multiple appraisal-development and near field exploration well locations, four of which are to be drilled later in 2005.

FINANCIAL SUMMARY

Magellan's consolidated profit from ordinary activities before write off of capitalised exploration expenditure and income tax for the year ended 30 June 2005 was $8,998,000. This represents a increase of 113 percent from the figure of $4,229,000 for the previous corresponding period. The principal factor contributing to the $4,769,000 improvement was a 16 percent increase in sales revenue of $4,106,000.

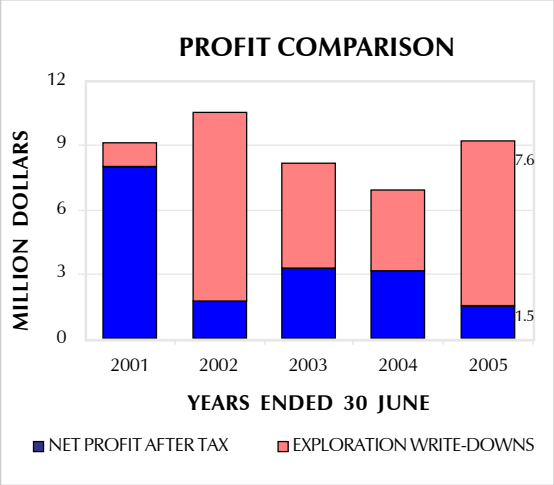
After writing off capitalised exploration expenditure totalling $7,581,000 (2004: $3,706,000), and taking into account an income tax benefit of $117,000 (2004: income tax benefit of $2,659,000), profit from ordinary activities after income tax was $1,534,000, down 52 percent from the comparable figure in 2004 of $3,182,000. Earnings per share fell 52 percent to 3.3 cents (2004: 6.8 cents).

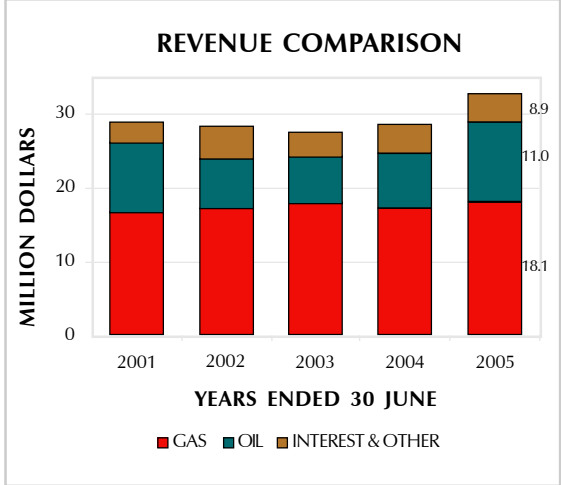
Total sales revenue was up $4,106,000 (16 percent) comprised of an increase of $3,512,000 (47 percent) in oil sales revenue, principally from the Mereenie and Nockatunga fields, and an increase of $594,000 (3 percent) in gas sales revenue. Although there was a small decrease of 1 percent in total oil sales volumes for the 2005 period, the 47 percent increase in oil sales revenue was attributable to the significant increase in higher average world crude oil prices. When compared to the previous corresponding period, the average price of Mereenie crude was up from $43.44 to $64.15 per barrel and the average price of crude sales from the Nockatunga field rose from $38.73 to $57.28 per barrel.

Compared on a year-on-year basis, the Statement of Financial Position shows a 1 percent decrease in shareholders' funds of $801,000 to $59,115,000 and the current asset ratio has increased from 4.2 to 6.3 due to a combination of higher receivables and lower payables. Net cash flows from operating activities has fallen slightly from $16,047,000 to $15,984,000.

The Company's financial position has remained strong with cash reserves of approximately $29 million placing the Company in a sound position to fund its future exploration commitments and to take advantage of new investment opportunities as they arise.

The Directors are recommending, for approval by Shareholders at this year's Annual General Meeting, the payment of a fully franked dividend of 5 cents per share.





PETROLEUM EXPLORATION

Magellan is refocussing its exploration activities into two core areas, the Cooper Basin onshore Australia and the Weald Basin onshore southern United Kingdom, with an emphasis on developing a low to medium risk acreage portfolio. Both core areas compromise the most prolific onshore hydrocarbon-producing basins in those countries.

Magellan's growth strategy is to actively seek new exploration and acquisition opportunities, principally in these two core areas, to augment its current proven and probable reserves of 21 million barrels of oil equivalent and its annual production of 1.4 million BOE.

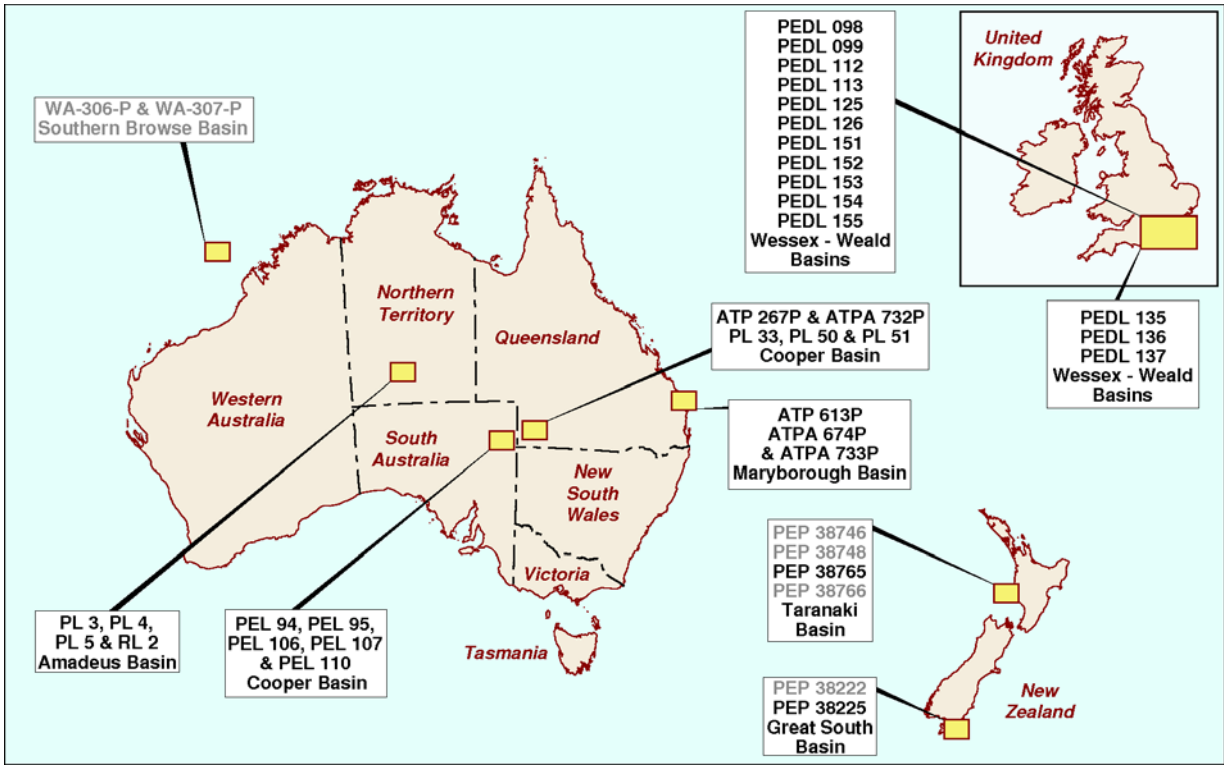
The Company participated in eight petroleum exploration wells during the past year, and currently has plans to drill four exploration and three appraisal-development wells during the coming year.

Three wells were drilled in the South Australian sector of the Cooper Basin. Magellan farmed into the Kiana-1 well which spudded in August 2005 and flowed 1100 BPD of oil and 2.8 MMcf/D of gas on test during drilling. Magellan has earned a 30% interest in the discovery which is yet to be fully evaluated. Neither of the other two wells encountered commercial hydrocarbons.

Magellan participated in a well in a frontier area of the Browse Basin, offshore Western Australia. The Company's interest was fully funded by other parties under a farmout arrangement. No hydrocarbons were encountered and the Company has withdrawn from further exploration on the North West Shelf.

The Company expanded its acreage position in the Weald-Wessex Basin, United Kingdom, with the award by the Government of a further eight exploration licences. Magellan's first well in the Weald-Wessex Basin encountered a heavily biodegraded remnant oil column in the Great Oolite Formation. Further exploration-appraisal drilling is planned in 2005-06 to test the Great Oolite oil play elsewhere in the Weald basin adjacent to producing fields.

In New Zealand, the Company participated in three exploration wells targeting oil in the Mt Messenger and Moki Formations in the onshore Taranaki Basin. No commercial hydrocarbons were encountered. Following the disappointing results of the five well exploration program conducted over the past two years, the Company has withdrawn from most of its Taranaki Basin permits.



Cooper-Eromanga Basin

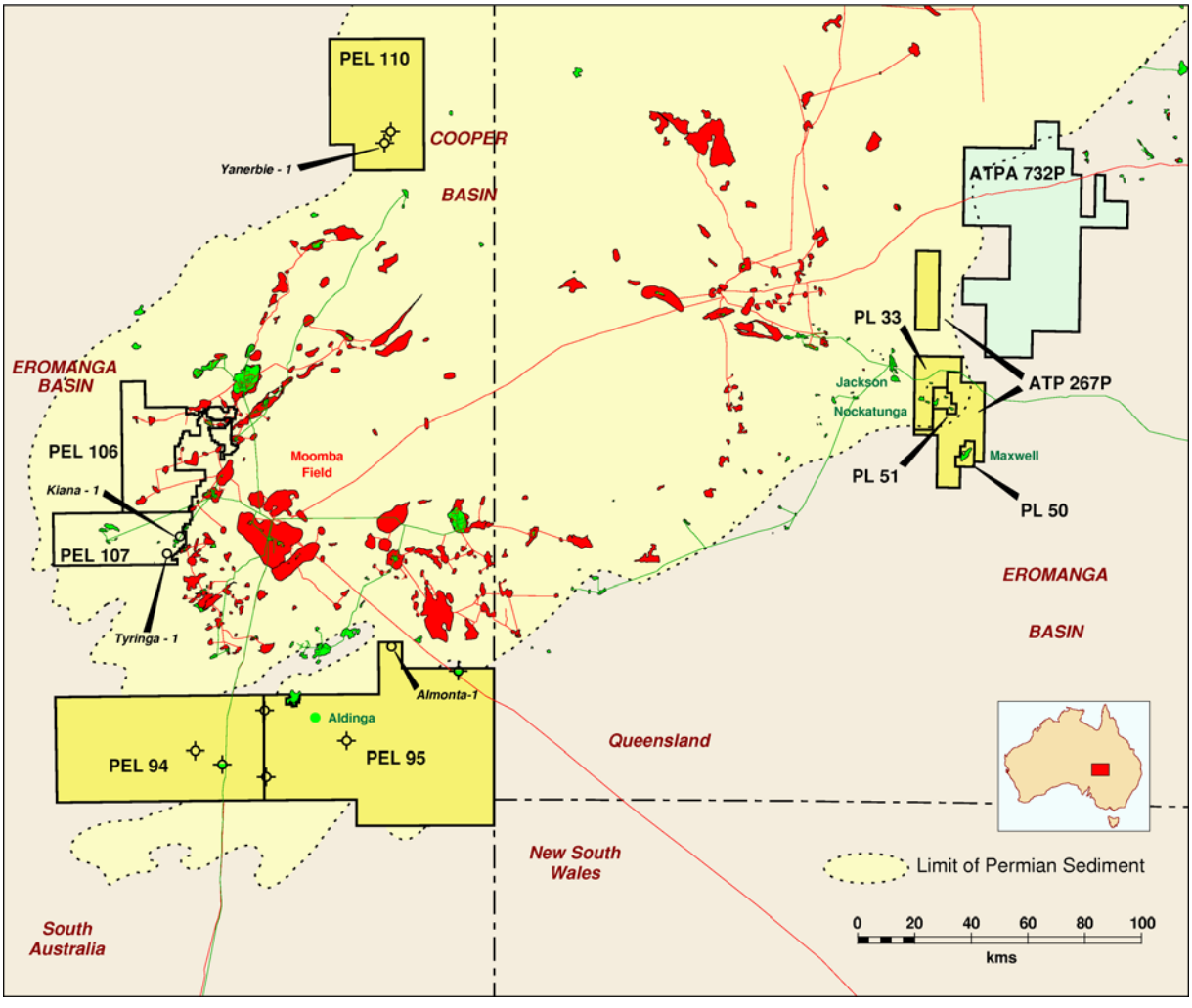
The Cooper-Eromanga Basin is the most prolific hydrocarbon producing basin onshore Australia and is a primary focus area for the Company's exploration effort. Magellan participated in the drilling of three petroleum exploration wells during 2005.

Almonta-1 was drilled in PEL 95 (Magellan 50%) in March and targeted oil in the Namur and Hutton Sandstones in a structural closure updip and approximately one kilometre west of Tilparee-A1. No significant hydrocarbons were encountered during drilling and the well was plugged and abandoned.

Yanerbie-1 spudded in PEL 110 (Magellan 37.5%) in June, and targeted oil in the Hutton Sandstone and the Triassic Tinchoo Formation in a structural closure approximately 20 kilometres north of the Keleary oil field where the Tinchoo Formation is productive. No significant hydrocarbons were encountered.

Magellan's interest in the Yanerbie-1 well was partly funded by Cooper Energy and Enterprise Energy. Enterprise retains an option to earn a 6.25% in the entire PEL 110 by funding part of Magellan's interest in further exploration in the permit.

In a continued focusing of exploration activities and expansion of its acreage position in this core area, Magellan farmed into the Kiana-1 and Tyringa-1 wells in PEL 107 in South Australia in return for funding Great Artesian Oil and Gas's portion of the cost of the wells. Magellan will earn a 30% interest in any Production Licences granted over a commercial discovery by either well. In addition, and subject to it funding additional drilling in either the PEL 107 or PEL 106 permits, Magellan has secured an option to farm into a 20% interest in the greater PEL 107 and PEL 106 permit areas by drilling further wells in these permits. Magellan would earn a 30% interest in any discovery resulting from that drilling.



Kiana-1 spudded in late August 2005 to test a structural closure on a high trend between the Spencer and Muteroo oil fields which produce from the Namur Sandstone, the Birkhead Formation and the Hutton Sandstone of the Eromanga Basin sequence.

While oil shows were tested in the Namur Sandstone, the well encountered oil and gas in the Permian Patchawarra Formation and flowed to surface on Drill Stem Test at a rate of 1100 BPD of oil and 2.8 MMcf/D of gas though a half-inch choke. It is planned to complete the well for future production. The discovery will be evaluated as early as possible.

The Kiana prospect is traversed by an existing oil pipeline and is approximately five kilometres from the gas infrastructure of the Keena field. The existing oil and gas infrastructure in the area is owned by the South Australian Cooper Basin producers and operated by Santos Ltd.

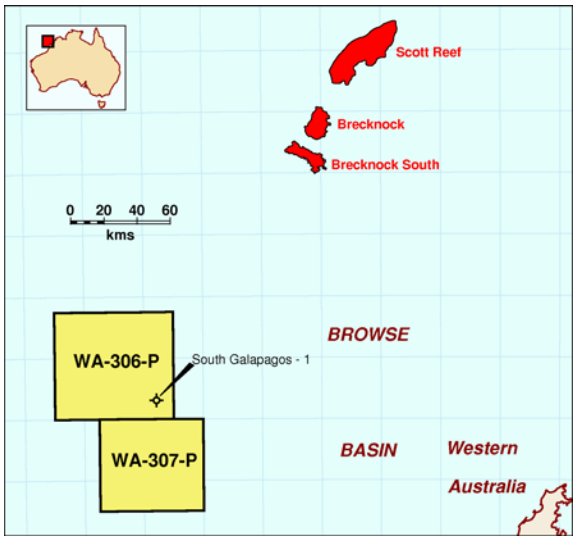
In 2004 the Nockatunga joint venture conducted a 238 km^2 3D seismic survey in the Nockatunga-Thungo oil field area, part of which lies within ATP 267P (Magellan 40.936%). Oil production in the area is principally from the Murta Formation, with some production from the Namur and Birkhead Formations. The 3D seismic survey has identified multiple appraisal and development drilling locations, as well as several attractive near field exploration prospects. A four well program is approved for drilling later in 2005 which will involve development and near field exploration drilling, and further development wells are proposed for 2006.

The Company is the registered applicant for ATPA 732P (Magellan 100%) to the northeast of the Nockatunga area, the grant of which is subject to native title negotiations that are yet to commence. It is anticipated that negotiations with the native title claimants will commence later in 2005 under the Commonwealth Government right to negotiate process.

The block has Eromanga Basin oil potential as well as Permian Cooper Basin gas potential in the northwest portion of the application area. Magellan has reached agreement in principle with Avery Resources for it to earn a 35% interest in ATP 732P by funding a program of drilling and/or 2D seismic acquisition. Magellan is acquiring all existing well and seismic data in the area to assist in planning an appropriate exploration program.

Southern Browse Basin

Exploration permits WA-306-P (12.5% Magellan) and WA-307-P (50% Magellan) are located in the Barcoo Sub-Basin of the southern Browse Basin, offshore Western Australia. The WA-306-P joint venture drilled the South Galapagos-1 well in October 2004 on a significant four-way closed structure in the Jurassic Lower Vulcan and Plover Formations.



The Sedco 703 semi-submersible drilling rig was contracted by the joint venture operator, Antrim Energy Australia, to drill the well in approximately 320 metres water depth. Magellan's interest in the well was funded by Antrim Energy Australia. No hydrocarbons were encountered in the well which was plugged and abandoned.

Magellan subsequently elected to withdraw from the WA-306-P joint venture and the WA-307-P permit has been surrendered.

Maryborough Basin

ATP 613P and ATP Applications 674P and 733P (all Magellan 100%) largely cover the on-shore portion of the Maryborough Basin. Magellan participated in the drilling of the Gregory River-3ST in 2003, which down-graded the prospectivity of the area for conventional gas. The Company is currently negotiating with a farminee to undertake an evaluation of the coal seam gas potential which the Company has identified in the Burrum Coal Measures within the central ATP 613P area.

Weald-Wessex Basin, United Kingdom

Magellan acquired its first interests in the Weald-Wessex Basin of southern England in 2000. The Weald-Wessex Basin which contains the largest onshore UK oil field, Wytch Farm, is one of Magellan's key focus areas for exploration.

To build on its already strong exploration position in the basin, Magellan successfully participated in applications for eight new Petroleum Exploration and Development Licences under the 12th UK Landward Licensing Round. PEDLs 135-137 (Magellan 100%) and PEDLs 151-155 (Magellan 11.25%-50%) were granted in October 2004. Each has a drill-or-drop obligation to be exercised within the initial three year term of the licence.

The PEDL 098 joint venture (Magellan 22.5%) spudded Sandhills-2 on the Isle of Wight in August 2005. The well targeted by-passed oil pay in the Jurassic Great Oolite Formation. Sandhills-1, drilled in 1982, had encountered oil shows in the Great Oolite Formation, but was not tested at that time. Magellan's interest in the well was funded largely by Northern Petroleum (GB) and Montrose Industries.

Sandhills-2 intersected the Great Oolite Formation low to prognosis, however, hydrocarbon shows were observed within the reservoir section. A sidetrack drilled to test the reservoir in an up-dip location closer to Sandhills-1 encountered a heavily biodegraded remnant oil column.

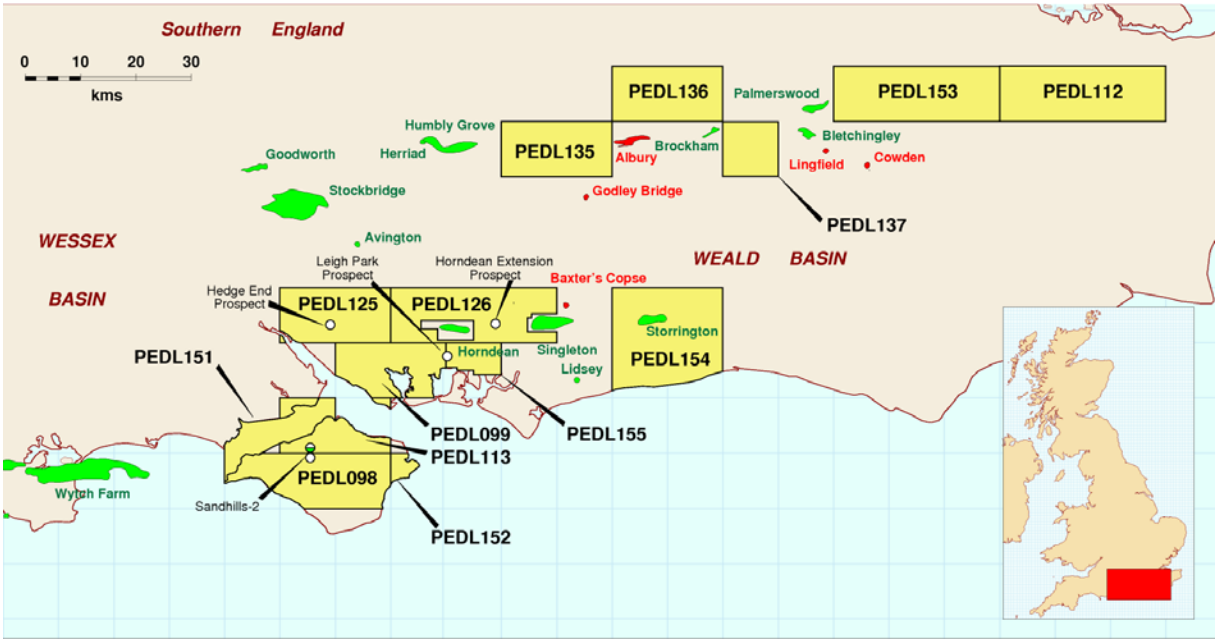
The Isle of Wight licences, PEDL 098, PEDL 113 and PEDL 152 (all Magellan 22.5%) also have potential for oil in the Triassic Sherwood Sandstone, the producing horizon at the Wytch Farm oil field to the west.

PEDL 099, PEDL 125, PEDL 126 and PEDL 155 (Magellan 40%) are adjacent to the Horndean and Singleton oil fields. Production from these fields is from the Great Oolite Formation. Several structures, similar to those of the Horndean and Singleton oil fields, are the focus of exploration in these licences.

The 1988 Hedge End-1 well in PEDL 125 potentially has by-passed oil pay in the Great Oolite Formation, and a re-drill of the well to test the flow potential has been approved by the joint venture. Wells are also being planned to test the easterly extension of the Horndean oil field in PEDL 126 and the Leigh Park prospect which straddles the PEDL 099 and PEDL 154 boundary.

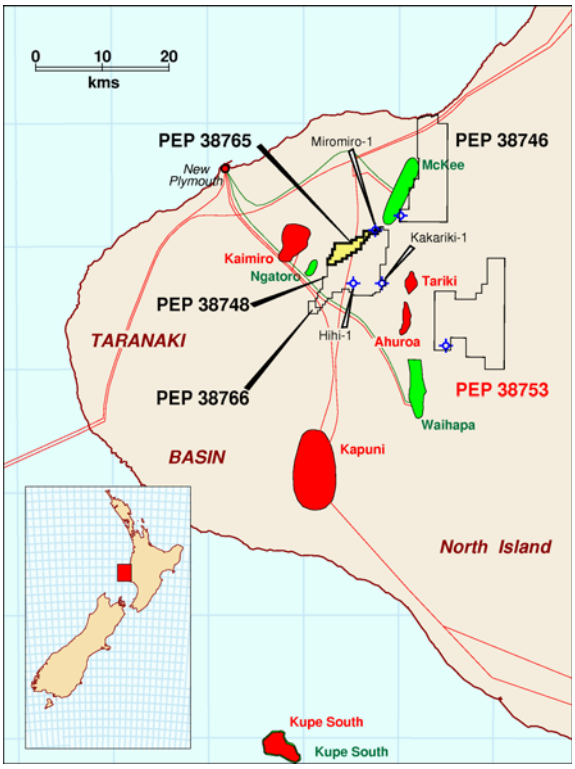
In the PEDL 135, PEDL 136 and PEDL 137 areas Magellan has acquired the existing well and 2D seismic data. The acreage lies on trend with producing oil fields and gas fields, and several structural prospects and leads have already been identified. The company will be seeking joint venturers to contribute to the drilling of an exploration well in each Licence area.

The PEDL 112 and PEDL 153 areas (both Magellan 33.3%) in the Kent area on the north-eastern margin of the Weald Basin also lie on trend with existing oil and gas fields. Evaluation of these areas is on-going.



Taranaki Basin, New Zealand

The Company has undertaken an active exploration program for oil in the onshore Taranaki Basin, New Zealand's most productive hydrocarbon basin, since first acquiring exploration acreage in the basin in 2002.



Three exploration wells, Hihi-1 and Kakariki-1 in PEP 38746 (Magellan 25%) and Miromiro-1 in PEP 38765 (Magellan 12.5%), were drilled during 2004-05. The wells targeted oil plays in the Miocene Mount Messenger and Moki Formations, but failed to encounter significant hydrocarbons.

The PEP 38748 joint venture drilled Hihi-1 in October 2004. Hihi-1 did not contain significant hydrocarbons in the primary target, however, a sidetrack operation was undertaken to evaluate the significance of hydrocarbon shows recorded in the secondary objective, but in an updip location. The Hihi-1A intersected a four-metre sand at the top of the Mount Messenger Formation that petrophysical analysis indicated to be gas charged, however, it was considered that this interval would not be commercial and the well was plugged and abandoned.

Kakariki-1 was drilled in PEP 38748 in February 2005. The well targeted oil in both the Mount Messenger and Moki Formations, however the reservoir sections did not contain commercially significant hydrocarbons.

The PEP 38765 joint venture drilled Miromiro-1 in December 2004. Oil shows were intersected within the Mount Messenger and Moki Formations; however, no commercial hydrocarbons were identified.

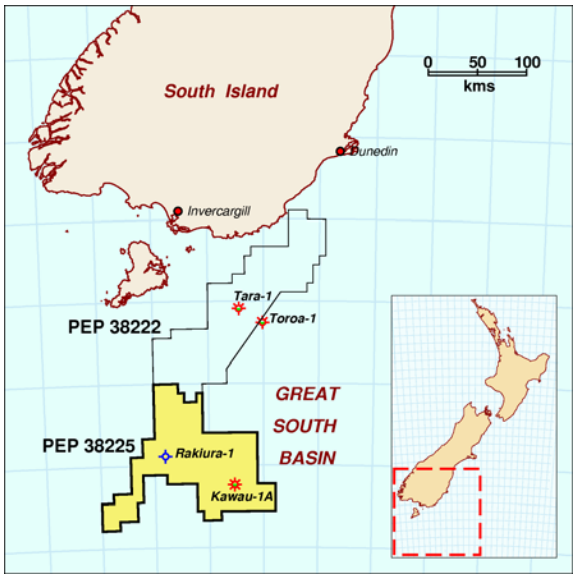
Magellan has elected to withdraw from the PEP 38746, PEP 38748 and PEP 38766 joint ventures.

Great South Basin, New Zealand

The Company holds exploration permit PEP 38225 (Magellan 100%) in the offshore frontier Great South Basin to the south of the South Island of New Zealand.

The discovery of gas and condensate in the Kawau-1A well, drilled in 1977, demonstrated the existence of an active petroleum system in the permit area. Reprocessing and interpretation of existing seismic data has identified several prospects potentially large enough to be commercial in this frontier basin. Magellan is seeking partners to fund the drilling of a well in the permit before the current drill or drop decision date in May 2006.

The PEP 38222 exploration permit (Magellan 100%) was surrendered in May 2005. Seismic reprocessing and interpretation had identified a giant sized prospect in the permit area, but the Company was unable within the short three year permit timeframe to finalise its evaluation and attract participants to drill a well, and accordingly the permit was surrendered.



PRODUCTION AND DEVELOPMENT

Mereenie Oil and Gas Field

The Mereenie oil and gas field (Magellan 35%) is located approximately 250 kilometres west of Alice Springs in the Amadeus Basin of the Northern Territory. It is the only producing oil field in the Northern Territory and together with the nearby Palm Valley gas field provides gas to meet the whole of the Northern Territory's domestic gas market. The field continues to be the major source of the Company's oil and gas sales revenues, contributing $21.5 million during the 2004-05 year.

Gas Sales – Mereenie gas sales increased 12% in 2004-05 to 14.4 PJ (12.4 Bcf) compared to 12.9 PJ (11.0 Bcf) for the previous year. This was largely the result of decreased production from the Palm Valley field, allowing increased Mereenie sales to meet the market demand. There was a modest increase in demand for gas in the Northern Territory. The Company's share of gas sales increased to 5.0 PJ (4.3 Bcf) or 13.8 TJ (11.9 MMcf) per day. Company gas sales revenue was up 17% to $12.9 million, as a result of the increased sales volumes and higher average gas prices.

Gas Marketing – The Mereenie field continued to meet contracted supplies to Gasgo Pty Limited, the principal gas purchaser. The bulk of the gas is used by the Northern Territory's Power and Water Corporation for electricity generation, principally at the Channel Island power station near Darwin. The total amount of Mereenie gas contracted to Gasgo is approximately 180 PJ, of which about 56 PJ remains to be delivered over the remaining contract periods to June 2009.

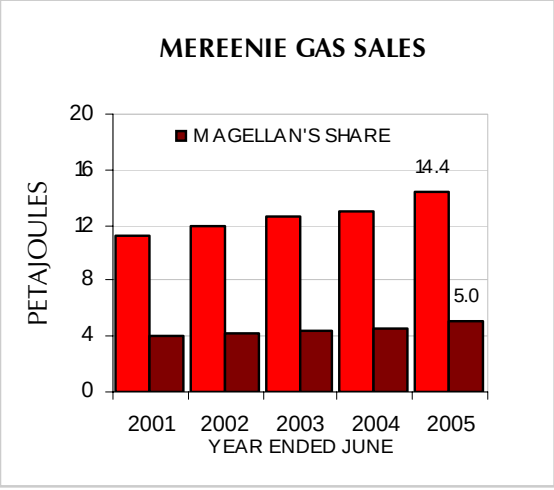
The Company and its co-venturers are actively pursuing gas sales contracts for the remaining uncontracted Amadeus Basin gas reserves that total some 110 Bcf and 60 Bcf proved and probable reserves at the Mereenie Field and the Palm Valley gas field, respectively. Gas production from both fields is fully contracted through to 2009 and 2012, respectively. While opportunities exist to contract additional gas sales in the Northern Territory after these dates, there is strong competition within the market and it is therefore not possible to predict the outcome of the Company's gas marketing endeavours.

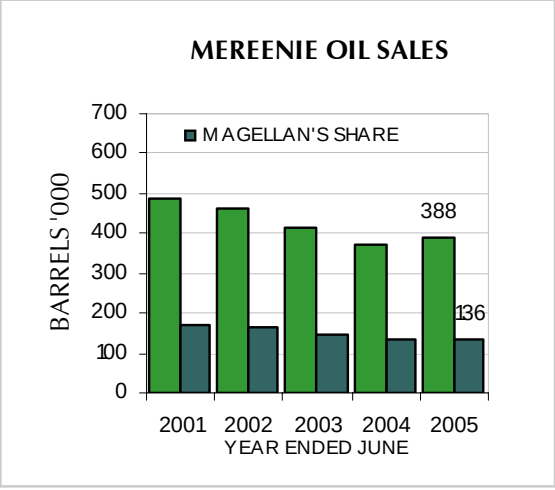
Oil Sales – The Company's annual crude oil and condensate sales from Mereenie increased 4% over last year. Oil sales totalled 136,000 barrels (approximately 370 barrels per day) compared to 131,000 barrels last year. This was the result of increased condensate production associated with the increased gas sales, which offset the natural decline in crude oil production from the field.

The field currently is producing at a rate of around 1,050 barrels of crude oil and condensate per day.

The Company's revenue from crude oil sales increased by 54% from $5.7 million to $8.7 million, primarily as a result of a 48% increase in the Australian dollar crude oil prices throughout the period.

Oil Marketing – Crude oil and stabilised condensate produced from the field are commingled and transported through the joint venture-owned 269 kilometre pipeline from Mereenie to Brewer Estate, near Alice Springs. It is then trucked one thousand kilometres to the Port Bonython oil export terminal on the South Australian coast where it is sold to the South Australian Cooper Basin producers.





Operations – A major upgrade of the gas compression facilities at the Mereenie central treatment plant was commissioned in mid-2004. A further 2600 HP of compression was added to the existing facilities to enable increased deliverability of gas to meet the contracted gas quantities over the remaining gas sales contract periods to June 2009.

Two gas development wells were drilled in late 2004 to increase deliverability from the field to help meet the progressively increasing volumes of gas required under the existing gas sales contracts.

The wells were both drilled to target gas reserves in the Pacoota P1 gas cap, and were drilled with air/foam and completed without placing drilling mud in the well to prevent damage to the reservoir, thereby maximising gas deliverability from the wells.

East Mereenie-43 was drilled in October 2004, and was completed as a Pacoota Sandstone gas producer. A flow test of the Pacoota Sandstone during drilling measured gas at the rate of 15.3 million cubic feet per day. West Mereenie-18 was drilled in November and was also completed as a Pacoota Sandstone gas producer after a flow test during drilling measured gas at the rate of 11.6 million cubic feet per day. Both wells were brought on-line in early 2005.

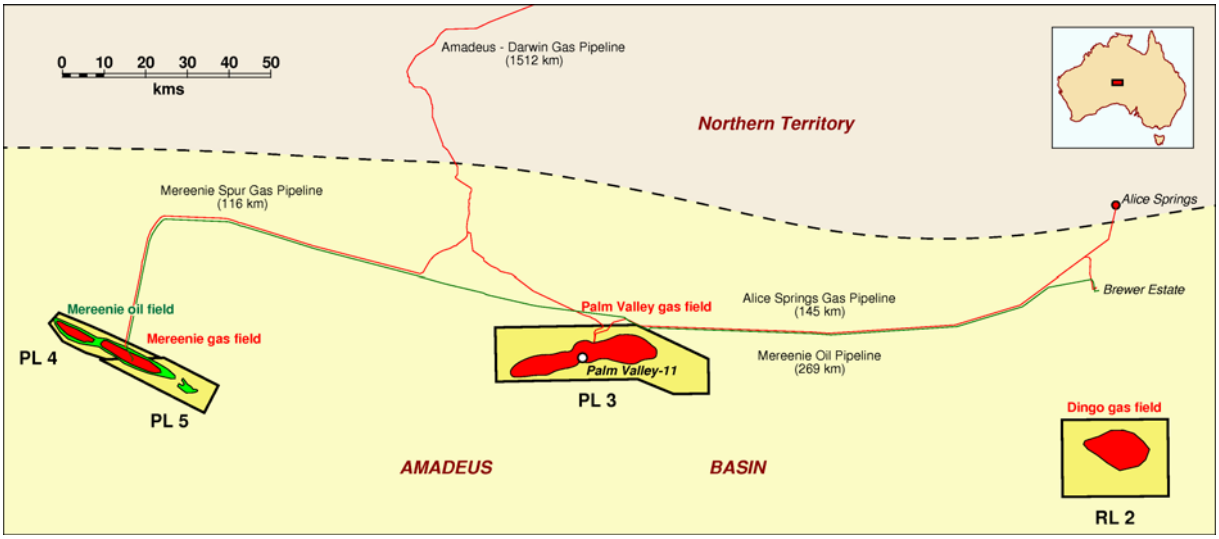
The Operator of the field, Santos Ltd, has commenced a workover program on several of the Mereenie wells. The workover program is expected to continue until early 2006, and will involve a combination of remedial work, re-completions to increase oil and gas production and the fracture stimulation of two wells.

Oil and Gas Reserves – Based on reserve estimates carried out as at the end of 2004 by the operator of the Mereenie joint venture, remaining recoverable oil reserves (which includes condensate) and gas reserves for the Mereenie field as at 30 June 2005, are estimated as follows:

Remaining Recoverable Oil & Condensate Reserves:	
Proved Reserves	1.9 MMSTB
Proved & Probable Reserves	3.5 MMSTB

Remaining Recoverable Gas Reserves:	
Proved Reserves	79 Bcf
Proved & Probable Reserves	160 Bcf

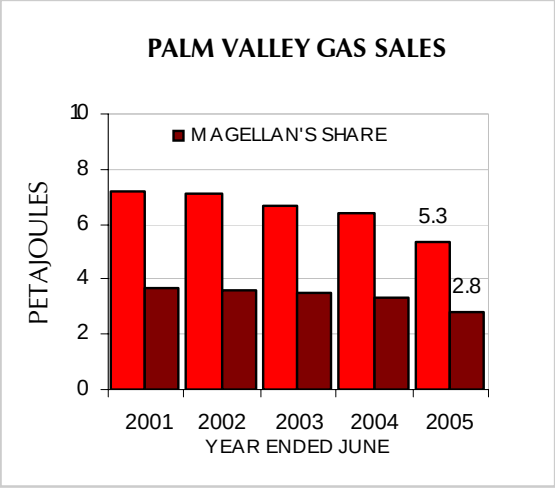
Cumulative production from the Mereenie field to 30 June 2005 totalled 14.9 million barrels of oil and 165 Bcf of gas.



Palm Valley Gas Field

The Palm Valley gas field (Magellan 52.023%) is located in the Amadeus Basin, approximately 120 kilometres west of Alice Springs in the Northern Territory. The field, held under Petroleum Lease PL3, has been in production since 1983, and provides gas for electricity generation, mainly in Alice Springs and Darwin. Magellan is the operator of the field.

Gas Sales – During the 2004-05 year, Palm Valley gas sales decreased 17% from 6.4 PJ (5.5 Bcf) to 5.3 PJ (4.7 Bcf), with the Company's share being 2.8 PJ (2.4 Bcf) or 7.6 TJ (6.7 MMcf) per day. The Company's revenue declined 19% from $6.5 million to $5.2 million.



Gas Marketing – Magellan is pursuing gas contracts for the uncontracted gas reserves at Palm Valley. Production from Palm Valley is fully contracted through to January 2012 under the 1985 Gas Purchase Agreement. Remaining uncontracted proved and probable reserves total some 60 Bcf of gas.

Operations – Under the 1985 Gas Purchase Agreement, the Palm Valley producers are obliged to maximise production from the field through to the end of the supply contract period in 2012, while operating the field in accordance with good oil field practice.

Gas deliverability is being maintained by the increasing use of compression to counteract the natural production decline of the gas reservoir. The field currently is producing at the rate of approximately 0.34 Mm^3 (12 MMcf) of gas per day.

The field compression continues to operate very efficiently, but is at the limit of the 2600 HP currently installed capacity. A further 1000 HP of compression is being installed, which will allow the wellhead pressures to be reduced progressively to a final wellhead pressure of 690 kPa in line with the Northern Territory Government approved wellhead pressure reduction program. The additional compressor which will be located near the central processing plant has been ordered, and commissioning is scheduled for the end of 2005.

In June-August 2004, Magellan drilled the Palm Valley-11 development well in an endeavour to increase deliverability from the field. No reservoir-effective fractures capable of commercial gas flows were encountered during drilling through the Stairway and Pacoota Sandstones which are productive elsewhere in the field. No further drilling is planned for the field.

The Company has in place Government approved Health, Safety and Environmental management plans to monitor and continuously improve the safety of the gas plant and work practices, as well as to assist with environmental and cultural heritage issues at the field which is located on Aboriginal Land, adjacent to the Finke Gorge National Park.

Gas Reserves – Based on a 1999 independent expert reserves study, estimated total remaining recoverable reserves for the Palm Valley gas field as at 30 June 2005 are as follows:

Remaining Recoverable Gas Reserves:	
Proved Reserves	87 Bcf
Proved & Probable Reserves	90 Bcf

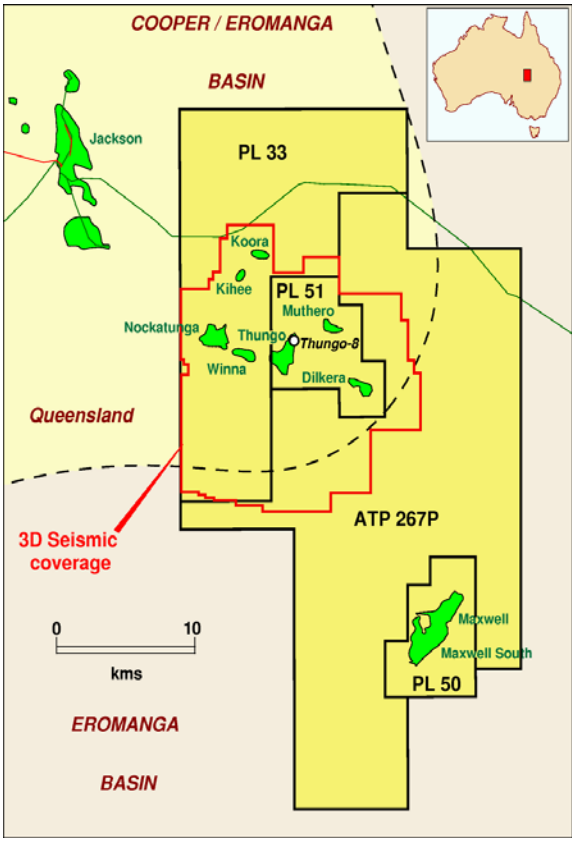
Cumulative gas production to 30 June 2005 is 139 Bcf.

Nockatunga Oil Fields

Petroleum Leases 33, 50 and 51 (Magellan 40.936%) cover eight small oil fields in the Nockatunga area in the Cooper Basin of southwest Queensland. The fields which include the Dilkera, Koora, Maxwell, Maxwell South, Muthero, Nockatunga, Thungo and Winna oil fields, were discovered during the 1980-1990s and are operated by Santos Ltd.

Oil Sales – The Company's crude oil sales from the Nockatunga fields totalled 35,000 barrels, 12% lower than the previous year, reflecting the natural decline in production from the fields. Oil sales revenue rose 30% to a total of $2.0 million for 2004-05 as a result of the stronger Australian dollar oil prices. Crude oil from each of the fields is trucked and sold to the IOR Energy oil refinery at Eromanga in southwest Queensland.

Operations – Total production from the 19 producing wells on the fields currently is approximately 275 BOPD (Magellan's share 110 BOPD). Nockatunga, Thungo and Maxwell are the principal producing fields with production mainly from the Murta Formation reservoir. The Nockatunga field has minor production from the Birkhead Formation.



The joint venture undertook a 238 km^2 3D seismic survey in the second half of 2004 over the northern group of fields. The survey has delineated multiple appraisal and development drilling locations within the Petroleum Lease areas, which would further develop the proved and probable reserves identified. The joint venture has approved the drilling of four wells in the Nockatunga area in the last quarter of 2005, one of which will be a near field exploration well in the adjacent ATP 267P. The remainder of the wells are development wells.

Several development well locations have also been identified in the Maxwell and Maxwell South field area under a study undertaken by Magellan on these fields. Magellan supports the acceleration of further development drilling to increase production from the Nockatunga oil fields to take advantage of the current high world oil prices.

Reserves – Based on reserve estimates prepared as at the end of 2004 by the operator, Santos Ltd, total remaining recoverable oil reserves for the Nockatunga fields as at 30 June 2005, are estimated as follows:

Remaining Recoverable Oil Reserves:	
Proved Reserves	0.6 MMSTB
Proved & Probable Reserves	1.6 MMSTB

Cumulative production from the Nockatunga fields to 30 June 2005 totalled 3.7 million barrels of oil.

Aldinga Oil Field

The Aldinga oil field was discovered in 2002 in PEL 95 (Magellan 50%) in the South Australian Cooper Basin. An extended production test commenced on the one-well field in 2003, and the producers were granted Petroleum Production Licence 210 in December 2004. Production from the field has stabilised at around 25 BOPD. No further development of the field is planned.

Dingo Gas Field

The Dingo gas field is located some 60 kilometres south of Alice Springs in the Northern Territory. Discovered in the 1980s, the field is held under Retention Licence RL2 (Magellan 34.3365%). A market is yet to emerge to allow the economic development of this 20 PJ contingent resource. Two wells, Dingo-2 and Dingo-3, are capable of delivering around 1 PJ of gas per annum should a suitable gas marketing opportunity arise.

Definition of Reserves

Oil and gas reserves commonly are quantified by the petroleum industry into two main categories: proved and probable reserves. The following terms, as used in this report, are based on definitions recommended by the Society of Petroleum Engineers and the World Petroleum Council in February 2000:

Proved reserves are those quantities of petroleum which, by analysis of geological and engineering data, can be estimated with reasonable certainty to be commercially recoverable, from a given date forward, from known reservoirs and under current economic conditions, operating methods, and government regulations. There should be at least a 90% probability that the quantities actually recovered will equal or exceed the estimate; and

Probable reserves are those unproved reserves which analysis of geological and engineering data suggests are more likely than not to be recoverable. In general, probable reserves may include reserves attributable to improved recovery methods that have been established by repeated commercially successful applications, and reserves in proved reservoirs where an alternate interpretation of performance or volumetric data indicates more reserves than can be classified as proved. There should be at least a 50% probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves.

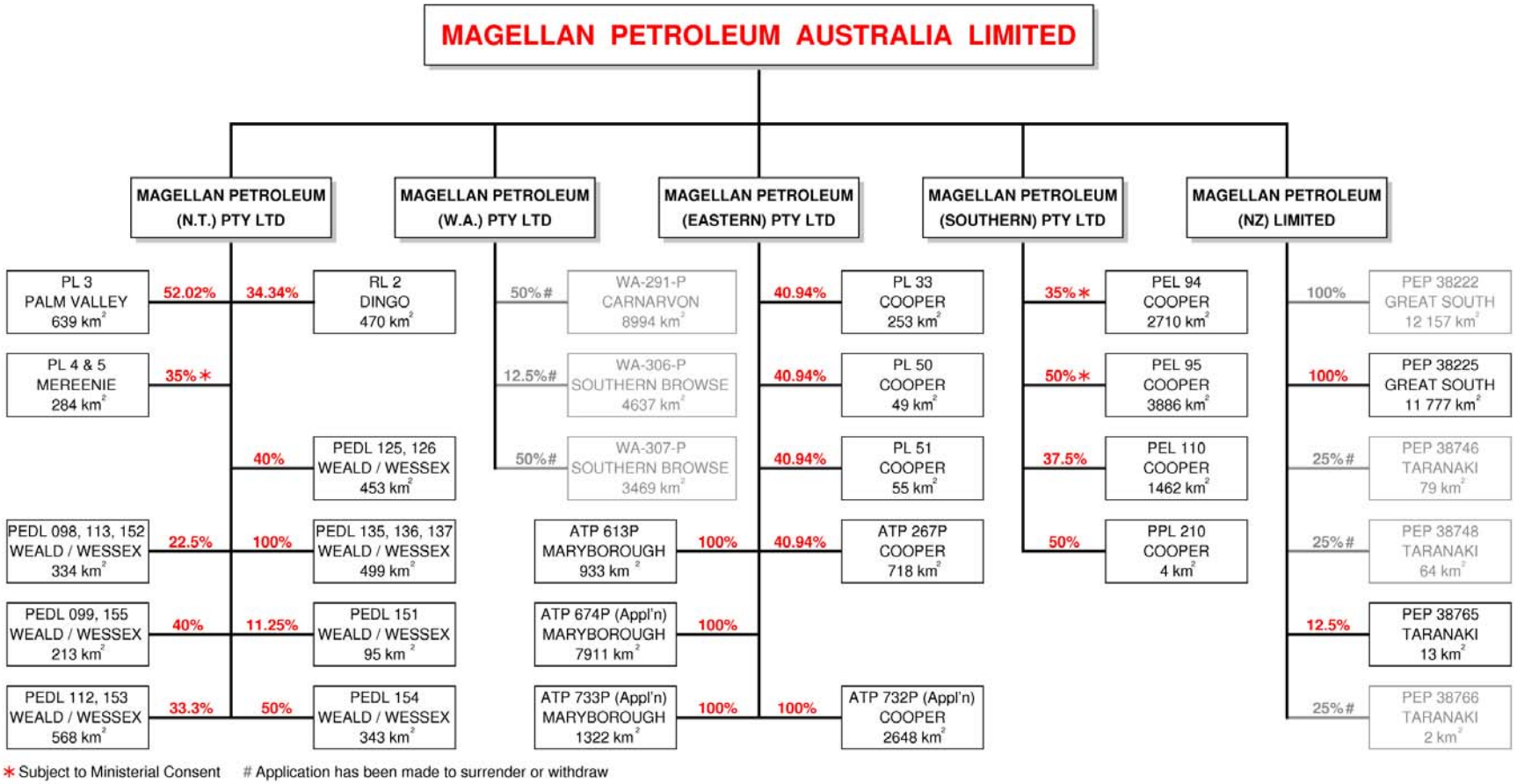
Glossary of Terms:

Bcf	=	Billion cubic feet
BOE	=	Barrels of Oil Equivalent
BOPD	=	Barrels of Oil Per Day
kPa	=	Kilopascals
Mm^3	=	Million cubic metres
MMcf	=	Million cubic feet
MMSTB	=	Million Stock Tank Barrels
PJ	=	Petajoule
Tcf	=	Trillion cubic feet
TJ	=	Terajoule

STAFF AND MANAGEMENT

The Directors wish to acknowledge the contributions made by the Company's staff and management. The skills and dedication of the small, but efficient, team are greatly appreciated. They have made a major contribution to Magellan's continuing success.

This chart details the interests held by Magellan Petroleum Australia Limited in the various petroleum concession areas through its shareholdings in the wholly-owned controlled entities.



Each of the Australian areas is subject to a statutory Government royalty of 10 percent. In addition to the statutory royalty: (a) the two Mereenie leases and the Palm Valley lease are subject to overriding royalties aggregating 4.0625 and 7.3125 percent respectively, (b) the Dingo licence is subject to overriding royalties aggregating 4.8125 percent and (c) the Nockatunga leases are subject to overriding royalties aggregating 3 percent. The New Zealand areas are subject to a statutory Government royalty, being the greater of 5 percent of net revenues obtained from the sale of petroleum or 20 percent of the accounting profit of petroleum production. The areas in the United Kingdom are not subject to a statutory Government royalty.

STATUTORY INFORMATION

Your Directors present their report on the consolidated entity for the year ended 30 June 2005.

Directors

	DIRECTORS' SHAREHOLDINGS AT THE DATE OF THIS REPORT	
	Magellan Petroleum Australia Limited	Magellan Petroleum Corporation
The following persons held office as Directors of Magellan Petroleum Australia Limited during the whole of the financial year and up to the date of this report, unless otherwise specified:		
RODNEY F. CORMIE, BCom, AAUQ, ASA, FSIA, FAICD (72). Formerly a leading Brisbane stockbroker. Also a Director of Suncorp Metway Limited. Chairman of Directors.	1,843	–
JOHN P. KELLY, BA, LLB (54). Partner in the law firm of Corrs Chambers Westgarth with particular expertise in the resources area and contract negotiations.	–	–
WALTER McCANN (68). Director of Magellan Petroleum Corporation (the ultimate parent entity) since 1983. Former Business School Dean and Head of various international academic institutions.	–	59,368
TIMOTHY L. LARGAY (62). Director and Secretary of Magellan Petroleum Corporation (the ultimate parent entity) since 1996. Partner in the law firm of Murtha Cullina LLP, Hartford, Connecticut (USA).	–	3,000
NORBURY ROGERS, AO, BCom, AAUQ, FCA, FAICD (67). Company Director and Chartered Accountant. Former Senior Partner and Managing Partner (Queensland) of an international Chartered Accounting firm. Senator of The University of Queensland.	–	–
ROBERT MOLLAH (64). Geophysicist with broad petroleum exploration background both within Australia and Internationally.	–	–
RONALD P. PETTIROSSI (62). Director of Magellan Petroleum Corporation (the ultimate parent entity) since 1997. Former audit partner of an International Chartered Accounting firm. Appointed a Director 16 August 2004.	–	6,500

Directorships of Other Listed Companies

Directorships of other listed companies held by Directors in the 3 years immediately before the end of the financial year are as follows:

Name	Company	Period of Directorship
RODNEY F. CORMIE	Suncorp Metway Ltd	Since 1996
RONALD P. PETTIROSSI	Farmstead Telephone Group	Since 2002

Company Secretary

BRUCE McINNES, CA, BCom (53). Joined Magellan in 1984 with more than eight years experience working for a firm of chartered accountants. He worked as Group Accountant until 1999 when he was appointed Commercial Manager. He was appointed Company Secretary on 29 October 2002 and his current title is Manager - Risk and Business Support/ Company Secretary.

Principal Activities

The principal activities of the consolidated entity constituted by Magellan Petroleum Australia Limited and the entities it controls consist of petroleum exploration, development, production, processing and marketing. There were no significant changes in the nature of these activities during the financial year. A review of the operations of the consolidated entity and of the results thereof, together with, (a) details of significant changes in the state of affairs that have taken or are taking place, (b) matters that have arisen since the end of the financial year that will affect the future operations and results of the consolidated entity and, (c) likely developments in the operations of the consolidated entity, are detailed earlier in this report in the individual information sections covering the various areas of interest.

Consolidated Results

Consolidated profit from ordinary activities after income tax was $1,534,000 (2004: $3,182,000). This result was recorded after writing off capitalised exploration expenditure totalling $7,581,000 (2004: $3,706,000). Earnings per share decreased from 6.8 to 3.3 cents.

Dividends

A dividend of 5 cents per share (fully franked), aggregating $2,335,000 was paid to Shareholders of Magellan Petroleum Australia Limited on 11 November 2004 as recommended in the 2004 Annual Report. The Directors are recommending, for approval by Shareholders at this year's Annual General Meeting, the payment on 10 November 2005 of a dividend of 5 cents per share (fully franked), aggregating $2,335,000.

Directors' Meetings

The number of meetings of the Company's Board of Directors and of each Board Committee held while each Director was in office during the financial year and the number of meetings attended by each Director were:

DIRECTORS' MEETINGS

Director	Held	Attended
Rodney F. Cormie	5	5
John P. Kelly	5	5
Walter McCann	5	5
Timothy L. Largay	5	4
Norbury Rogers AO	5	5
Robert Mollah	5	5
Ronald P. Pettirossi	4	4

AUDIT COMMITTEE MEETINGS

Director	Held	Attended
Norbury Rogers AO	5	5
John P. Kelly	5	5
Ronald P. Pettirossi	4	4
Walter McCann	1	1
Rodney F. Cormie *	5	3
Robert Mollah *	5	5

** These directors are not members of the Audit Committee and attended by invitation only.*

NOMINATION AND REMUNERATION COMMITTEE MEETINGS

Director	Held	Attended
John P. Kelly	1	1
Norbury Rogers AO	1	1
Robert Mollah	1	1
Walter McCann	1	1

Environmental Regulation and Performance

The consolidated entity's Australian operations are subject to various environmental regulations under applicable Commonwealth, State and Territory legislation. To assist in meeting its obligations in this regard, the consolidated entity has adopted, and is committed to the implementation of, an environmental protection policy consistent with that of the Australian Petroleum Production and Exploration Association's Code of Environmental Practice.

In accordance with this policy, the consolidated entity plans and manages all onshore and offshore exploration and production activities in an environmentally responsible manner and in such a way as to minimize disturbance to the environments in which it operates. This policy also commits the consolidated entity to establish and maintain environmental standards consistent with developments in technology, industry codes of practice and all relevant statutory requirements.

Environmental Regulation and Performance (continued)

The consolidated entity maintains systems to monitor its environmental protection performance through environmental audits conducted by the consolidated entity, using appropriately qualified consultants, and by regulatory authorities. A measure of the success of these systems is that, at the date of this report, the consolidated entity had never received a notice of non-compliance from a regulatory body in respect of a breach of any environmental regulation.

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Magellan Petroleum Australia Limited support, and have adhered to, the principles of Corporate Governance as set out in the Statement on pages 23 to 28 of this report.

Remuneration Report

Impact of Company Performance on Shareholder Wealth

	2005 $000	2004 $000	2003 $000	2002 $000	2001 $000
Consolidated Earnings	1,534	3,182	3,319	1,780	7,938
Dividends Paid	2,335	2,335	2,335	2,335	2,335
Diluted earnings per share	3.3¢	6.8¢	7.1¢	3.8¢	17.0¢
Franked dividends per share	5.0¢	5.0¢	5.0¢	5.0¢	5.0¢
Change in price of shares traded between the beginning and end of the year	8.0¢	22.0¢	(57.0¢)	(39.0¢)	22.0¢
Return of capital	—	—	—	—	—

Remuneration Policy

The Nomination and Remuneration Committee, as established by the Board of Directors, is responsible for reviewing and making recommendations to the Board in relation to the remuneration of Directors.

Within the total annual fees approved by Shareholders, the Board is responsible for setting the fee level for non-executive Directors. In setting the fee, the Board takes into account: (a) the responsibilities and time commitments of Directors in the performance of their duties; and (b) the level of fees paid to non-executive Directors of similar companies in the industry.

The Committee is also responsible for reviewing and making recommendations to the Board on the remuneration packages for senior executives to achieve the objective of attracting, retaining and motivating a suitably qualified executive team. In carrying out this function, the Committee has due regard for the performance of the Company and, through access to an independent industry-based remuneration survey (the Minerals and Energy Human Resources Conference), ensures that remuneration levels are appropriate and competitive with those paid by peer companies in the industry.

Currently, the Company's remuneration policy does not link the nature and amount of executive officers remuneration to the Company's financial and operational performance. The Company is presently undergoing a HR review which, amongst other things, will address performance based remuneration.

Remuneration packages contain the following key elements:

(a) Primary benefits - salary/fees and non-monetary benefits including the provision of motor vehicles and health benefits;

(b) Post-employment benefits - including superannuation and prescribed retirement benefits.

Details of Remuneration

Details of the nature and amount of each element of the emolument of each non-executive Director and each of the five most highly paid executive officers of the Company and the consolidated entity for the financial year are:

Name	PRIMARY		POST-EMPLOYMENT		EQUITY	
	Cash Salary & Fees $	Non-monetary Benefits $	Super-annuation $	Retirement Benefits $	Options $	Total $
Directors						
Rodney F. Cormie	60,000	—	—	—	—	60,000
John P. Kelly	33,028	—	2,972	—	—	36,000
Walter McCann	36,000	—	—	—	—	36,000
Timothy L. Largay	34,000	—	—	—	—	34,000
Norbury Rogers AO	33,028	—	2,972	—	—	36,000
Robert Mollah	33,028	—	2,972	—	—	36,000
Ronald P. Pettirossi	31,500	—	—	—	—	31,500
Executive Officers						
Thomas G. Davies *-General Manager*	250,706	28,353	95,980	—	—	375,039
Larry N. Franks *-Operations Manager*	169,107	30,386	37,439	—	—	236,932
Bruce McInnes *-Manager - Risk and Business Support/ Company Secretary* *	144,926	26,682	32,038	—	—	203,646
Joseph P. Morfea *-Finance Manager*	139,281	41,638	31,534	—	—	212,453
Mervyn V. Cowie *-Joint Venture Coordinator*	158,318	35,786	14,087	—	—	208,191

Messrs Davies, Franks, McInnes, Morfea and Cowie are the five highest paid officers of the Company and the consolidated entity directly responsible for the management of the affairs of the Company and consolidated entity.

Note * - Mr McInnes had a change in title from Commercial Manager to Manager - Risk and Business Support/ Company Secretary effective 7 April 2005. There was no change in salary package as a consequence.

Service Agreements

All five officers are employed under employee service agreements that continue (despite their initial terms having expired) until terminated by 3 months' notice in writing given by either party to the other.

Each of the service agreements has the following common termination provisions:

(a) The Company can terminate the appointment of the employee by the giving of not less than one months notice in writing given at any time while the employee is incapacitated by reason of ill health or accident from performing his duties and shall have been so incapacitated for a total period of 180 days or more in the preceding 12 months.

(b) The Company may terminate the agreement forthwith without prior notice if the employee is guilty of dishonesty, gross misconduct or wilfully neglect; convicted of a criminal offence affecting the employee's position; or commits any repeated or continued material breach of the employee's obligations (after being warned in writing of such breach). Only statutory entitlements that have accrued up to the date of termination are payable in this case.

Remuneration Report (continued)

Service Agreements (continued)

(c) Should the Company terminate the appointment of the employee for any reason other than those addressed in a) and b) above (other than on account of the death of the employee) the Company shall pay to the employee a redundancy payment calculated at the rate of 3 weeks of the employees' salary package at the date of termination for each full year of service by such employee to the Company up to a maximum of 52 weeks of salary package.

(d) The employee may terminate the agreement immediately by giving written notice to the Company if without the employee's consent:

i) the Company increases or dimishes the responsibilities or powers assigned to the employee in an unreasonable way having regard to the specified occupations;

ii) the Company breaks any of the provisions of the agreement; or

(iii) the employee's place of employment is relocated outside Brisbane.

Should this occur a termination payment as detailed in c) above is payable.

Subsequent Events

Subsequent to year end, oil and gas has been discovered by the Kiana-1 well in the Cooper Basin of Australia. The potential impact of this discovery is being evaluated. Further details regarding the discovery are outlined in the review of operations. There has not been any other matter or circumstance other than that referred to in the financial statements or notes thereto that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in future financial years.

Impact of the Adoption of Australian Equivalents to International Financial Reporting Standards ('IFRS')

Magellan will be required to prepare financial statements using the Australian equivalents of IFRS and related pronouncements for the financial year ending 30 June 2006. As part of this process, management and the Directors are required to identify, assess and report on key impacts prior to the transition to IFRS. The process for identifying the key impacts of adopting Australian equivalents of IFRS is disclosed in Note 1V (page 37) to the financial statements.

Indemnification

Article 146 of the Constitution provides that every officer or auditor of the Company and every employee shall be indemnified out of the assets of the Company, to the maximum extent permitted by law, against any liability incurred by the officer, auditor or employee of the Company by reason of any act or thing done or omitted to be done by that person in that capacity or in any way in the discharge of that person's duty. The Company maintains insurance policies covering such indemnification, but excluding external auditors. Confidentiality provisions in such insurance policies prevent the Company from disclosing the premiums paid during the year.

Auditor's Independence Declaration

The auditor's independence declaration is included on page 21.

Rounding of Amounts to Nearest Thousand Dollars

The amounts contained in this Report and in the Financial Statements have been rounded off to the nearest $1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100 dated 10 July 1998. The Company is an entity to which the Class Order applies.

This Directors' Report is signed in accordance with a resolution of the Board of Directors of Magellan Petroleum Australia Limited dated 14 September 2005.



RODNEY F. CORMIE
Chairman



JOHN P. KELLY
Director

AUDITOR'S INDEPENDENCE DECLARATION

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

Riverside Centre
Level 26
123 Eagle Street
Brisbane QLD 4000
GPO Box 1463
Brisbane QLD 4001 Australia

DX 115
Tel: +61 (0) 7 3308 7000
Fax: +61 (0) 7 3308 7001
www.deloitte.com.au

The Board of Directors
Magellan Petroleum Australia Limited
10th Floor
145 Eagle Street
BRISBANE QLD 4000

14 September 2005

Dear Board Members

Magellan Petroleum Australia Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Magellan Petroleum Australia Limited.

As lead audit partner for the audit of the financial statements of Magellan Petroleum Australia Limited for the financial year ended 30 June 2005, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

M. Sheerin

M.G. Sheerin
Partner
Chartered Accountants

Liability limited by the Accountants Scheme, approved under the Professional Standards Act 1994 (NSW).

DIRECTORS' DECLARATION

In the opinion of the Directors of MAGELLAN PETROLEUM AUSTRALIA LIMITED:

(a) the financial statements and notes of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

  (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and

  (ii) complying with Accounting Standards and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations by the persons who perform the chief executive function and chief financial officer function required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors:



RODNEY F. CORMIE
Chairman



NORBURY ROGERS, AO
Director

Brisbane, 14 September 2005

The Board of Directors of Magellan Petroleum Australia Limited is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business and the affairs of Magellan on behalf of the shareholders by whom they are elected and to whom they are accountable.

Principles of Good Corporate Governance and Best Practice Recommendations

The format of the Corporate Governance Statement is in line with the requirements of the Australian Stock Exchange Corporate Governance Council's (the Council) "Principles of Good Corporate Governance and Best Practice Recommendations" (the Recommendations). In accordance with the Council's Recommendations, the Corporate Governance Statement contains certain specific information and discloses the extent to which the company has followed the recommendations during the year. Where a Recommendation has not been followed, that fact is to be disclosed, together with the reasons for the departure.

The Board supports the core principles developed by the Council as a basis for enhancing the credibility and transparency of capital markets.

Whilst the Board does not accept that prescriptive and detailed regulation is an appropriate means of achieving good corporate governance for all companies, it regards the Recommendations of the Council as appropriate guidelines in most cases. It must be realised, however, that best practice is very much dependent on the size and circumstances of the company due largely to constraints of time, personnel and cost.

Following the release of the Recommendations, Magellan rigorously and constructively reviewed its governance practices and has codified Magellan's existing and long-standing practices into formal charters, policies and procedures which are available under the "Corporate Governance" tag on our website: www.magpet.com.au. These policies, procedures and practices of Magellan in the main comply with the Recommendations published by the Council.

Magellan's Corporate Governance Statement is structured with reference to the Council's Recommendations, which are as follows:

Principle 1.	Lay solid foundations for management and oversight
Principle 2.	Structure the Board to add value
Principle 3.	Promote ethical and responsible decision making
Principle 4.	Safeguard integrity in financial reporting
Principle 5.	Make timely and balanced disclosure
Principle 6.	Respect the rights of shareholders
Principle 7.	Recognise and manage risks
Principle 8.	Encourage enhanced performance
Principle 9.	Remunerate fairly and responsibly
Principle 10.	Recognise the legitimate interests of stakeholders

Principle 1: Board and Management

The Board is responsible for setting the strategic direction, establishment of goals for management and monitoring the achievement of these goals. The role and responsibilities of the Board are defined in the Board of Directors charter which is available on the Company's website under "Corporate Governance", however, the key functions of the Board, as described in the charter, are summarised below:

- establish corporate governance standards
- contribute to, approve and monitor, strategy, financial and performance objectives developed by management
- ensure appropriate policies and procedures are in place to manage risks and internal control
- approve and monitor budgets, capital expenditure and projects
- ensure compliance with applicable laws and regulations

- establish ethical, environmental and health and safety standards for the company's operations and people
- appoint, monitor, manage the performance of, and, if necessary, terminate the employment of the General Manager
- manage succession planning for the position of General Manager, Finance Manager, Company Secretary and key executives

Principle 2: Board Structure

At the date of this statement the Board comprises seven non-executive Directors. The names of these Directors, including details of their qualifications and experience are set out in the Statutory Information section of the Annual Report.

The composition of the Board is subject to review in a number of ways, as detailed below.

The Company's Constitution provides that at every Annual General Meeting one third of the Directors shall retire from office but may stand for re-election.

The composition of the Board is also periodically reviewed by the Nomination and Remuneration Committee, either when a vacancy arises if it is considered that the Board would benefit from the services of a new Director, given the existing mix of skills and experience of the Board and the ongoing need to align those skills with the strategic demands of the Group. A Board review is conducted annually, which includes an assessment of the future size and competence necessary to understand properly, and deal with, the current and emerging issues of the business of Magellan.

When undertaking such a review, the following conditions arising from the constitution and the Board of Directors Charter are applied:

- The Board shall comprise not less than four (4) nor, until otherwise determined by general meeting, more than eight (8) Directors.
- The Board is to comprise a majority of non-executive Directors who are considered by the Board to be independent.
- The Directors shall appoint as Chairman of the Board one of the non-executive Directors who is considered by the Board to be independent.

Names of Independent Directors and Materiality Thresholds

The Board has adopted a policy in regard to Director independence which includes:

- criteria for determining the independence of Directors; and
- criteria for determining the materiality of a Director's association or business relationship with the company.

Based on these criteria, which are summarised below and which are based on the best practice guidelines, the Board considers all current Directors, other than the three Directors who are also Directors of the ultimate parent company, Magellan Petroleum Corporation, to be independent.

The names and terms of the Directors (including whether they are considered independent) at the date of this statement are:

Director	Term in Office (at the date of this statement)
Independent	
• Rodney F. Cormie	25 years 5 months
• John P. Kelly	7 years 0 months
• Norbury Rogers AO	2 years 1 month
• Robert Mollah	1 year 9 months
Other	
• Walter McCann	8 years 0 months
• Timothy L. Largay	4 years 1 month
• Ronald P. Pettirossi	1 year 1 month

The Board considers a Director to be independent if the Director is a non-executive Director and:

- is not a substantial shareholder of Magellan or of a company that has a substantial shareholding in Magellan and is not an officer of or otherwise associated with, either directly or indirectly, a shareholder holding more than 5% of the fully paid ordinary shares on issue in Magellan.
- within the last three years has not been employed in an executive capacity by Magellan or been a Director after ceasing to hold any such employment

- within the last three years has not been a principal or employee of a professional advisor or a consultant whose annual billings to the Magellan Group represent greater than 1% of the Company's sales revenue or greater than 5% of the professional advisor's or consultant's total annual billings
- is not a supplier or customer whose annual revenues from the Magellan Group represent greater than 1% of the Company's sales revenue or greater than 5% of the supplier's or customer's total annual revenue.
- has no material contractual relationship with the Magellan Group other than as a Director of the Company.
- has no other interest or relationship that could interfere with the Director's ability to act in the best interests of the Company and independently of management.

Director Associated with Professional Advisor

Using the abovementioned criteria the Board has considered the independence of Mr Kelly, a Director who in the last three years has held the position as partner with Corrs Chambers Westgarth, a firm which provided legal services to the Magellan Group throughout the year. The Board determined that Mr Kelly was an independent Director throughout the year as none of the relationships or the services provided were material as they were within the Board determined thresholds referred to above.

Director with Long Tenure in Office

Criteria 6 for assessing the independence of Directors, as listed in the best practice guidelines, suggests that a Director will be independent if the Director "*has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company*".

As already disclosed, Mr Cormie, the Chairman, has the longest tenure of a Director of 25 years 5 months.

The Board does not consider Mr Cormie's service period to have in any way interfered with his ability to act independently and in the best interest of the company.

The Board believes that as a relatively small company, Magellan derives huge benefits from having a long serving Director with a detailed knowledge of its history and experience of its operations both in and outside Australia.

Independent Professional Advice

In accordance with the terms of the Board of Directors' charter, the Board collectively, and each Director individually, may take, at the Company's expense, such independent professional advice as is considered necessary to fulfil their relevant duties and responsibilities. A Director seeking such advice must obtain the approval of the Chairman and such approval will not be unreasonably withheld.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee's duties and responsibilities as set out in the Committee's charter are as follows:

- Assess the necessary and desirable competencies of Board members and evaluate the Board's performance.
- Review and make recommendations to the Board on:
  - Appointment and removal of Directors
  - Remuneration of Directors
  - Remuneration, including short term and long term incentives and packages, for the General Manager.
- Review succession planning for the company in general but specifically in regard to the Board (ensuring that there is an appropriate mix of expertise and experience), the General Manager and senior executives reporting to the General Manager.
- Review and approve recommendations from the General Manager on the remuneration and packages of senior executives reporting to the General Manager.
- Review human resource and remuneration policies and practices for the Group as brought forward by the General Manager and, where appropriate, recommend adoption by the Board.

The number of meetings the Committee held during the year and attendance of members are set out in the Directors' Report.

The Company follows the Recommendations for the appointment of Directors, although Directors are not appointed for specific terms. Criterion for continued office is effective contribution which is regularly reviewed in the processes referred to above.

Principle 3: Ethical Standards

Code of Conduct

Through established practices and policies, the Board supports the need for Directors and employees to observe the highest standards of behaviour and business ethics. All Directors, managers and employees are expected to act with integrity, striving at all times to enhance the reputation and performance of the Magellan Group.

The various policies and procedures that are in place to support this philosophy are contained in Magellan's Code of Conduct which is available on the Company's website under "Corporate Governance".

Trading in Company Securities by Directors, Officers and Employees

The Board has approved and adopted a "Policy on share dealing by Directors, officers and employees". This policy which is available on the Company's website, under "Corporate Governance", provides a general summary of the law relating to insider trading and sets out Magellan's policy on Directors and its employees dealing in the securities of other companies in circumstances where insider trading laws may also apply.

Principle 4: Financial Reporting

Certification of Financial Reports

The General Manager, Finance Manager, Operations Manager and Manager - Risk and Business Support/ Company Secretary state in writing to the Board each reporting period that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with the relevant accounting standards.

Audit Committee

The Board has approved and adopted an Audit Committee Charter which can be viewed on the Company's website under "Corporate Governance".

The Committee comprises a majority of independent non-executive members with an independent Chairman who is not the Chairman of the Board. The names and qualifications of members of the Committee are set out in the Directors' Report. Meetings of the Committee are attended, by invitation, by the General Manager, the Finance Manager, the Company Secretary, representatives of the external auditors, and such other staff and professionals as may be appropriate from time to time. The number of meetings the Committee held during the year and attendance of members are set out in the Directors' Report.

The functions and responsibilities of the Committee under its Charter comply with the Recommendations.

Principle 5: Material Disclosure

The Company has in place policies and procedures to ensure all shareholders and investors have equal access to the Company's information and that all price sensitive information in relation to the Company's listed securities is disclosed to the ASX, in accordance with the continuous disclosure requirements of the Corporations Act and ASX Listing Rules.

The Company Secretary is responsible for ensuring the Company complies with its continuous disclosure requirements and overseeing and coordinating disclosure of information to the ASX. Company announcements are placed on the Company's website following release to the ASX. A copy of the Company's Disclosure Policy is available on the website under "Corporate Governance".

Principle 6: Shareholder Communication

Communication Strategy

Magellan is committed to encouraging and facilitating shareholders communications with the Company and the Board has approved and adopted a Shareholder Communication Guidelines and Policy which is available on the Company's website under "Corporate Governance".

The Company aims to keep shareholders informed of the Company's performance and all major developments in an ongoing manner. Information is communicated to shareholders principally through the distribution of the Annual and Half-Yearly ASX reports via Magellan's website and other releases made to the ASX by Magellan throughout the year with respect to changes in the business, future developments and other pertinent issues.

All documents that are released publicly are made available on the Company's website.

Shareholders are encouraged to participate in the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategies and goals.

Auditor Attends AGM

The senior engagement partner of the Company's external auditor, Deloitte Touche Tohmatsu, attends the Company's Annual General Meeting and is available to answer questions from shareholders about the audit. The Chairman advises the shareholders of this at the commencement of each Annual General Meeting.

Principle 7: Risk Management

Oversight of the Risk Management Function

The primary responsibility of the Audit Committee is to monitor and review the effectiveness of the Company's control environment in the areas of operational risk, legal and regulatory compliance and financial reporting. The Committee ensures that financial risks and other business risks are effectively managed in accordance with the Risk Management Policy which is available on the Company's website under "Corporate Governance".

Certification of Risk Management Controls

In conjunction with the certification of financial reports under Principle 4, the General Manager, Finance Manager, Operations Manager and Manager - Risk and Business Support/Company Secretary state in writing to the Board each reporting period that:

- their certification of the integrity of the financial statements, is founded on a sound system of risk management and internal compliance and control which in all material respects implements the policies adopted by the Board of Directors; and
- the risk management and internal compliance and control systems of the Company and consolidated entity are operating efficiently and effectively in all material respects based on the criteria for effective internal control established by the Audit Committee.

Principle 8: Board Performance

The Board undertakes an annual review of its performance together with an assessment of the Company's executive management in line with the Recommendations.

The Board provides induction programs for new Directors in accordance with the Recommendations and complies with all of the Recommendations in relation to independent professional advice, access to the Company Secretary, the appointment and removal of the Company Secretary, and the provision of information, including requests for additional information. The Company Secretary attends all Board meetings.

Principle 9: Remuneration

The Nomination and Remuneration Committee is responsible for recommending and reviewing remuneration arrangements for the Directors, the General Manager and the senior executive team. The Committee assesses the appropriateness of the nature and amount of remuneration of such officers on an annual basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. Officers, other than the non-executive Directors, are given the opportunity to receive their base remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and private health cover. It is intended that the manner of payment chosen will be optimal for the recipient without increasing the total cost to the Company.

Currently, the Company's remuneration policy does not link the nature and amount of executive officers remuneration to the Company's financial and operational performance. The Company is presently undergoing a HR review which, amongst other things, will address performance based remuneration.

The Company does not currently have any equity-based executive remuneration.

Structure of Remuneration

Details of the nature and amount of each element of the remuneration of each Director of the Company and each of the five executive officers of the Company and the consolidated entity receiving the highest remuneration for the financial year are disclosed in the relevant section of the Directors' Report.

Within the total annual fees approved by Shareholders, the Board of Directors is responsible for setting the level for non-executive Directors. In setting the fee, the Board takes into account (a) the responsibilities and time commitments of Directors in the performance of their duties; and (b) the level of fees paid to non-executive Directors of similar companies in the industry.

Directors' Retirement Benefits

Effective 22 May 2003, in line with the Recommendations, the retirement benefit of each non-executive Director was fixed at the amount, if any, which would be paid to that non-executive Director if he ceased to be a Director on 22 May 2003. Further, retirement benefits do not apply to Directors appointed post 22 May 2003.

Principle 10: Recognise the Legitimate Interests of Stakeholders

The Company has established policies, procedures and codes of conduct which seek to promote throughout the Company, and in the countries in which it operates its businesses, a culture of compliance with legal requirements and ethical standards.

The Board recognises that managing "natural, human, social and other forms of capital" may also assist in creating value for shareholders. To this end the Board seeks, by the individual contributions of Directors and by encouraging activities of executives, to uphold community standards and to maintain good relations with community and Government organisations. However, the Board seeks to balance these considerations in order to ensure that the claims of "legitimate stakeholders" do not prejudice or diminish the legitimate expectations of shareholders.

As discussed under Principle 3, Magellan's Code of Conduct is available on the Company's website under "Corporate Governance".

Additional information required by the Australian Stock Exchange Limited and not shown elsewhere in this report are as follows. The information current as at 31 August 2005:

(i) Substantial Shareholder

The names of the substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001:

Magellan Petroleum Corporation	25,683,164
Origin Energy Limited	5,091,721
452 Capital Pty Limited	4,300,000
Paradice Cooper Investors Pty Ltd	2,865,597

(ii) Voting Rights

46,691,941 fully paid issued ordinary shares were held by 1,790 holders. Each share entitles the holder to one vote.

(iii) Distribution of Equity Securities

The number of shareholders, by size of holding, in each class of share are:

			No. of Holders of Listed Ordinary Shares
1	–	1,000	1,202
1,001	–	5,000	379
5,001	–	10,000	82
10,001	–	100,000	101
100,001	–	and over	26
			1,790

A total of 816 shareholders held less than 350 shares which at the then current market price was deemed to be the minimum marketable parcel.

(iv) Twenty Largest Shareholders

The names of the twenty largest holders of ordinary shares are:

Shareholders	Listed Ordinary Shares	
	No. of Shares	% of Shares
Magellan Petroleum Corporation	25,739,028	55.13
Sagasco Amadeus Pty Ltd	4,395,182	9.41
National Nominees Limited	3,134,563	6.71
JP Morgan Nominees Australia Limited	1,753,436	3.76
ANZ Nominees Limited	1,296,701	2.78
Citicorp Nominees Pty Limited	1,083,959	2.32
Charmof Nominees Pty Ltd	690,000	1.48
Cogent Nominees Pty Ltd	636,995	1.36
Anthony Carl Eriksen	430,000	0.92
Geoffrey Desmond Hartnett	400,000	0.86
Whittingham Securities Pty Limited	400,000	0.86
Westpac Custodian Nominees Ltd	332,933	0.71
BTS Pty Ltd	292,339	0.63
Berne No 132 Nominees Pty Ltd	201,000	0.43
PSS Board	168,630	0.36
Di Iulio Homes Pty Limited	160,000	0.34
Gallery Gordon Pty Ltd	150,000	0.32
Medical Research Foundation for Women and Babies	140,000	0.30
Common Sense Investments Pty Ltd	131,064	0.28
CSS Board	130,391	0.28
	41,666,221	89.24

Magellan Petroleum Australia Limited and Controlled Entities

Statements of Financial Performance

Year Ended 30 June 2005

	NOTES	CONSOLIDATED		COMPANY	
		2005	2004	**2005**	2004
		$000	$000	**$000**	$000
Sales Revenue	2	**29,107**	25,001	**—**	—
Cost of Sales		**(20,546)**	(20,736)	**—**	—
GROSS PROFIT		**8,561**	4,265	**—**	—
Other Revenues from Ordinary Activities	2	**3,858**	3,667	**9,730**	9,575
Administration Expenses		**(3,370)**	(3,638)	**(1,493)**	(1,280)
Write Off of Investments in and Loans to Wholly-owned Controlled Entities		**—**	—	**(7,665)**	(3,706)
Other Expenses from Ordinary Activities		**(51)**	(65)	**(38)**	(67)
Profit before Write Off of Capitalised Expenditure and Income Tax Expense		**8,998**	4,229	**534**	4,522
Write Off of Capitalised Exploration Expenditure		**(7,581)**	(3,706)	**—**	—
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		**1,417**	523	**534**	4,522
INCOME TAX BENEFIT/(EXPENSE) ATTRIBUTABLE TO PROFIT FROM ORDINARY ACTIVITIES	4	**117**	2,659	**(310)**	—
PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX BENEFIT/(EXPENSE)		**1,534**	3,182	**224**	4,522
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS	13	**1,534**	3,182	**224**	4,522

Earnings Per Share

		CONSOLIDATED		COMPANY	
		2005	2004	**2005**	2004
Basic earnings per share (cents per share)	25	**3.3¢**	6.8¢	**0.5¢**	9.7¢
Diluted earnings per share (cents per share)	25	**3.3¢**	6.8¢	**0.5¢**	9.7¢
Franked dividends per share (cents per share)	5	**5.0¢**	5.0¢	**5.0¢**	5.0¢

The above Statements of Financial Performance should be read in conjunction with the accompanying notes.

Statements of Financial Position

30 June 2005

	NOTES	CONSOLIDATED		COMPANY	
		2005	2004	**2005**	2004
		$000	$000	**$000**	$000
CURRENT ASSETS					
Cash Assets	1K	**29,145**	29,486	**28,215**	28,491
Receivables	6	**5,561**	4,728	**297**	391
Inventories	1M	**777**	852	**—**	—
Current Tax Assets	4	**91**	—	**91**	—
TOTAL CURRENT ASSETS		**35,574**	35,066	**28,603**	28,882
NON-CURRENT ASSETS					
Receivables	6	**—**	—	**26,231**	23,544
Other Financial Assets	7	**—**	—	**7,516**	7,516
Petroleum Properties - Exploration Phase	8	**7,527**	9,975	**—**	—
- Production Phase	8	**13,749**	13,496	**—**	—
		21,276	23,471	**33,747**	31,060
Property, Plant and Equipment	9	**12,803**	15,436	**745**	692
Deferred Tax Assets	4	**474**	—	**474**	—
TOTAL NON-CURRENT ASSSETS		**34,553**	38,907	**34,966**	31,752
TOTAL ASSETS		**70,127**	73,973	**63,569**	60,634
CURRENT LIABILITIES					
Payables	10	**4,964**	6,973	**3,295**	3,964
Borrowings	11	**—**	—	**1,121**	—
Current Tax Liabilities	4	**—**	250	**—**	250
Provisions	12	**714**	1,102	**714**	1,102
TOTAL CURRENT LIABILITIES		**5,678**	8,325	**5,130**	5,316
NON-CURRENT LIABILITIES					
Borrowings	11	**—**	—	**6,572**	—
Deferred Tax Liabilities	4	**—**	1,354	**—**	1,354
Provisions	12	**5,334**	4,378	**659**	645
TOTAL NON-CURRENT LIABILITIES		**5,334**	5,732	**7,231**	1,999
TOTAL LIABILITIES		**11,012**	14,057	**12,361**	7,315
NET ASSETS		**59,115**	59,916	**51,208**	53,319
EQUITY					
Contributed Equity	17	**40,027**	40,027	**40,027**	40,027
Reserves	18	**476**	476	**—**	—
Retained Profits	13	**18,612**	19,413	**11,181**	13,292
TOTAL EQUITY		**59,115**	59,916	**51,208**	53,319

The above Statements of Financial Position should be read in conjunction with the accompanying notes.

Magellan Petroleum Australia Limited and Controlled Entities

Statements of Cash Flows

Year Ended 30 June 2005

	NOTES	CONSOLIDATED		COMPANY	
		2005	2004	**2005**	2004
		$000	$000	**$000**	$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers		**33,875**	31,093	**—**	—
Payments to Suppliers and Employees		**(14,740)**	(14,416)	**(1,817)**	(1,140)
Income Tax paid		**(2,052)**	—	**(383)**	—
Interest received		**1,407**	1,305	**1,335**	1,254
Royalties paid		**(2,621)**	(2,075)	**—**	—
Royalties received		**115**	140	**—**	—
Management Fees received		**—**	—	**1,553**	1,461
Dividends received		**—**	—	**6,802**	6,802
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	14	**15,984**	16,047	**7,490**	8,377
CASH FLOWS FROM INVESTING ACTIVITIES					
Expenditure on:					
Exploration Phase Properties		**(5,480)**	(5,211)	**—**	—
Production Phase Properties		**(8,486)**	(5,469)	**—**	—
Property, Plant and Equipment		**(1,970)**	(7,473)	**(300)**	(203)
Proceeds from the sale of:					
Property, Plant and Equipment		**62**	58	**40**	58
Payments made on behalf of Joint Venture Partners		**(6,682)**	(3,958)	**(6,649)**	(3,863)
Reimbursements from Joint Venture Partners		**5,177**	4,982	**5,178**	5,187
Reimbursements of Operating and Development Expenditure		**3,389**	2,376	**—**	—
Repayment of loans by Wholly-owned Controlled Entities		**—**	—	**41,254**	33,534
Loans to Wholly-owned Controlled Entities		**—**	—	**(44,954)**	(41,346)
NET CASH FLOWS USED IN INVESTING ACTIVITIES		**(13,990)**	(14,695)	**(5,431)**	(6,633)
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid	5	**(2,335)**	(2,335)	**(2,335)**	(2,335)
NET CASH FLOWS USED IN FINANCING ACTIVITIES		**(2,335)**	(2,335)	**(2,335)**	(2,335)
NET DECREASE IN CASH HELD		**(341)**	(983)	**(276)**	(591)
Cash at Beginning of the Financial Year		**29,486**	30,469	**28,491**	29,082
CASH AT THE END OF THE FINANCIAL YEAR	14	**29,145**	29,486	**28,215**	28,491

The above Statements of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

30 June 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Financial Statements

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 which includes applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views and other requirements of the law) have also been complied with.

The financial report has been prepared on the basis of historical cost, modified by certain revaluations of property and investments. Cost is based on the fair values of the consideration given in exchange for assets. The accounting policies adopted are consistent with those of the previous year except as indicated in Note 1B below.

B. Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous year.

C. Principles of Consolidation

The consolidated financial statements are those of the consolidated entity, comprising Magellan Petroleum Australia Limited (the Company) and all entities which Magellan Petroleum Australia Limited controlled from time to time during the year and at balance date.

The consolidated financial statements include the information contained in the financial statements of Magellan Petroleum Australia Limited and each of its controlled entities as from the date the parent entity obtained control until such time as control ceased. Where there is a loss of control of a controlled entity the consolidated financial statements include the results for the part of the reporting period during which the parent entity had control.

The financial statements of controlled entities are prepared for the same reporting period as the parent entity, using consistent accounting policies. All intercompany balances and transactions, and unrealised profits arising from intra consolidated entity transactions, have been eliminated in full. Details of the controlled entities are shown in Note 7.

D. Translation of Foreign Currencies

Foreign currency transactions are translated into Australian currency at the rate of exchange ruling at the date of the transaction. The overseas operations are treated as integrated foreign operations and are accounted for under the temporal method whereby monetary items are translated at the exchange rate current at balance date, and non-monetary items are translated at exchange rates current at the transaction dates. At balance date, amounts receivable and payable in foreign currencies are translated to Australian currency at the rates of exchange then ruling. Resulting exchange gains and losses are brought to account in determining the profit or loss for the period.

E. Acquisition of Assets

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

F. Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of Goods

Control of the goods has passed to the buyer.

Interest

Control of a right to receive consideration for the provision of, or investment in, assets has been attained.

Dividends

Control of a right to receive consideration for the investment in assets is attained, usually evidenced by approval of the dividend at a meeting of shareholders.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Taxes

Income Tax

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statements of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

H. Petroleum Properties — Capitalised Expenditure

All exploration and development expenditure incurred by the consolidated entity on the various petroleum property interests (as detailed in the Concession Ownership Chart on Page 15) is capitalised and carried in the Statements of Financial Position as Non-Current Assets. This capitalised expenditure by the controlled entities is reflected in the Statement of Financial Position of Magellan Petroleum Australia Limited as Non-Current Investments in, and Receivables due from, controlled entities. General and administrative expenditure on each of the properties, generally, is capitalised until the productive capacity of the property is adequately evaluated and, thereafter, is recognised in the Statement of Financial Performance in the year it is incurred.

The capitalised expenditure incurred on the various petroleum property interests is recorded separately in respect of each area of interest. If an area is abandoned, the applicable capitalised expenditure and, where appropriate, the Company's investment in, and/or loan to, the relevant controlled entity to finance such expenditure, is written down in the consolidated and the parent entity, Statement of Financial Performance, respectively, in the year the abandonment decision is taken. Furthermore, where the prospect of recouping the capitalised expenditure on an area has been downgraded, all, or an appropriate part of, such expenditure, investment and/or loan is recognised in the Profit and Loss.

The capitalised expenditure is classified into three distinct phases; the exploration, development and production phases. All costs incurred on properties in the exploration phase are capitalised until such time as evaluation activities have reached the stage which permits a reasonable assessment of the economically recoverable reserves or, such costs are expected to be recouped through successful development and exploitation of the area of interest. When an area of interest progresses from one phase to another the applicable capitalised expenditure is reclassified accordingly.

From time to time, the consolidated entity has entered into joint venture agreements with other parties whereby those parties have earned or may earn a portion of certain of the consolidated entity's petroleum property interests in return for conducting approved exploration programs on such properties at no cost to the consolidated entity. No adjustment is made to capitalised expenditure to reflect the change in the consolidated entity's percentage share in the relevant property interests as a result of such joint venture agreements.

It should be noted that the extent to which the capitalised expenditure shown in the Statements of Financial Position is recoverable is dependent on the controlled entities obtaining revenue, at some future date, from the sale of petroleum production or the sale of assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Amortisation of Capitalised Expenditure on Petroleum Properties

In calculating amortisation of capitalised expenditure in respect of petroleum properties in the production phase, an estimate is made of the future expenditures to be incurred in developing the properties to the extent necessary to produce the remaining economically recoverable reserves of oil and gas. Such estimated future expenditures are reviewed each period and are added to the unamortised balance of capitalised expenditure already incurred in respect of the production phase properties (net of estimated future salvage values at end of field life) and the aggregate amounts are amortised by apportionment in the ratio of the production for the period to the total remaining economically recoverable reserves of oil and gas (i.e. on a production output basis). In the case of gas, the economically recoverable reserves used for amortisation purposes are limited to the lesser of volumes committed to contracts and available reserves.

Amortisation is not charged on petroleum properties and projects in the exploration or development phases, pending the commencement of production.

J. Depreciation of Property, Plant and Equipment

Field production facilities are depreciated on a production output basis by apportioning their written down value in the ratio of the production for the period to the remaining economically recoverable reserves of petroleum. The methodology of depreciating the Mereenie oil pipeline and Brewer Estate oil handling facilities is on a production output basis over their expected useful life. This involves apportioning the remaining costs in the ratio of oil production for the period to the total estimated oil production for the remaining expected useful life. Depreciation of all other fixed assets is calculated on a straight line basis so as to write off the cost or revalued amount of each item of property, plant and equipment over its expected useful life to the consolidated entity.

The expected useful lives are:

• Field production facilities	7 years	(remaining life on a production output basis)
• Oil pipeline and handling facilities	4 years	(remaining life on a production output basis)
• Other plant and equipment	3 to 15 years	(from date of installation)
• Buildings	40 years	(from date of installation)

K. Cash and Cash Equivalents

Cash on hand and in banks and short term deposits are stated at nominal value.

For the purposes of the Statements of Cash Flows, cash includes cash on hand and in banks and money market investments readily convertible to cash, net of outstanding bank overdrafts.

L. Recoverable Amount

With the exception of exploration expenditure carried forward, which is covered in Note 1H, the carrying amounts of non-current assets are reviewed annually to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the recoverable amount. In assessing recoverable amounts the relevant net cash flows have not been discounted to their present value. The consolidated entity has no policy for revaluation of non-current assets.

M. Inventories

Inventories consist of crude oil in various stages of transit to the point of sale and are valued at cost (being lower than the net realisable value). Costs used are average costs of both fixed and variable direct expenses including amortisation and depreciation.

N. Investments

Investments in controlled entities are recorded at cost. Investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the company financial statements. Other investments are recorded at cost.

Dividend revenue is recognised on a receivable basis. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accrual basis.

Bills of exchange and promissory notes are measured at the lower of cost and net realisable value.

P. Provisions

General

Provisions are recognised when the consolidated entity has a present legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

Provision for Dividends

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

Provision for Future Restoration

A provision is being built up in the financial statements (on a production output basis) over the period required to produce economically recoverable reserves of petroleum in the various areas of interest for the estimated future restoration obligations in respect of such areas. During 2003, a change in the production output estimate was adopted in respect of gas volumes whereby the economically recoverable reserves used for restoration purposes are limited to the lesser of volumes committed to contracts and available reserves, previously done on available reserves. The estimated restoration obligations recognised include removal of facilities, abandoning of wells and restoring the disturbed areas and are based on current undiscounted costs, current legal requirements and current technology. Estimates of future restoration obligations are reviewed and reassessed regularly and, if revisions of estimates arise, they are made on a prospective basis.

Q. Employee Benefits

Provision is made for employee benefits accumulated as a result of services rendered by employees up to the reporting date. These benefits include wages and salaries, non-monetary benefits, annual leave and long service leave. Expenses which are consequential to the employment of the employees but which are not employee benefits, for example, payroll tax and other on-costs, have also been recognised as liabilities where the benefits to which they relate have been recognised as liabilities and expenses.

Liabilities arising in respect of employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. Employee benefits liabilities expected to be settled after twelve months are measured at the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the interest rates as at the reporting date attaching to government guaranteed securities which have terms to maturity approximating the terms of the related liability are used.

Contributions to the parent entity's defined benefits superannuation fund are recognised in the Statement of Financial Performance when due. This Fund was terminated effective 31 August 2004 as detailed in Note 28.

R. Accounts Payable

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line method.

T. Earnings Per Share (EPS)

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

U. Contributed Equity

Ordinary share capital is recognised at the fair value of the consideration received by the company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

V. Impact of Adopting Australian Equivalents to International Financial Reporting Standards

Magellan Petroleum Australia Limited ('Magellan') is in the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standards (AGAAP) to Australian equivalents of International Financial Reporting Standards (AIFRS) which will be applicable for the financial year ending 30 June 2006. In 2004, Magellan allocated internal resources and engaged expert consultants to conduct assessments to identify the key areas that would be impacted by the transition to AIFRS. Magellan has given priority to the preparation of an opening balance sheet as at 1 July 2004 in accordance with AIFRS. This will form the basis of accounting for AIFRS in the future, and is required when Magellan prepares its first AIFRS half year report for the six months ended 31 December 2005 and its fully AIFRS compliant financial report for the year ended 30 June 2006.

Set out below are the key areas where accounting policies are expected to change on the adoption of AIFRS and the best estimate of the quantitative impact of the changes on total equity as at the date of transition 1 July 2004 and 30 June 2005 and on net profit for the year ended 30 June 2005.

The figures disclosed are the best estimates of the quantitative impact of the changes as at the date of preparing the 30 June 2005 financial report. The actual effects of transition to AIFRS may differ from the estimates disclosed due to:

- Ongoing work being undertaken by the expert consultants;
- Potential amendments to AIFRSs and interpretations issued by the standard-setters and the International Financial Reporting Interpretations Committee;
- Emerging accepted practice in the interpretation and application of AIFRS and UIG Interpretations; and
- The directors may, at any time until completion of Magellan's first AIFRS compliant financial report, elect to revisit and where necessary change the accounting policies applied in preparing the reconciliation below.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

V. Impact of Adopting Australian Equivalents to International Financial Reporting Standards (continued)

(a) Reconciliation of equity as presented under AGAAP to that under AIFRS

	Notes	Consolidated		Company	
		30 June 2005** $000	1 July 2004* $000	30 June 2005** $000	1 July 2004* $000
Total Equity Under AGAAP		59,115	59,916	51,208	53,319
Adjustments to net assets					
Recognition of initial disturbance asset	(i)	1,506	1,398	-	-
Amortisation of initial disturbance asset	(i)	(218)	-	-	-
Recognition of net increase in the provision for restoration costs	(i)	(109)	(943)		
Net impairment of production properties and initial disturbance asset	(ii)	(206)	(513)	-	-
Net impairment of property, plant and equipment	(ii)	(252)	(240)	-	-
Net impact on adjustment of depreciation due to impairment in the prior year	(ii)	180	-	-	-
Net tax effect of the transactions on transition to AIFRS	(v)	(298)	350	-	-
Borrowing costs unwinding of the discount on the rehabilitation provision	(b)(i)	(621)	-	-	-
		(18)	52	-	-
Adjustments to other reserves (net of tax)					
Transfer of asset revaluation reserve to retained earnings		(476)	(476)	-	-
Increase in retained earnings due to transfer of asset revaluation reserve	(iv)	476	476	-	-
		-	-	-	-
Total Equity under AIFRS		**59,097**	**59,968**	**51,208**	**53,319**

* *This column represents the adjustments as at the date of transition to AIFRS.*
** *This column represents the cumulative adjustments as at the date of transition to AIFRS and those for the year ended 30 June 2005.*

(i) Under AASB 137 *Provision for Rehabilitation and Closure*, Magellan is required to assess the provision for restoration and closure of long lived assets based on the net present obligation arising from past disturbances. AASB 116 *Property, Plant and Equipment* allows for the capitalisation of the cost of rectifying the initial disturbance to the original asset. The asset arising from this capitalized cost is then amortized in accordance with Magellan's depreciation and amortization policy. In addition to the recognition of the asset, the corresponding liability for the restoration provision is adjusted for changes to the requirements for rehabilitation and the unwinding of the discount implicit in the initial determinate. The 2005 adjustments are disclosed net as the profit under AGAAP includes the increase in the provision under the units of production method. The net amount identified is the difference between the calculation of the provision under AIFRS based on the net present value of the current obligation compared with the increase recognised under the AGAAP units of production method.

Magellan has elected to apply the exemption in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* in respect of changes in existing restoration liabilities included in the cost of property, plant and equipment.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

V. Impact of Adopting Australian Equivalents to International Financial Reporting Standards (continued)

(a) Reconciliation of equity as presented under AGAAP to that under AIFRS (continued)

(ii) Under AASB 136 *Impairment of Assets*, the recoverable amount of an asset or cash generating unit is determined as the higher of fair value less costs to sell and value in use. The adoption of AIFRS resulted in the determination of cash generating units for production assets and areas of interest for exploration. The calculation of recoverable amount is then based on discounted cash flows for production assets. This differs from the current policy of determining the recoverable amount on a non-discounted cash flow basis.

Consistent with the new policy, Magellan reviews the recoverable amount of non-current assets on a yearly basis to determine whether the carrying amount is in excess of the recoverable amount. If the carrying amount exceeds the recoverable amount, the carrying amount is written down to the recoverable amount. The assets of Magellan were tested for impairment on transition and each subsequent reporting date as part of the cash generating unit to which they belong. In applying the impairment procedure on transition, it was identified that the written down value of capitalised expenditure and property, plant and equipment relating to production assets exceeded the recoverable amount. As a consequence, an impairment loss has been recognised in the retained earnings on transition to AIFRS. The recoverable amount used in calculating the impairment loss used oil price assumptions and a pre-tax discount rate of 14%.

Subsequent to the transition date, management has assessed the recoverable amount of its assets and has identified a reversal of a component of the impairment previously recognised on specific production assets. An adjustment has also been recognised to recognise the over provision of depreciation under AGAAP for assets impaired under AIFRS.

(iii) As at 31 August 2004 Magellan wound up a defined benefit superannuation fund with a deficit between benefits and fund assets. The deficit was previously recognised as a liability under AGAAP prior to transition when it was identified the fund would be wound up.

(iv) Magellan has decided to apply the exemption provided in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* relating to the carrying amounts of property, plant and equipment. Magellan has elected to use a previous revaluation recognised under AGAAP before the transition date for land and buildings as their deemed cost at the date of the revaluation. Accordingly the asset revaluation reserve of $476,000 relating to these assets has been transferred to retained earnings.

(v) Under AASB 112 *Income Taxes*, the consolidated entity will be required to use a balance sheet liability method which focuses on the tax effects of transactions and other events that affect amounts recognised in either the accounting balance sheet (Statement of Financial Position) or the tax-based balance sheet. Previously, the capital gains tax effects of revalued assets were not recognised. The recognition of tax losses will change from a virtual certainty criteria to a probability requirement. There are no significant impacts on adoption of this policy on transition other than those adjustments relating to accounting adjustments recognised under transition to AIFRS. Magellan has not yet considered the impact of UIG1052 *Tax Consolidation Accounting* on the income tax balances of Magellan.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

V. Impact of Adopting Australian Equivalents to International Financial Reporting Standards (continued)

(b) Reconciliation of net profit under AGAAP to that under AIFRS

	Notes	Consolidated 30 June 2005 $000	Company 30 June 2005 $000
Net profit after tax and before dividends as reported under AGAAP		1,534	224
Amortisation of initial disturbance asset	(a)(i)	(218)	-
Net write back of impairment of production properties, property plant and equipment and initial disturbance asset	(a)(ii)	295	-
Net adjustment to reverse the depreciation under AGAAP of assets written down as impaired under AIFRS	(a)(ii)	180	-
Adjustment to reverse the AGAAP rehabilitation expense	(i)	942	-
Borrowing costs unwinding of the discount on the rehabilitation provision	(i)	(621)	-
Tax effect on the recognition of the above transactions	(a)(v)	(648)	-
Net profit after tax under AIFRS		**1,464**	**224**

(i) Under AASB 137 *Provision for Rehabilitation and Closure*, Magellan is required to assess the provision for restoration and closure of long lived assets based on the net present obligation arising from past disturbances. The standard allows for the capitalisation of the cost of rectifying the initial disturbance to the original asset and subsequent amortization. The unwinding of the discount on the provision for rehabilitation is to be treated as a borrowing cost under AIFRS. The increase in the rehabilitation provision recognised under AGAAP is derecognized as the increases in the provision are recognised through the unwinding of the discounts and any net increase in the assumptions included in the net present value calculation.

(c) Restated AIFRS Statement of Cash Flows for the year ended 30 June 2005

No material impacts are expected to the cash flows presented under AGAAP on adoption of AIFRS.

(d) Other AIFRS Disclosures

(i) The directors have elected not to restate comparatives for AASB 132 *Financial Instruments: Presentation and Disclosure* and AASB 139 *Financial Instruments: Recognition and Measurement* as permissible under AASB 1. Accordingly the treatment of financial assets and liabilities, including embedded derivatives that may be identified, will be recognised in the financial reporting period beginning 1 July 2005. There is no financial impact on transition to AIFRS or for the year ended 30 June 2005. The financial impact on adoption of the standards on 1 July 2005 has not yet been assessed.

(ii) The directors have elected not to restate comparatives for AASB 6 *Exploration for and Evaluation of Mineral Resources*. There is no financial impact on transition to AIFRS or for the year ended 30 June 2005.

(iii) Magellan previously recognised the depreciation on production assets on a units of production basis based on an area of interest concept. Under AIFRS the depreciation of production assets is required to be recognised based on the anticipated life of each production asset which may result in a difference where separate production assets are located within the same area of interest. At the reporting date the directors have not yet assessed the impact of retrospectively applying the calculation of depreciation based on each production asset. It is anticipated this will be completed by the first AIFRS compliant financial statements to be prepared for the half year ended 31 December 2005.

W. Joint Venture Operations

Interests in joint venture operations are brought into account by including in the respective classification, the consolidated entity's share of individual assets employed, the liabilities and share of expenses incurred in relation to the joint ventures.

2. REVENUE FROM ORDINARY ACTIVITIES

	Notes	Consolidated		Company	
		2005	2004	**2005**	2004
		$000	$000	**$000**	$000
Revenue from Operating Activities					
Oil sales revenue		**11,022**	7,510	**—**	—
Gas sales revenue		**18,085**	17,491	**—**	—
Total Revenue from Operating Activities		**29,107**	25,001	**—**	—
Revenues From Non-operating Activities					
Interest from other persons/corporations		**1,407**	1,305	**1,335**	1,254
Proceeds from sale of non-current assets		**62**	58	**40**	58
Rent		**25**	46	**—**	—
Royalties		**115**	140	**—**	—
Other revenue		**2,249**	2,118	**—**	—
Dividends received from wholly-owned controlled entities		**—**	—	**6,802**	6,802
Management fees from wholly-owned controlled entities		**—**	—	**1,553**	1,461
Total Revenues from Non-Operating Activities		**3,858**	3,667	**9,730**	9,575
Total Revenue from Ordinary Activities	1F	**32,965**	28,668	**9,730**	9,575

3. EXPENSES AND LOSSES/(GAINS)

	Notes	Consolidated		Company	
		2005	2004	**2005**	2004
		$000	$000	**$000**	$000
(a) Expenses					
Cost of Goods sold		**20,546**	20,736	**—**	—
Amortisation of non-current assets:					
Amortisation of capitalised expenditure on production phase petroleum properties	1I	**3,966**	4,593	**—**	—
Depreciation of non-current assets:					
Depreciation of plant and equipment	1J	**4,957**	5,830	**199**	154
Depreciation of buildings	1J	**4**	4	**4**	4
Total Amortisation and Depreciation		**8,927**	10,427	**203**	158
Royalties paid to governments		**1,999**	1,496	**—**	—
Provision for employee entitlements	1Q	**68**	165	**33**	165
Provision for future restoration costs	1P	**942**	868	**—**	—
Operating lease rentals	1S	**237**	253	**237**	253
(b) (Gains)/Losses					
Net (gain)/loss on disposal of property, plant and equipment		**(11)**	10	**(2)**	10

4. INCOME TAX

	Notes	Consolidated		Company	
		2005	2004	**2005**	2004
		$000	$000	**$000**	$000
The amount provided for income tax differs from the amount of tax prima facie payable on the Profit from Ordinary Activities before Income Tax as follows:					
Profit (Loss) from Ordinary Activities		**1,417**	523	**534**	4,522
Prima facie income tax expense at 30% (2004: 30%)		**425**	157	**160**	1,357
Tax Permanent Differences:					
Non-assessable receipts net of non-deductible expenses		**(399)**	(345)	**1**	1
Non-assessable dividends		**—**	—	**(2,041)**	(2,041)
Write down value of investments in and loans to wholly-owned controlled entities		**—**	—	**2,300**	1,112
Transfer tax losses from wholly-owned controlled entities		**—**	—	**—**	(429)
		26	(188)	**420**	—
Prior period income tax benefits previously not brought to account		**(79)**	(2,471)	**—**	—
(Over) provision for income tax in previous year		**(64)**	—	**—**	—
Impact of the Tax Consolidation System:					
Initial recognition of deferred tax balances of subsidiaries on implementation of the tax consolidation system		**—**	—	**—**	4,647
Consideration paid or payable to/from subsidiaries in respect of transferred deferred tax balances		**—**	—	**—**	(4,647)
Net income tax expense arising under tax funding agreements with subsidiaries in the tax consolidation group		**—**	—	**1,675**	2,770
Current and deferred taxes relating to transactions, events and balances of wholly-owned subsidiaries in the tax consolidated group		**—**	—	**(1,785)**	(2,770)
Income tax (benefit)/expense attributable to Profit from Ordinary Activities	1G	**(117)**	(2,659)	**310**	—
Tax Assets and Liabilities					
Current tax asset/(liability)		**91**	(250)	**91**	(250)
Provision for deferred income tax - non-current		**(1,327)**	(3,011)	**(1,327)**	(3,011)
Future income tax benefit - non-current					
Timing differences attributable to:					
Parent Entity		**416**	524	**416**	524
Entities in the tax-consolidated group		**1,385**	1,133	**1,385**	1,133
		474	(1,354)	**474**	(1,354)
Future Income Tax Benefits					
The estimated allowable deductions (not brought to account because recovery is not virtually certain) arising from:					
Tax losses - capital		**14,408**	14,408	**14,408**	14,408
Possible future income tax benefit of the above deductions at 30% (2004: 30%)		**4,322**	4,322	**4,322**	4,322

4. INCOME TAX (CONTINUED)

These future income tax benefits will only be realised if: (i) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised; (ii) the conditions for deductibility imposed by tax legislation in the relevant jurisdictions continue to be complied with; and (iii) no changes in tax legislation adversely affect the consolidated entity in realising the benefit.

Tax Consolidation

Legislation to allow groups, comprising a parent entity and its Australian resident wholly-owned entities, to elect to consolidate and be treated as a single entity for income tax purposes was substantially enacted on 21 October 2002.

Effective 1 July 2003, for the purposes of income taxation, Magellan Petroleum Australia Limited (the head entity) and its 100% owned Australian subsidiaries formed a tax consolidated group, to be taxed as a single entity. Members of the group have entered into tax sharing and tax funding arrangements with the head entity in order to allocate income tax expense to the wholly-owned subsidiaries based on each member's contribution to the current and deferred tax asset/liability position of the group. In addition, the agreements provide for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date, the possibility of default is remote.

5. DIVIDENDS PROVIDED FOR OR PAID

	Consolidated		Company	
	2005	2004	**2005**	2004
Dividends Paid During the Year:	**$000**	$000	**$000**	$000
Final Dividend of 5 cents per share				
Fully franked based on tax paid at 30%	**2,335**	2,335	**2,335**	2,335
Dividends Proposed and not recognised as a liability:				
Final Dividend of 5 cents per share				
Fully franked based on tax paid at 30%.	**2,335**	2,335	**2,335**	2,335
Franking credits available for the subsequent financial year			**4,543**	2,783
These franking credits have been calculated as follows:				
Franking account balance as at beginning of financial year at 30%			**2,783**	1,728
Franking credits that will arise from the payment of PAYG instalments			**2,761**	2,056
Franking debits that will arise from the payment of the dividend that was declared after balance date and not recognised as a provision in the accounts, at 30%			**(1,001)**	(1,001)
			4,543	2,783

Franking account disclosures (in accordance with legislation that took effect on 1 July 2002) have been recorded on the tax paid method.

6. RECEIVABLES

	Notes	Consolidated		Company	
		2005	2004	**2005**	2004
		$000	$000	**$000**	$000
Current					
Trade debtors	24	**3,968**	3,192	**—**	—
Other debtors	24	**1,593**	1,536	**67**	334
Advances to wholly-owned controlled entities (non-interest bearing)		**—**	—	**230**	57
		5,561	4,728	**297**	391
Non-Current					
Advances to wholly-owned controlled entities (non-interest bearing)		**—**	—	**23,133**	23,544
Advances to wholly-owned controlled entities - tax funding arrangements (non-interest bearing)		**—**	—	**3,098**	—
		—	—	**26,231**	23,544

7. OTHER FINANCIAL ASSETS

INVESTMENTS IN CONTROLLED ENTITIES

Name	Notes	Company's Investment in Controlled Entities		Percentage Interest in Issued Ordinary Capital		Country of Incorporation
		2005	2004	**2005**	2004	
		$000	$000	**%**	%	
Magellan Petroleum (N.T.) Pty. Ltd. *		**4,553**	4,553	**100**	100	Australia
Magellan Petroleum (Ventures) Pty. Ltd.		**—**	—	**100**	100	Australia
United Oil & Gas Co. (N.T.) Pty. Ltd.		**2,963**	2,963	**100**	100	Australia
Magellan Petroleum (Qld.) Pty. Ltd.		**—**	—	**80**	80	Australia
Magellan Petroleum (Southern) Pty. Ltd. *		**—**	—	**100**	100	Australia
Magellan Petroleum (Eastern) Pty. Ltd. *		**—**	—	**100**	100	Australia
Magellan Petroleum (W.A.) Pty. Ltd. *		**—**	—	**100**	100	Australia
Jarl Pty. Ltd.		**—**	—	**100**	100	Australia
Paroo Petroleum Pty. Ltd. *		**—**	—	**100**	100	Australia
Paroo Petroleum (Holdings), Inc.		**—**	—	**100**	100	USA
Paroo Petroleum (USA), Inc.		**—**	—	**100**	100	USA
Magellan Petroleum (NZ) Limited		**—**	—	**100**	100	New Zealand
Magellan Petroleum (Belize) Limited		**—**	—	**100**	100	Belize
	1N	**7,516**	7,516			

With the exception of Magellan Petroleum (N.T.) Pty. Ltd. and Magellan Petroleum (NZ) Limited, no statutory accounts have been prepared or audited for the above controlled entities, either because, in the case of the entities incorporated in Australia, they meet the definition of small proprietary companies under the Corporations Act 2001, or because they are overseas companies and there is no requirement in the country of incorporation to prepare statutory accounts.

* *These entities are members of the Magellan tax consolidated group.*

8. PETROLEUM PROPERTIES (CAPITALISED EXPENDITURE)

	Notes	Consolidated		Company	
		2005	2004	**2005**	2004
		$000	$000	**$000**	$000
Production phase properties at Directors' valuation 1964		**5,083**	5,083	**—**	—
Less: Accumulated amortisation	1I	**4,199**	4,026	**—**	—
		884	1,057	**—**	—
At cost (net of recoverable development expenditure)		**60,090**	55,910	**—**	—
Less: Accumulated amortisation	1I	**47,225**	43,471	**—**	—
		12,865	12,439	**—**	—
Production phase properties at written down value		**13,749**	13,496	**—**	—
Exploration phase properties at cost		**15,108**	13,681	**—**	—
Less: Written off during the year		**7,581**	3,706	**—**	—
Exploration phase properties at written down value		**7,527**	9,975	**—**	—
Total Petroleum Properties at written down value		**21,276**	23,471	**—**	—

9. PROPERTY, PLANT AND EQUIPMENT

	Notes	Consolidated		Company	
		2005	2004	**2005**	2004
		$000	$000	**$000**	$000
Freehold Land at cost		**132**	132	**70**	70
Buildings at cost		**174**	174	**174**	174
Less: Accumulated depreciation	1J	**44**	40	**44**	40
		130	134	**130**	134
Other Plant and Equipment at cost		**1,766**	1,697	**1,766**	1,697
Less: Accumulated depreciation	1J	**1,221**	1,209	**1,221**	1,209
		545	488	**545**	488
Interests in Joint Venture Plant and Equipment at cost					
Mereenie Field, Pipeline and Brewer Estate		**49,520**	47,551	**—**	—
Palm Valley Field (net of recoverable development expenditure)		**2,160**	2,132	**—**	—
Nockatunga Fields		**381**	374	**—**	—
Aldinga Field		**158**	183	**—**	—
		52,219	50,240	**—**	—
Less: Accumulated depreciation	1J	**40,223**	35,558	**—**	—
		11,996	14,682	**—**	—
Total Property, Plant and Equipment at written down value		**12,803**	15,436	**745**	692
Recent Valuations — As at 30 June 2005 (2004: 30 June 2002) the Directors valued interests in the Freehold Land and Buildings included above at other than current value, as follows:					
Freehold Land		**416**	340	**354**	278
Buildings		**146**	132	**146**	132
Total Freehold Land and Buildings		**562**	472	**500**	410

The Director's valuation of freehold land and buildings takes account of an independent valuation, carried out by Northern Australia Property Consultants, the basis of which is market value.

These interests are recorded in the financial statements at cost. If these assets were sold at balance date at the valuation amounts, the capital gains tax payable would be $49,000 for the consolidated entity and the parent entity.

9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

RECONCILIATIONS

	Notes	Consolidated		Company	
		2005	2004	**2005**	2004
		$000	$000	**$000**	$000
Freehold Land					
Carrying amount at beginning		**132**	132	**70**	70
Disposals		**—**	—	**—**	—
Carrying amount at balance date		**132**	132	**70**	70
Buildings					
Carrying amount at beginning		**134**	138	**134**	138
Additions		**—**	—	**—**	—
Disposals		**—**	—	**—**	—
Depreciation Expense *	3	**(4)**	(4)	**(4)**	(4)
Carrying amount at balance date		**130**	134	**130**	134
Plant and Equipment					
Carrying amount at beginning		**488**	514	**488**	514
Additions		**300**	203	**300**	203
Disposals		**(38)**	(67)	**(38)**	(67)
Depreciation Expense *	3	**(205)**	(162)	**(205)**	(162)
Carrying amount at balance date		**545**	488	**545**	488
Interest in Joint Venture Plant and Equipment					
Carrying amount at beginning		**14,682**	13,075	**—**	—
Additions		**2,035**	7,270	**—**	—
Disposals		**(13)**	—	**—**	—
Depreciation Expense *	3	**(4,708)**	(5,663)	**—**	—
Carrying amount at balance date		**11,996**	14,682	**—**	—

* *The aggregate of depreciation of $4,917,000 differs from depreciation expense of $4,961,000 as per Note 3 due to the net movement between the current and prior year's component of depreciation attributable to production facilities and recognised as part of the inventory valuation.*

10. PAYABLES

	Notes	Consolidated		Company	
		2005	2004	**2005**	2004
		$000	$000	**$000**	$000
Current					
Trade payables	24	**4,637**	6,511	**2,968**	3,664
Other payables	24	**297**	452	**297**	290
Amounts owing to the ultimate parent entity		**30**	10	**30**	10
		4,964	6,973	**3,295**	3,964

11. BORROWINGS

	Notes	Consolidated		Company	
		2005	2004	**2005**	2004
		$000	$000	**$000**	$000
Current					
Unsecured (non-interest bearing)					
Loans from Subsidiaries		**—**	—	**1,121**	—
Non-Current					
Unsecured (non-interest bearing)					
Loans from Subsidiaries		**—**	—	**2,981**	—
Loans from Subsidiaries - tax funding arrangements		**—**	—	**3,591**	—
		—	—	**6,572**	—

12. PROVISIONS

	Notes	Consolidated		Company	
		2005	2004	**2005**	2004
		$000	$000	**$000**	$000
Current					
Employee benefits	1Q	**714**	1,102	**714**	1,102
Non-Current					
Employee benefits	1Q	**541**	527	**541**	527
Directors' retirement allowance		**118**	118	**118**	118
Future restoration costs	1P	**4,675**	3,733	**—**	—
		5,334	4,378	**659**	645

(a) Employee Benefits

The aggregate employee benefits liability amounts to $1,255,000 (2004: $1,629,000). The total number of employees for the consolidated entity and the company as at 30 June 2005 were 26 (2004: 30).

(b) Provision for Restoration

As discussed in Note 1P, the provision for future restoration costs is being built up on a production output basis. It is estimated that the consolidated entity's share of the total cost (undiscounted and based upon current costs) of such future restoration after petroleum production operations cease is $8,900,000 (2004: $8,518,000).

(c) Movements in Provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

	Future Restoration Costs $000
Carrying amount at start of financial year	3,733
Additional provisions recognised	942
Amounts utilised during the year	—
Carrying amount at end of financial year	4,675

13. RETAINED PROFITS

	Notes	Consolidated		Company	
		2005	2004	**2005**	2004
		$000	$000	**$000**	$000
Balance at the beginning of the financial year		**19,413**	18,566	**13,292**	11,105
Net Profit attributable to Members of Magellan Petroleum Australia Limited		**1,534**	3,182	**224**	4,522
Total available for appropriation		**20,947**	21,748	**13,516**	15,627
Dividend provided for or paid	5	**(2,335)**	(2,335)	**(2,335)**	(2,335)
Balance at the end of the financial year		**18,612**	19,413	**11,181**	13,292

14. STATEMENTS OF CASH FLOWS

	Consolidated		Company	
	2005	2004	**2005**	2004
	$000	$000	**$000**	$000
(a) Reconciliation of Cash				
Cash balances are comprised entirely of cash on hand, at bank and on deposit at call	**29,145**	29,486	**28,215**	28,491
(b) Reconciliation of the Net Profit (Loss) after Income Tax to the Net Cash Flows from Operations:				
Profit (Loss) from Ordinary Activities after Income Tax	**1,534**	3,182	**224**	4,522
Non-cash items				
Net loss (gain) on disposal of property, plant and equipment	**(11)**	10	**(2)**	10
Amortisation of petroleum properties	**3,966**	4,593	**—**	—
Depreciation of plant and equipment	**4,957**	5,830	**199**	154
Depreciation of buildings	**4**	4	**4**	4
Provision for employee benefits	**(374)**	543	**(446)**	327
Provision for future restoration costs	**942**	869	**—**	—
Provision for Directors' retirement allowance	**—**	(103)	**—**	(103)
Write off of capitalised exploration expenditure	**7,581**	3,706	**—**	—
Write off of investments in and loans to wholly-owned controlled entities	**—**	—	**7,665**	3,706
Changes in assets and liabilities				
Trade debtors and other receivables	**(124)**	1,242	**18**	(14)
Inventories	**(14)**	(220)	**—**	—
Trade creditors and other payables	**(328)**	(865)	**(192)**	(143)
Amounts payable to ultimate parent entity	**20**	(86)	**20**	(86)
Current income tax liability	**(341)**	250	**—**	—
Deferred income tax liability	**(1,828)**	(2,908)	**—**	—
Net Cash Flows from Operating Activities	**15,984**	16,047	**7,490**	8,377

15. CONTINGENT LIABILITIES

	Consolidated		Company	
	2005	2004	**2005**	2004
	$000	$000	**$000**	$000
Bank guarantees and bonds on leases and permits	**256**	256	**—**	—

16. DETAILS OF INTERESTS IN JOINT VENTURES

(a) The consolidated entity has the following material interests in unincorporated joint ventures at 30 June 2005:

Joint Venture	Output Interest Percent (Before Royalty)		Title No.	Principal Activity
	2005	2004		
Palm Valley Field	**52.0230**	52.0230	OL 3	Gas Production
Mereenie Field	**35.0000**	35.0000	OL 4/5	Oil & Gas Production
Mereenie Pipeline	**35.0000**	35.0000	—	Oil Transportation
Dingo Field	**34.3365**	34.3365	RL 2	Retention
Eastern Browse Basin	**—**	35.0000	WA-288-P	Exploration
Carnarvon Basin	**—**	50.0000	WA-291-P	Exploration
Southern Browse Basin	**12.5000**	12.5000	WA-306-P	Exploration
Southern Browse Basin	**—**	50.0000	WA-307-P	Exploration
Eastern Browse Basin	**—**	35.0000	WA-311-P	Exploration
Cooper Basin	**35.0000**	35.0000	PEL 94	Exploration
Cooper Basin	**50.0000**	50.0000	PEL 95/PPL 210	Exploration
Cooper Basin	**37.5000**	37.5000	PEL 110	Exploration
Cooper Basin	**—**	50.0000	PELA 116	Exploration
Cooper Basin	**40.9360**	40.9360	PL33	Oil Production
Cooper Basin	**40.9360**	40.9360	PL50	Oil Production
Cooper Basin	**40.9360**	40.9360	PL51	Oil Production
Cooper Basin	**40.9360**	40.9360	ATP 267P	Exploration
Canterbury Basin (NZ)	**—**	25.0000	PEP 38256	Exploration
Taranaki Basin (NZ)	**25.0000**	25.0000	PEP 38746	Exploration
Taranaki Basin (NZ)	**25.0000**	25.0000	PEP 38748	Exploration
Taranaki Basin (NZ)	**—**	25.0000	PEP 38753	Exploration
Taranaki Basin (NZ)	**12.5000**	12.5000	PEP 38765	Exploration
Taranaki Basin (NZ)	**25.0000**	25.0000	PEP 38766	Exploration
Weald/Wessex Basin (UK)	**22.5000**	22.5000	PEDL 098	Exploration
Weald/Wessex Basin (UK)	**40.0000**	40.0000	PEDL 099	Exploration
Weald/Wessex Basin (UK)	**33.3000**	33.3000	PEDL 112	Exploration
Weald/Wessex Basin (UK)	**22.5000**	22.5000	PEDL 113	Exploration
Weald/Wessex Basin (UK)	**40.0000**	50.0000	PEDL 125	Exploration
Weald/Wessex Basin (UK)	**40.0000**	50.0000	PEDL 126	Exploration
Weald/Wessex Basin (UK)	**11.2500**	—	PEDL 151	Exploration
Weald/Wessex Basin (UK)	**22.5000**	—	PEDL 152	Exploration
Weald/Wessex Basin (UK)	**33.3000**	—	PEDL 153	Exploration
Weald/Wessex Basin (UK)	**50.0000**	—	PEDL 154	Exploration
Weald/Wessex Basin (UK)	**40.0000**	—	PEDL 155	Exploration

The participating interests in the abovementioned joint ventures are the same as the output interests.

16. DETAILS OF INTERESTS IN JOINT VENTURES (CONTINUED)

(b) The consolidated entity's share of assets (net of accumulated amortisation and depreciation) employed in the above mentioned joint ventures is included in the Statements of Financial Position, under the following classifications:

	Consolidated	
	2005	2004
	$000	$000
Current Assets		
Cash assets	**906**	994
Receivables	**46**	46
	952	1,040
Non-Current Assets		
Petroleum Properties		
Production phase properties	**13,749**	13,496
Exploration phase properties	**6,803**	9,064
	20,552	22,560
Land and buildings	**62**	62
Property, plant and equipment	**11,996**	14,682
	32,610	37,304
Share of assets employed in joint ventures	**33,562**	38,344

(c) Capital and exploration expenditure commitments in respect of joint ventures are disclosed in Note 19.

17. CONTRIBUTED EQUITY

	Consolidated		Company	
	2005	2004	**2005**	2004
	$000	$000	**$000**	$000
Issued and paid up capital:				
Ordinary shares fully paid — 46,691,944 (2004: 46,691,944)	**40,027**	40,027	**40,027**	40,027

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

18. RESERVES

	Consolidated		Company	
	2005	2004	**2005**	2004
	$000	$000	**$000**	$000
Asset revaluation	**476**	476	**—**	—

The asset revaluation reserve is used to record increments and decrements in the value of non-current assets. The increments recorded in the reserve are now quarantined, due to the decision to value petroleum properties at their previous revalued amounts under the transitional arrangments under AASB 1041. The reserve cannot be used for future decrements in the valuation of non-current assets.

19. EXPENDITURE AND OTHER COMMITMENTS

	Consolidated		Company	
	2005	2004	**2005**	2004
	$000	$000	**$000**	$000
Capital Expenditure Commitments				
Total capital expenditure contracted for at balance date but not provided for in the accounts, payable not later than one year	**1,279**	5,095	**—**	—
Exploration Expenditure Commitments				
The consolidated entity holds interests in various petroleum concessions and application areas (as shown in the chart on page 15). To maintain these interests, the consolidated entity is required to meet its share of minimum work and expenditure obligations set by the relevant governmental authorities. The estimated cost of such obligations not provided for in the accounts, payable:				
not later than one year				
- firm	**3,157**	782	**—**	—
- contingent	**19,271**	24,589	**—**	—
later than one year and not later than five years				
- firm	**—**	563	**—**	—
- contingent	**20,208**	27,489	**—**	—
later than five years				
- contingent	**—**	**—**	**—**	—
	42,636	53,423	**—**	—
These obligations may be farmed out, and in certain circumstances, the contingent obligations may be renegotiated or the area relinquished.				
Joint Venture Expenditure Commitments				
The above Exploration Expenditure Commitments include the consolidated entity's share of capital and exploration expenditure commitments in respect of joint ventures				
- firm	**4,286**	6,440	**—**	—
- contingent	**10,279**	18,578	**—**	—
	14,565	25,018	**—**	—
Lease Expenditure Commitments				
Operating Leases (Non-Cancellable) — Rental Payable				
Minimum lease payments:				
not later than one year	**209**	201	**209**	201
later than one year and not later than five years	**679**	887	**679**	887
	888	1,088	**888**	1,088

Operating leases have an average lease term of 5 years. The only operating lease in place is in respect of head office premises which is for a term of 5 years expiring on 30 June 2009.

19. EXPENDITURE AND OTHER COMMITMENTS (CONTINUED)

	Consolidated		Company	
	2005	2004	**2005**	2004
	PJ	PJ	**PJ**	PJ
Gas Sales Commitments				
The consolidated entity as a Palm Valley and Mereenie producer has entered into long term gas sales agreements to supply gas to instrumentalities of the Northern Territory Government. Via these gas sale agreements, the consolidated entity has agreed to sell and deliver to the purchaser in each contract year, its ownership percentage of the annual contract quantity. The consolidated entity's commitment to supply sales gas expressed in petajoules (PJ):				
not later than one year	**7.16**	8.26	**—**	—
later than one year and not later than five years	**24.70**	30.58	**—**	—
later than five years	**2.79**	5.20	**—**	—
	34.65	44.04	**—**	—

20. REMUNERATION OF AUDITORS

	Consolidated		Company	
	2005	2004	**2005**	2004
	$	$	**$**	$
Amounts received or due and receivable for:				
An audit and review of the financial report of the parent entity and the consolidated entity:				
Deloitte Touche Tohmatsu (appointed 30 October 2003)	**97,839**	76,196	**37,905**	33,604
Ernst & Young (previous auditor)	**—**	7,500	**—**	—
Other non-audit services in relation to the parent entity and the consolidated entity:				
Deloitte Touche Tohmatsu	**—**	—	**—**	—
Ernst & Young (previous auditor)	—	108,939	**—**	99,673
	97,839	192,635	**37,905**	133,277

21. ECONOMIC DEPENDENCY

Long term contracts have been entered into for the sale of natural gas to instrumentalities of the Northern Territory Government, primarily for power generation purposes. With the exception of the foregoing, the Directors believe there is no economic dependency.

22. SUBSEQUENT EVENTS

On 25 August 2005, the Directors of Magellan Petroleum Australia Limited recommended, for approval by shareholders at this years Annual General Meeting, the payment of a fully franked dividend of 5 cents per share.

Subsequent to year end, oil and gas has been discovered by the Kiana-1 well in the Cooper Basin of Australia. The potential impact of this discovery is being evaluated.

23. SEGMENT INFORMATION

The consolidated entity operates predominantly in one industry; petroleum exploration, development, production, processing and marketing, and in two geographical areas; Australia and Overseas. There were no inter-segment sales.

Segment Accounting Policy

Segment accounting policies are the same as the consolidated entity's policies described in Note 1. During the financial year, there were no changes in segment accounting policies that had a material effect on the segment information.

Geographical Segments	Australia	Overseas	Consolidated
	2005	**2005**	**2005**
	$000	**$000**	**$000**
Revenue:			
Oil and gas sales	**29,107**	**—**	**29,107**
Other	**3,858**	**—**	**3,858**
Total Segment Revenue	**32,965**	**—**	**32,965**
Results:			
Segment result	**4,390**	**(2,973)**	**1,417**
Income Tax Benefit	**117**	**—**	**117**
Net Profit	**4,507**	**(2,973)**	**1,534**
Total Assets	**69,516**	**611**	**70,127**
Total Liabilities	**11,007**	**5**	**11,012**
Other segment information:			
Acquisition of non-current assets	**13,202**	**2,734**	**15,936**
Depreciation	**4,961**	**—**	**4,961**
Amortisation	**3,966**	**—**	**3,966**
Non-cash expenses other than depreciation and amortisation	**5,176**	**2,973**	**8,149**

Geographical Segments	2004	2004	2004
	$000	$000	$000
Revenue:			
Oil and gas sales	25,001	—	25,001
Other	3,667	—	3,667
Total Segment Revenue	28,668	—	28,668
Results:			
Segment result	1,353	(830)	523
Income Tax Benefit	2,659	—	2,659
Net Profit	4,012	(830)	3,182
Total Assets	72,231	1,742	73,973
Total Liabilities	14,039	18	14,057
Other segment information:			
Acquisition of non-current assets	16,002	2,151	18,153
Depreciation	5,834	—	5,834
Amortisation	4,593	—	4,593
Non-cash expenses other than depreciation and amortisation	4,186	829	5,015

24. FINANCIAL INSTRUMENTS

The consolidated entity has only simple financial instruments common to most businesses (as detailed in the schedules below) all of which are recognised in the Statement of Financial Position. The consolidated entity does not have any interest rate risk and has a maximum exposure to credit risk at balance date in relation to each class of recognised financial assets, equal to the carrying amount of those assets as indicated in the Statement of Financial Position. Credit risk is minimised due to the fact that 52 percent of the total debtors amount at balance date was owed, directly or indirectly, by Government instrumentalities. The remaining 48 percent was largely attributable to major Australian companies in the petroleum exploration, production and refining industry.

Accounting Policies, Terms and Conditions
The consolidated entity's accounting policies and the terms and conditions applying to each class of financial asset and financial liability recognised at balance date, are as follows:

Financial Instruments	Notes	Accounting Policies	Terms and Conditions
Financial Assets:			
Cash	1K	Apart from small amounts of cash on hand and at bank, all cash is invested on the short term money market.	Generally invested on short term deposit and/or short term commercial bills.
Receivables	6	Trade and other debtors are carried at the amounts due less any write off or allowance for bad or doubtful debts. An allowance is made for doubtful debts when collection of the full amount is no longer probable.	Generally on 15 to 30 day terms except for security deposits which are usually refunded on satisfactory completion of the relevant project.
Financial Liabilities:			
Trade and other creditors	10	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the consolidated entity.	Trade and other liabilities are normally settled on 30 day terms.

Interest Rate Risks
The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities at balance date, are as follows:

Financial Instruments	Floating interest rate		Non-interest bearing		Weighted average effective interest rate	
	2005	2004	**2005**	2004	**2005**	2004
	$000	$000	**$000**	$000	**%**	%
Financial Assets:						
Cash	**29,139**	29,479	**6**	7	**5.4**	5.1
Receivables	**—**	—	**5,561**	4,728	**N/A**	N/A
Total Financial Assets	**29,139**	29,479	**5,567**	4,735		
Financial Liabilities:						
Trade and other creditors	**—**	—	**4,964**	6,973	**N/A**	N/A

Net Fair Values
For each class of financial asset and financial liability, due to the short term to maturity, the carrying amount at balance date approximates net fair value.

25. EARNINGS PER SHARE

Basic Earnings per Share
The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	Consolidated	
	2005	2004
	$000	$000
Earnings	**1,534**	3,182

	2005	2004
	No.000	No.000
Weighted average number of ordinary shares	**46,691**	46,691

Diluted Earnings per Share
The earnings and weighted average number of ordinary and potential ordinary shares used in the calculation of diluted earnings per share are the same as for basic earnings per share reflected above.

26. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Specified Directors and Specified Executives

(i) Specified Directors

Rodney F. Cormie	Chairman (non-executive)	Norbury Rogers AO	Director (non-executive)
John P. Kelly	Director (non-executive)	Robert Mollah	Director (non-executive)
Walter McCann	Director (non-executive)	Ronald P. Pettirossi	Director (non-executive)
Timothy L. Largay	Director (non-executive)	*(appointed 16 August 2004)*	

(ii) Specified Executives

Thomas G. Davies	General Manager	Joseph P. Morfea	Finance Manager
Larry N. Franks	Operations Manager	Mervyn V. Cowie	Joint Venture Coordinator
Bruce McInnes	Manager - Risk and Business Support/Company Secretary *(a change in title from Commercial Manager was effected 7 April 2005)*		
Paul S. Lipski	Exploration Supervisor *(resigned 16 March 2005)*		

(b) Remuneration of Specified Directors and Specified Executives

(i) Remuneration Policy

The Nomination and Remuneration Committee, as established by the Board of Directors, is responsible for reviewing and making recommendations to the Board in relation to the remuneration of Directors.

Within the total annual fees approved by Shareholders, the Board is responsible for setting the fee level for non-executive Directors. In setting the fee, the Board takes into account: (a) the responsibilities and time commitments of Directors in the performance of their duties; and (b) the level of fees paid to non-executive Directors of similar companies in the industry.

The Committee is also responsible for reviewing and making recommendations to the Board on the remuneration packages for senior executives to achieve the objective of attracting, retaining and motivating a suitably qualified executive team. In carrying out this function, the Committee has due regard for the performance of the Company and, through access to an independent industry-based remuneration survey (the Minerals and Energy Human Resources Conference), ensures that remuneration levels are appropriate and competative with those paid by peer companies in the industry.

Currently, the Company's remuneration policy does not link the nature and amount of executive officers remuneration to the Company's financial and operational performance. The Company is presently undergoing a HR review which, amongst other things, will address performance based remuneration.

Remuneration packages contain the following key elements:

(a) Primary benefits - salary/fees and non-monetary benefits including the provision of motor vehicles and health benefits;

(b) Post-employment benefits - including superannuation and prescribed retirement benefits.

26. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

(b) Remuneration of Specified Directors and Specified Executives (continued)

(ii) Remuneration of Specified Directors

2005

Name	PRIMARY		POST-EMPLOYMENT		EQUITY	
	Cash Salary & Fees $	Non-monetary Benefits $	Super-annuation $	Retirement Benefits $	Options $	Total $
Directors						
Rodney F. Cormie	**60,000**	—	—	—	—	**60,000**
John P. Kelly	**33,028**	—	**2,972**	—	—	**36,000**
Walter McCann	**36,000**	—	—	—	—	**36,000**
Timothy L. Largay	**34,000**	—	—	—	—	**34,000**
Norbury Rogers AO	**33,028**	—	**2,972**	—	—	**36,000**
Robert Mollah	**33,028**	—	**2,972**	—	—	**36,000**
Ronald P. Pettirossi	**31,500**	—	—	—	—	**31,500**
TOTAL	**260,584**	—	**8,916**	—	—	**269,500**

2004

Name	PRIMARY		POST-EMPLOYMENT		EQUITY	
	Cash Salary & Fees $	Non-monetary Benefits $	Super-annuation $	Retirement Benefits $	Options $	Total $
Directors						
Rodney F. Cormie	58,773	—	—	—	—	58,773
Roy M. Hopkins	2,959	—	—	103,000	—	105,959
John P. Kelly	36,000	—	—	—	—	36,000
Walter McCann	36,000	—	—	—	—	36,000
Timothy L. Largay	34,000	—	—	—	—	34,000
Norbury Rogers AO	30,275	—	2,725	—	—	33,000
Robert Mollah	22,018	—	1,982	—	—	24,000
TOTAL	220,025	—	4,707	103,000	—	327,732

Effective 22 May 2003, in line with the Recommendations, the retirement benefit of each non-executive Director was fixed at the amount, if any, which would be paid to that non-executive Director if he ceased to be a Director on 22 May 2003. Further, retirement benefits do not apply to Directors appointed post 22 May 2003.

(iii) Remuneration of Specified Executives

All six officers are employed under employee service agreements that continue (despite their initial terms having expired) until terminated by 3 months' notice in writing given by either party to the other.

Each of the service agreements has the following common termination provisions:

(a) The Company can terminate the appointment of the employee by the giving of not less than one months notice in writing given at any time while the employee is incapacitated by reason of ill health or accident from performing his duties hereunder and shall have been so incapacitated for a total period of 180 days or more in the preceding 12 months.

26. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

(b) Remuneration of Specified Directors and Specified Executives (continued)

(iii) Remuneration of Specified Executives (continued)

(b) The Company may terminate the agreement forthwith without prior notice if the employee is guilty of dishonesty, gross misconduct or wilfully neglect; convicted of a criminal offence affecting the employee's position; or commits any repeated or continued material breach of the employee's obligations (after being warned in writing of such breach). Only statutory entitlements that have accrued up to the date of termination are payable in this case.

(c) The Company may terminate the appointment of the employer for any reason other than those addressed in a) and b) above (other than on account of the death of the employee) the Company shall pay to the employee a redundancy payment calculated at the rate of 3 weeks of the employees' salary package at the date of termination for each full year of service by such employee to the Company up to a maximum of 52 weeks of salary package.

(d) The employee may terminate the agreement immediately by giving written notice to the Company if without the employee's consent:

i) the Company increases or dimishes the responsibilities or powers assigned to the employee in an unreasonable way having regard to the specified occupations;

ii) the Company breaks any of the provisions of the agreement; or

(iii) the employee's place of employment is relocated outside Brisbane.

Should this occur a termination payment as detailed in c) above is payable.

2005

Name	PRIMARY		POST-EMPLOYMENT		EQUITY	
	Cash Salary & Fees $	Non-monetary Benefits $	Super-annuation $	Retirement Benefits $	Options $	Total $
Executive Officers						
Thomas G. Davies	**250,706**	**28,353**	**95,980**	—	—	**375,039**
Larry N. Franks	**169,107**	**30,386**	**37,439**	—	—	**236,932**
Bruce McInnes	**144,926**	**26,682**	**32,038**	—	—	**203,646**
Joseph P. Morfea	**139,281**	**41,638**	**31,534**	—	—	**212,453**
Mervyn V. Cowie	**158,318**	**35,786**	**14,087**	—	—	**208,191**
Paul S. Lipski	**166,939**	**13,708**	**11,641**	—	—	**192,288**
TOTAL	**1,029,277**	**176,553**	**222,719**	—	—	**1,428,549**

2004

Name	PRIMARY		POST-EMPLOYMENT		EQUITY	
	Cash Salary & Fees $	Non-monetary Benefits $	Super-annuation $	Retirement Benefits $	Options $	Total $
Executive Officers						
Thomas G. Davies	246,753	31,136	91,149	—	—	369,038
Larry N. Franks	164,437	31,648	36,054	—	—	232,139
Bruce McInnes	141,898	37,330	31,632	—	—	210,860
Joseph P. Morfea	136,022	43,979	31,632	—	—	211,633
Paul S. Lipski	180,316	18,492	15,987	—	—	214,795
TOTAL	869,426	162,585	206,454	—	—	1,238,465

26. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

(c) Other Transactions and Balances with Specified Directors

(i) Investments

A Director, Mr Rodney F. Cormie holds 1,843 fully paid ordinary shares in Magellan Petroleum Australia Limited (2004: 1,843). During the year, dividends of $92 were received (2004: $92).

(ii) Services

A Director, Mr John P. Kelly is a partner of the firm of Corrs Chambers Westgarth. Corrs Chambers Westgarth provided legal services to Magellan Petroleum Australia Limited and certain of its consolidated entities on normal commercial terms and conditions. Professional fees of $55,000 (2004: $80,000) were paid during the financial year in the ordinary course of business.

27. RELATED PARTY DISCLOSURES

(a) The following related party transactions occurred during the financial year:

Transactions between Related Parties in the Wholly-Owned Group

During the financial year, Magellan Petroleum Australia Limited, as Operator for the consolidated entity, entered into transactions on behalf of, and re-charged costs to, entities within the wholly-owned group. Loans are made between various entities within the wholly-owned group and are carried at cost net of writedowns. Interest is charged on some of these loans at commercial rates and the balance of these loans are made interest-free. Management fees are charged by the parent entity to certain wholly-owned controlled entities. The aggregate amounts received or receivable by the parent entity from wholly-owned controlled entities as dividends, management fees and interest are disclosed in Note 2.

Under tax consolidation, the parent entity as the head entity is liable for the income tax obligations of the tax consolidated group. Payments are made to/from the parent entity from/to the members of the tax consolidated group (by way of interest free loans) for the members' contribution to the current and deferred tax liability/asset position of the group.

(b) The ultimate Australian parent entity is Magellan Petroleum Australia Limited. The ultimate parent entity is Magellan Petroleum Corporation (incorporated in the USA) which at 30 June 2005 owned 55.13 percent (2004: 55.03 percent) of the issued ordinary shares of Magellan Petroleum Australia Limited.

28. SUPERANNUATION

As described in the Superannuation note to the 2004 financial statements, due to the Magellan Defined Benefit Superannuation Fund no longer achieving its primary objective of attracting and retaining suitably qualified personnel, management had recommended to the Board that the Fund be terminated.

The Board accepted management's recommendations and, with the agreement of members, the Fund was terminated effective 31 August 2004 and members' vested retirement benefits have been rolled over to complying funds nominated by members.

In line with the commitment made by the Board, the Company made good the $366,000 deficit of Fund assets over accrued benefits as at the date of terminating the Fund. A provision amounting to $410,000 had been made for this purpose as at 30 June 2004.

INDEPENDENT AUDIT REPORT

To the Members of MAGELLAN PETROLEUM AUSTRALIA LIMITED

Scope

The Financial Report and Directors Responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Magellan Petroleum Australia Limited (the company) and the consolidated entity, for the financial year ended 30 June 2005 as set out on pages 22 and 30 to 58. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the *Corporations Act 2001* and Accounting Standards and other mandatory professional reporting requirements in Australia so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of Magellan Petroleum Australia Limited is in accordance with:

(a) the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and

  (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and

(b) other mandatory professional reporting requirements in Australia.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

M. Sheerin

M.G. Sheerin
Partner
Chartered Accountants
Brisbane, 14 September 2005

Liability limited by the Accountants Scheme, approved under the Professional Standards Act 1994 (NSW).

Notes

(This page has been left intentionally blank)