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The Thirty-ninth Annual General Meeting of Members of Magellan Petroleum Australia Limited will be held in The Stamford Plaza, River Room, Level 1, Cnr Edward and Margaret Streets, Brisbane, on Thursday, 30 October 2003, at 11:00 am.

Corporate Directory

DIRECTORS
Rodney F. Cormie (Chairman)
James R. Joyce
John P. Kelly
Walter McCann
Timothy L. Largay
Norbury Rogers AO

SECRETARY
Bruce McInnes, ACA

SOLICITORS
Corrs Chambers Westgarth
1 Eagle Street, Brisbane Qld 4000

AUDITOR
Ernst & Young
1 Eagle Street, Brisbane Qld 4000

SHARE REGISTRAR
ASX Perpetual Registrars Limited
Securities Registration Services
Locked Bag A14, Sydney South, NSW 1232
Telephone: (02) 8280 7111

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: http://www.magpet.com.au
Email: magadmin@magpet.com.au

Directors' Report to the Shareholders

THE YEAR IN REVIEW

- Magellan's natural gas sales from the Mereenie and Palm Valley fields rose by 2 percent to 7.9 PJ (6.8 Bcf) in the 2002-2003 year. Gas sales revenue rose by 4 percent to $18,131,000 as a result of the increased sales and increased average gas prices.

- The Company's crude oil sales from Mereenie were lower by 10 percent at 145,000 barrels, reflecting the natural production decline of the field. Oil sales revenue fell 8 percent to $6,214,000. Australian dollar oil prices strengthened marginally over the last 12 months.

- Total annual oil and gas sales, measured in barrels of oil equivalent (BOE), fell 5 percent to 1,389,000 BOE for a daily average of 3,806 BOE.

- Currently, Magellan is acquiring a 40.936% interest in the Nockatunga oil fields located in the Cooper Basin of southwest Queensland. The fields are producing at around 325 BOPD.

- At the Palm Valley gas field which is operated by Magellan a third phase of compression was completed with the installation of a 1,000 HP compressor to maintain gas deliverability. An additional gas development well will be drilled during the 2003-2004 year.

- The Company participated in a three-well drilling program in the Cooper Basin of South Australia. Aldinga-1 encountered a potentially commercial oil pool which is currently under extended production test. Maslins-1 and Henley-1 were plugged and abandoned. The Company will participate in a further three exploration wells in the Cooper Basin later this year.

- Under farmout arrangements, Magellan drilled the Strumbo-1 well in the Browse Basin, offshore Western Australia, and the Gregory River-3 well in the Maryborough Basin, onshore Queensland. Neither well encountered significant hydrocarbons.

- Magellan was granted a further two exploration licences in the onshore portion of the Weald-Wessex Basin of southern England, and four exploration permits in the onshore Taranaki Basin of New Zealand. Two exploration wells are planned for drilling in the Taranaki Basin later this year.

- Consolidated operating profit, before write off of capitalised exploration expenditure and income tax, fell 39 percent to $5,792,000. After accounting for these items, a consolidated profit of $3,319,000 was recorded.

- The Directors have recommended the payment of a fully franked dividend of 5 cents per share.

Tcf	= Trillion cubic feet	PJ	= Petajoule
Bcf	= Billion cubic feet	TJ	= Terajoule
MMcf	= Million cubic feet	Mm^3	= Million cubic metres
STB	= Stock Tank Barrels	BOE	= Barrels of Oil Equivalent

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 2003 was $5,792,000 (2002: $9,556,000).

The principal factors contributing to the $3,764,000 (39 percent) decline were a 2 percent decrease in total revenue from ordinary activities of $682,000, a 16 percent increase in production costs of $899,000, a 95 percent increase in restoration charge and a 25 percent increase in amortisation and depreciation charge of $1,759,000.

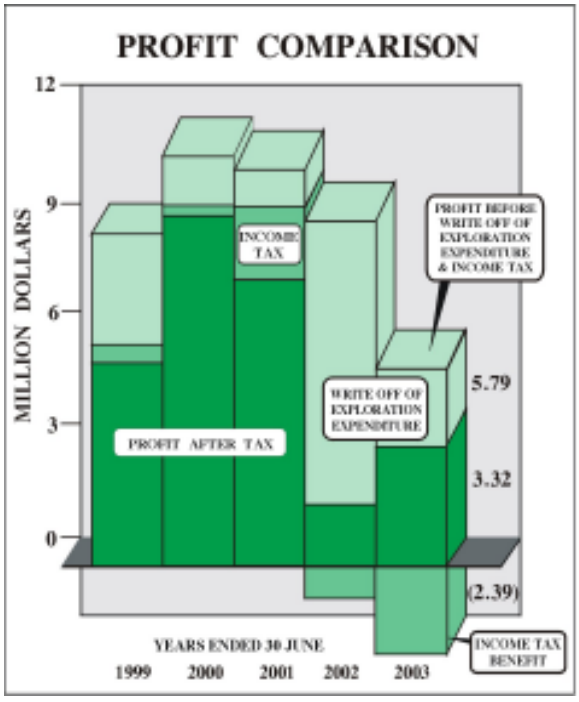
After writing off capitalised exploration expenditure totalling $4,859,000 (2002: $8,671,000), and taking into account an income tax benefit of $2,386,000 (2002: $895,000 income tax benefit), profit from ordinary activities after income tax was $3,319,000, up 87 percent ($1,539,000) from the comparable figure in 2002 of $1,780,000. Earnings per share rose 87 percent to 7.1 cents (2002: 3.8 cents).

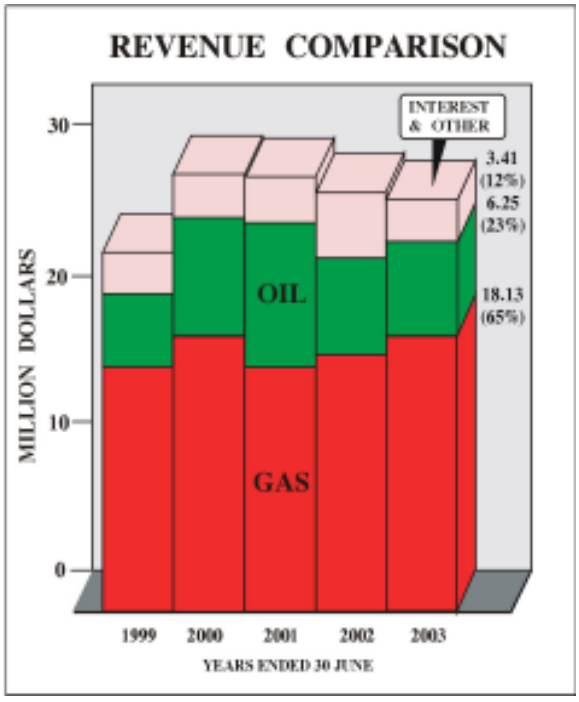
Total sales revenue was up $302,000 (1 percent) comprised of an increase of $797,000 (5 percent) in gas sales revenue partially offset by a $495,000 (7 percent) decrease in oil sales revenue. The decrease in oil sales revenue resulted from a 10 percent (16,000 barrels) reduction in sales volumes reflecting the natural production decline of the Mereenie field partially offset by a 3 percent increase in the average price of Mereenie crude (up from $41.70 to $42.87 per barrel).

Compared on a year-on-year basis, the Statement of Financial Position shows a 7 percent increase in shareholders' funds of $3,319,000 to $59,069,000 and the current asset ratio has increased from 4.0 to 4.3, primarily due to a combination of increased cash reserves, lower payables and provisions. Net cash flows from operating activities fell 11 percent from $17,481,000 to $15,571,000.

The Company's financial position has remained strong with cash reserves exceeding $30 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.





Review of Operations

PETROLEUM EXPLORATION

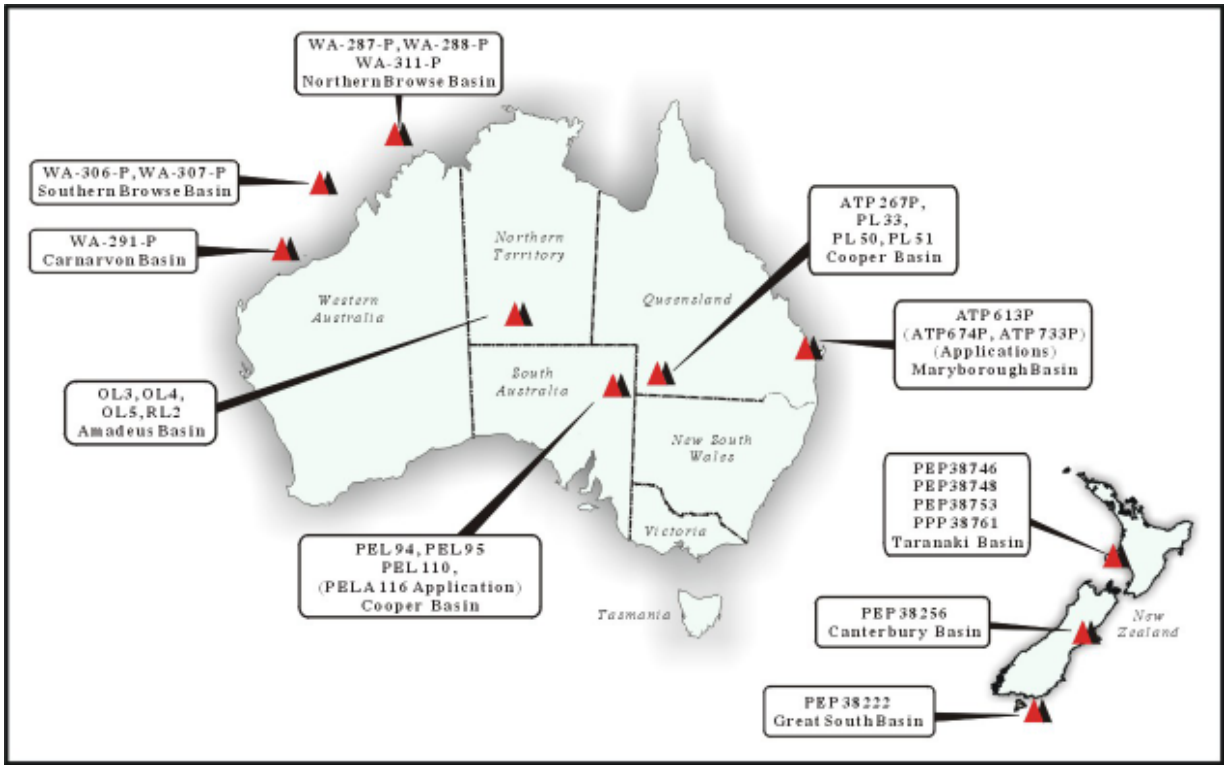
During the year, Magellan participated in the drilling of five petroleum exploration wells in Australia as well as participating in a 2D marine seismic survey on the North West Shelf of Australia and a 3D seismic survey onshore New Zealand. One of the wells encountered significant hydrocarbons.

Magellan and its co-venturer drilled three exploration wells in the South Australian Cooper Basin, Australia's most prolific onshore hydrocarbon-producing basin. Maslins-1 and Henley-1 encountered thin sub-commercial oil pools. Aldinga-1 discovered a potentially commercial oil pool which currently is being production tested. A further three exploration wells will be drilled later this year.

The Company, under a farmout arrangement, drilled the Gregory River-3 well in the Maryborough Basin, onshore Queensland. The well was designed to evaluate gas discovered previously in the Gregory River structure, however, no significant gas flows were encountered. The Strumbo-1 well was drilled by Magellan in the northern Browse Basin in the Timor Sea, offshore Western Australia, under another farmout arrangement. The well failed to encounter any significant hydrocarbons.

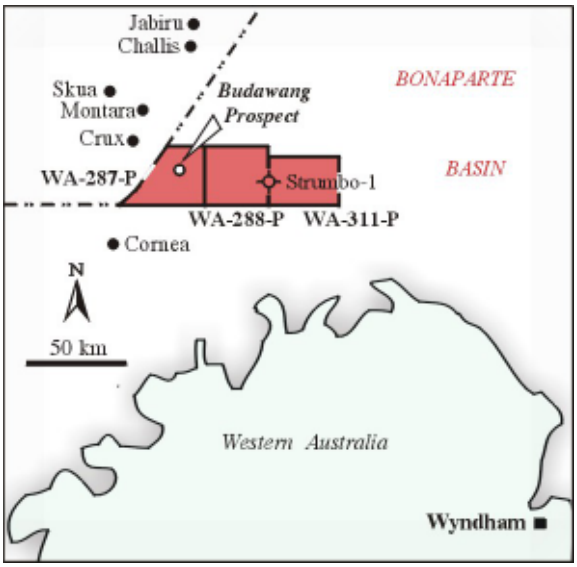
In overseas exploration, Magellan was granted another two petroleum exploration licences in the onshore Weald-Wessex Basins of southern England. The Company now holds six licences in this petroleum province. In New Zealand, Magellan and its co-venturers were granted four exploration areas in the onshore Taranaki Basin and undertook 3D and 2D seismic surveys. Two exploration wells are planned for later this year.

The Company continues to examine new exploration and production opportunities, principally in Australasia and the UK, to augment its current proven and probable reserves of 24 million barrels of oil equivalent. The Company announced in July 2003 that it is acquiring a working interest in several small oil fields in the Nockatunga area of southwest Queensland.



WA-287-P, WA-288-P & WA-311-P - NORTHERN BROWSE BASIN

Magellan holds a 100 percent interest in exploration permit WA-287-P and a 35 percent interest in each of WA-288-P and WA-311-P on the north-eastern margin of the Browse Basin in the Timor Sea. After a three-phase program of 2D seismic acquisition to define drilling prospects, Magellan successfully farmed out the drilling of the Strumbo-1 well in WA-288-P to INPEX Alpha Ltd. The well was drilled during January 2003.



The Strumbo prospect was interpreted as a delta-lobe type stratigraphic trap with mounded structural relief, occurring at the same stratigraphic level as the Cornea oil field to the southwest. The well was drilled to a total depth of 728 metres without encountering any significant hydrocarbon shows in the prospective sections.

In WA-287-P, the Budawang prospect has been identified, which lies along the same structural trend as the Skua and Montara oil fields to the north, and is east of the Crux gas-condensate discovery in adjacent acreage. It is located on a structural terrace, directly up-dip from the Crux gas-condensate discovery, and is ideally located to trap any oil migration out of the deeper basin. The Company is seeking co-venturers to participate in the drilling of the Budawang prospect in 2004.

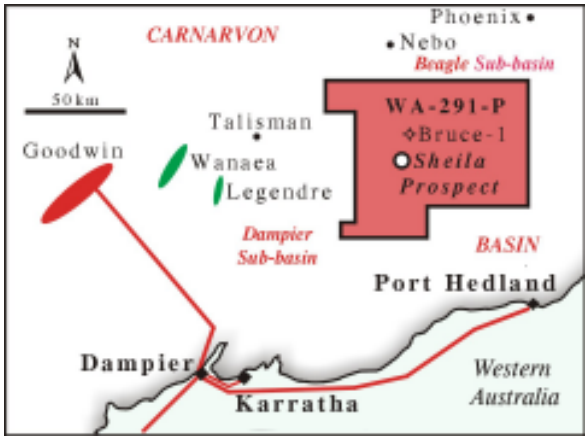
WA-306-P & WA-307-P - SOUTHERN BROWSE BASIN

Magellan has a 50 percent working interest in each of WA-306-P and WA-307-P in the Barcoo Sub-Basin of the southern Browse Basin. The Company increased its interest in the permit from 37.5 percent upon the withdrawal of one of the other participants. A 1,043 line kilometre 2D marine seismic survey was conducted across the permits in 2003 to define the structural prospects and leads more closely. The Galapagos prospects with a combined potential mean recoverable oil reserve of 250 million barrels have been identified as a drilling target, and the Company is actively seeking co-venturers to test the oil potential of the area.

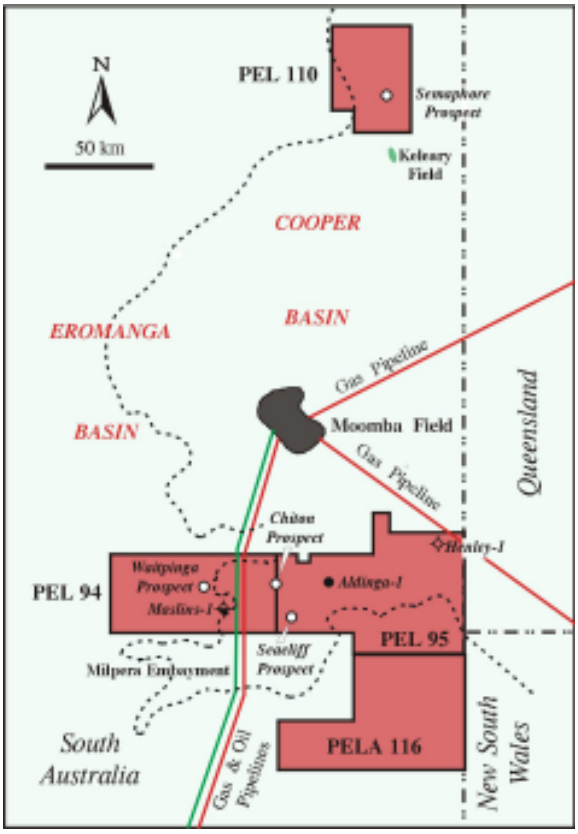
WA-291-P - CARNARVON BASIN

Magellan holds a 85 percent working interest in WA-291-P, located in the north-eastern part of the Carnarvon Basin of the North West Shelf. The Company has identified the Sheila prospect in the Beagle-Sub-Basin, which has combined fault-dependent and independent structural closure, and is updip from Bruce-1 which had oil shows at the top of a thick Triassic sand.

The Company is seeking additional co-venturers to participate in the drilling of the Sheila-1 well.



PEL 94, PEL 95, PEL 110 & PELA 116 - COOPER-EROMANGA BASINS



Magellan has a 50 percent interest in exploration licences PEL 94 and PEL 95, a 37.5% interest in PEL 110 and a 50% interest in the application area PELA 116. The grant of an exploration licence over PELA 116 is subject to native title negotiations.

PEL 94 and 95 are situated in the southern oil-prone margin of the Cooper Basin. Following the acquisition of a 2D Seismic survey in early 2002, Magellan and its co-venturer conducted a drilling program to test three of the prospects identified.

Maslins-1 spudded in PEL 94 in August 2003, and targeted oil plays in the Murta and Namur Sandstone reservoirs. The well encountered a thin sub-commercial oil pool in the Murta Formation, and was plugged and abandoned.

Aldinga-1, the second well, encountered a potentially commercial oil pool in the Cadna-owie Formation. An extended production test of the pool commenced in May 2003 to determine its economic viability and recoverable oil reserves. The well commenced production at the rate of 80 BOPD. The production test is continuing.

Henley-1 tested an oil play with stacked basal Cretaceous and Jurassic targets in an anticlinal trap located on a prominent east-west structural trend. The well encountered a sub-commercial oil pool in thin Patchawarra Formation sands on basement. The presence of oil is encouraging for further exploration in the permit.

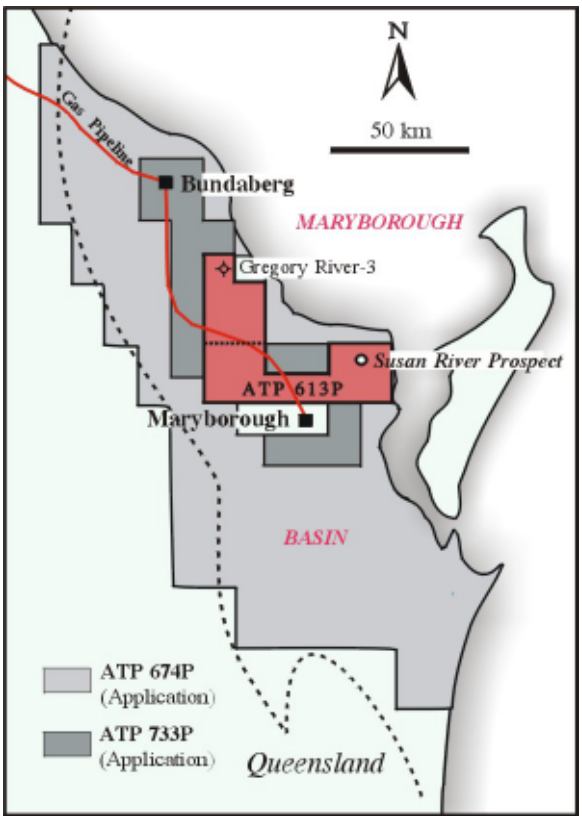
Magellan and its co-venturers have scheduled a drilling program of three firm plus one contingent well to commence in late September this year. Semaphore-1 in PEL 110, the first well in the program, will target oil plays within stacked Triassic and Jurassic sediments, similar to those encountered at the nearby Keleary oil field. PEL 110, on the northern margin of the basin, is postulated to lie on the pathway for hydrocarbons migrating northwards from the Cooper Basin depocentre.

The second well, Waitpinga-1 in PEL 94, will target the Permian Patchawarra Formation in a large structure in the Milpera Embayment, a thick Permian depocentre. The presence of oil in the Murta Formation in the nearby Maslins-1 well indicates that oil has been generated in the flanking Milpera Embayment.

Seacliff-1 in PEL 95, will target the Jurassic Namur Sandstone in a well-defined anticlinal trap on a prominent north-south structural trend that was also detailed by the 2D seismic survey acquired in 2002. Chiton-1 in PEL 94 is contingent on the results of the Waitpinga-1 and Seacliff-1 wells, and will target the Namur Sandstone.

PELA 116, located to the south of PEL 95, is ideally situated to trap hydrocarbons if oil has migrated south through PEL 95, beyond the southern limit of the Cooper Basin sediments and into the overlying Eromanga Basin sediments. Native title negotiations are yet to commence on this area.

ATP 613P & ATP APPLICATION 674P & 733P - MARYBOROUGH BASIN



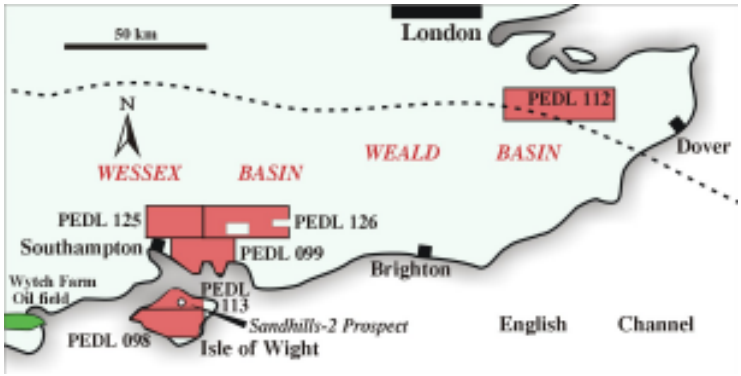
Magellan has a 50 percent interest in the northern portion of ATP 613P and ATP Application 733P, and 100 percent interest in the southern portion of ATP 613P and ATP Application 674P. The tenements cover the onshore portion of the Maryborough Basin which is a sparsely explored, primarily gas-prone, Mesozoic basin.

Magellan successfully farmed out the drilling of the Gregory River-3 well to Novus Petroleum, who earned a 50% interest in the northern portion of ATP 613P by largely funding the drilling of the well. Gregory River-3 was located on a very large anticlinal structure, 200 metres from the 1966 Gregory River-1 well which tested gas while drilling at a flow rate of 200,000 cubic feet per day from tight sands of the Early Cretaceous Gregory Sandstone.

Magellan, as operator of the joint venture, drilled the well in April-May 2003 using air-foam as the drilling fluid to minimise any formation damage to the low porosity sands of the Gregory River Sandstone. No significant gas flows were encountered in Gregory River-3.

PEDLS 098, 099, 112, 113, 125 & 126 - WEALD-WESSEX BASINS, ONSHORE UK

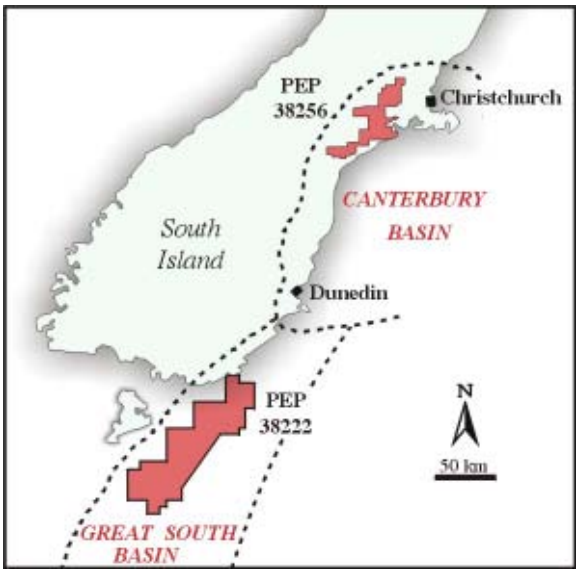
The Company holds six exploration licences (33.3-50 percent interests) in southern England. PEDL 098 and 113 (45% interest) are located on the Isle of Wight and PEDL 099, 125 and 126 on the adjacent coast of southern England. The licences are in the Weald-Wessex Basin, and are on trend with the 400 million barrel Wytch Farm oil field. The PEDL 113 venturers are considering the drilling of the Sandhills-2 well on the Isle of Wight which will target an oil play in the Great Oolite Formation.



Magellan (50 percent interest) was awarded PEDL 125 and 126, following successful bids under the 11th UK Landward Licensing Round. The Company also holds a 33.3 percent interest in PEDL 112 on the margin of the Weald-Wessex Basin. Exploration during the early years of the six-year term licences involves the interpretation of existing geological and geophysical data with a drill or drop option during the later years.

PEP 38222 - GREAT SOUTH BASIN, NZ

The Company (100 percent interest) holds exploration permit PEP 38222 in the offshore Great South Basin to the south of the South Island of New Zealand. The basin exhibits Cretaceous-Cenozoic source, seal and reservoir rocks and rift-related structuring. Only eight wells have been drilled in this under-explored frontier basin, all during the 1970-80s. Importantly, significant hydrocarbon indications were encountered in four of the wells. Exploration during the initial term of the permit is focussed on seismic reprocessing and interpretation. Giant sized prospects have been identified, and Magellan is seeking co-venturers to participate in the drilling of a well in the permit area.



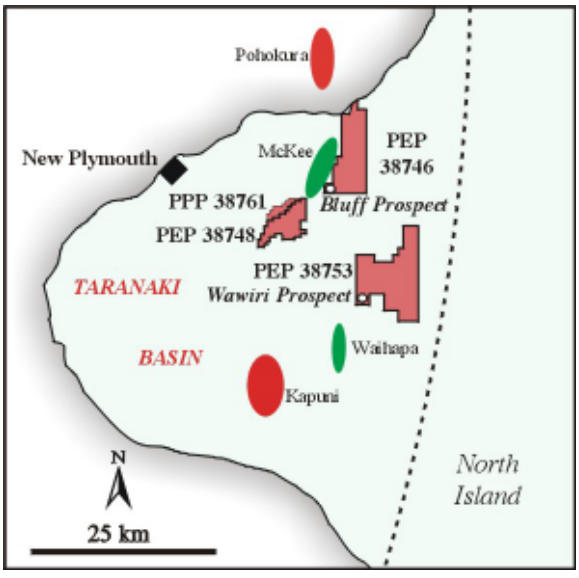
PEP 38256 - CANTERBURY BASIN, NZ

Magellan has a 25 percent interest in exploration permit PEP 38256, in the onshore Canterbury Basin on the South Island of New Zealand. Several leads have been identified in the permit and evaluation of the area is ongoing.

PEP 38746, PEP 38748, PEP 38753 & PPP 38761 - TARANAKI BASIN, NZ

The Company holds a 25 percent interest in exploration permits PEPs 38746, 38748 and 38753 in the onshore Taranaki Basin of the North Island of New Zealand. The Taranaki Basin is New Zealand's most productive hydrocarbon basin. The permits were acquired in August 2002 by competitive bid. The Company subsequently acquired a 12.5 percent interest in the prospecting permit PPP 38761, adjacent to PEP 38748.

Magellan and its co-venturers conducted a 44 km^2 3D seismic survey in the PEP 38748 and PPP 38761 permit areas and acquired 2D seismic data in PEP 38753 to more closely define the drilling prospects identified from existing seismic data. The drilling of two exploration wells, Bluff-1 in PEP 38746 and Wawiri-1 in PEP 38753, is scheduled to commence in September 2003. Both wells are targeting oil plays in the Miocene Mt Messenger Formation sands.

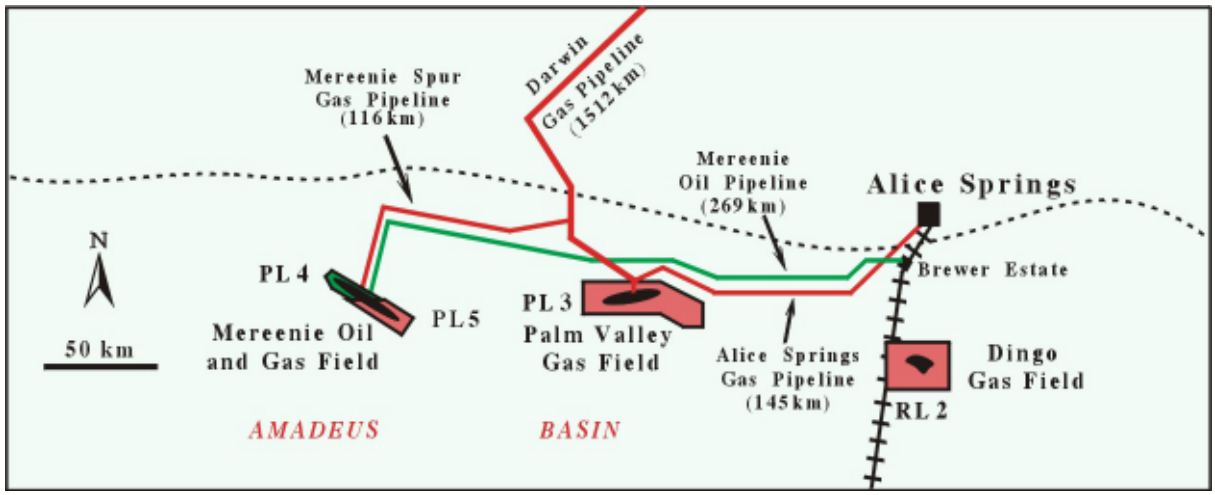


The Bluff-1 well straddles the permit boundary with the adjacent McKee production licence. Targeting a shallower horizon, the Bluff prospect overlies the eastern bounding fault of the McKee oil field. The Wawiri-1 well is located in the south-western corner of PEP 38753.

Review of Operations

PRODUCTION AND DEVELOPMENT

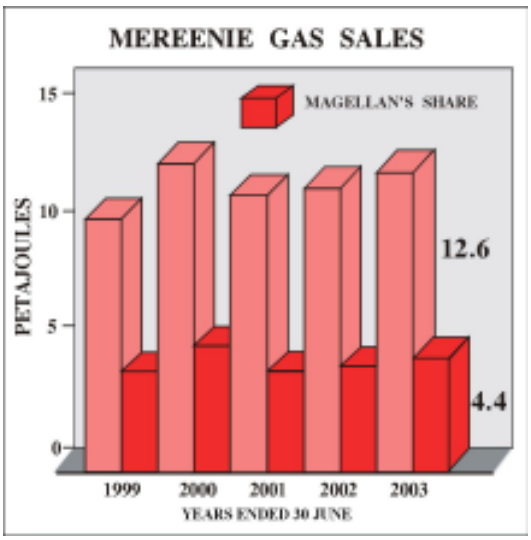
Magellan holds a 35 percent interest in the Mereenie oil and gas field and a 52.023 percent interest in the Palm Valley gas field. Both fields are situated in the Northern Territory's Amadeus Basin, in the region west of Alice Springs.

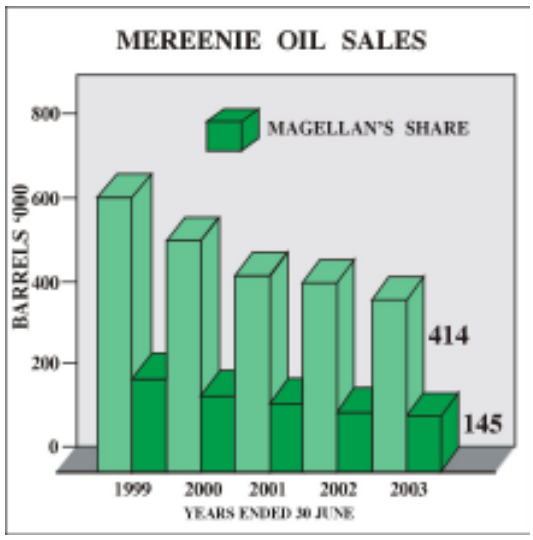


MEREENIE FIELD

The Mereenie field continues to be the major source of the Company's oil and gas sales revenues, contributing $16,891,000 during the 2002-2003 year.

Gas Sales - Mereenie maintained its position as the Amadeus Basin's leading gas producer with increased gas sales of 12.6 PJ (10.8 Bcf) compared to 11.9 PJ (10.3 Bcf) last year. The Company's share of gas sales increased by 6 percent to 4.4 PJ (3.8 Bcf) or 12.4 TJ (10.4 MMcf) per day. Company gas sales revenue was up 11 percent to $10,677,000, as a result of the increased sales volume and higher average gas prices.





Oil Sales - The Company's annual oil sales from Mereenie were 10 percent lower than last year, reflecting the continued natural oil production decline from the field. Oil sales totalled 145,000 barrels (397 barrels per day), compared to 162,000 barrels last year. The field currently is producing at a rate of around 1,160 barrels of oil per day. The Company's revenue from crude oil sales decreased by 8 percent from $6,741,000 to $6,214,000. The decline in sales was offset in part by higher prevailing world crude oil prices throughout the current period.

Gas Marketing - The Mereenie field continued to meet contracted supplies to Gasgo, the principal gas purchaser. The bulk of the gas is used by the Northern Territory's Power and Water Corporation for electricity generation, principally in Darwin. The total amount of Mereenie gas contracted to Gasgo is more than 180 PJ (156 Bcf), of which approximately 84 PJ (74 Bcf) remains to be delivered over the remaining contract periods to June 2009.

Operations - A workover program, involving a combination of remedial work on both producing and non-producing wells and recompletions for gas reinjection, commenced in October 2002 and was completed early in 2003. No wells were drilled during the current period; however, two gas development wells are planned for later in 2003 to offset the natural decline from existing wells and to meet increased customer demand for gas over the next few years.

Studies aimed at optimising gas well drilling, completion and fracture stimulation techniques at Mereenie were completed, and two fracture stimulations were performed in an attempt to increase gas deliverability from existing wells. Neither fracture stimulation was technically successful. A major upgrade of the Mereenie compression facilities and gas processing plant is being undertaken to enable increased deliverability of gas from the field in order to meet the contracted gas quantities over the period to June 2009.

Petroleum Leases 4 and 5, covering the Mereenie field, which were granted in 1981 were renewed by the Northern Territory Minister for Resource Development for a further term of 21 years. The leases are now due to expire in November 2023. As the leases lie entirely within the Haasts Bluff Aboriginal Land Trust area, agreement was reached with the Central Land Council and the traditional Aboriginal owners of the lease areas on future operations on the leases.

Oil and Gas Reserves - Based on reserve studies carried out as at the end of 2002 by the Mereenie operator, Santos Ltd, remaining recoverable oil (including condensate) and gas reserves for the Mereenie field as at 30 June 2003, are estimated as follows:

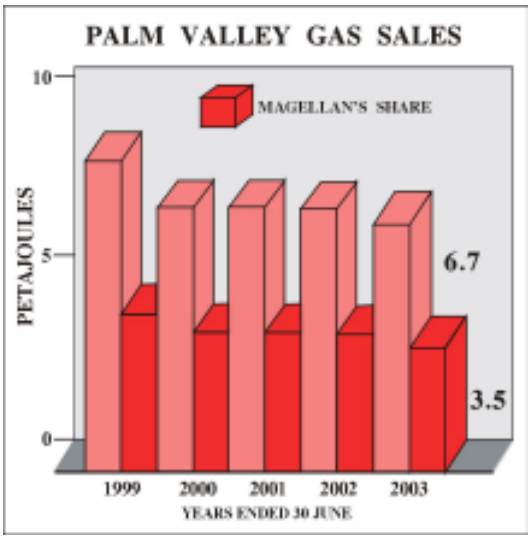
Remaining Recoverable	Oil Reserves	Gas Reserves
Proved Reserves	3.0 MMSTB	93 Bcf
Proved and Probable Reserves	5.6 MMSTB	174 Bcf
Proved, Probable and Possible Reserves	8.2 MMSTB	333 Bcf

Cumulative production from the Mereenie field to 30 June 2003, totalled 14.4 million barrels of oil (MMSTB) and 151 Bcf of gas.

Review of Operations

PALM VALLEY FIELD

The Magellan operated Palm Valley gas field is located approximately 120 kilometres west of Alice Springs in the Northern Territory. The field has been in production since 1983, and provides gas for electricity generation in the Northern Territory, mainly in Darwin and Alice Springs. Total gas production from the field amounted to 169 Mm^3 (6.0 Bcf) during the year, a 5 percent decline from the previous year. Production is being maintained by the increased use of compression to counteract the natural production decline. The field currently is producing at the rate of approximately 0.45 Mm^3 (16 MMcf) per day.



Gas Sales - During the review period, gas sales decreased 5 percent from 7.1 PJ (6.3 Bcf) to 6.7 PJ (5.9 Bcf), with the Company's share being 3.5 PJ (3.1Bcf) or 9.5 TJ (8.4 MMcf) per day. The Company's revenue declined 2 percent from $7,670,000 to $7,454,000. Under an amendment to the gas purchase agreement with Gasgo, the producers are obliged to maximise production while operating the field in accordance with good oil field practice.

Operations - Field compression continues to operate efficiently. An additional 1000 HP compressor was commissioned on the field in December 2002 to assist in maintaining the well head pressure reduction program and thus field deliverability. Further compression is planned to be installed in 2003-2004.

Magellan plans to drill an additional development well, Palm Valley-11, in the 2003-2004 year. The well will be located on the south-western end of the field and will be deviated at up to 60° to the south through the productive Stairway and Pacoota Sandstones. It will be drilled using air-foam to minimise damage to the rock fractures from which the gas is produced.

To ensure a safe workplace, the Company continues to monitor and improve the gas facility and work practices at Palm Valley. The Company has in place a Government approved Environmental Management Plan to assist with environmental and cultural heritage issues at the Palm Valley field which is located on Aboriginal Land, adjacent to the Finke Gorge National Park.

Petroleum Lease 3 which covers the field is due to expire in November 2003. Application has been made to the Minister of Resource Development for renewal of the lease for a further term of 21 years. Discussions have commenced with the Central Land Council and the traditional Aboriginal owners of the lease area on future operations on the field.

Gas Reserves - Based on a 1999 independent expert reserves and deliverability study, estimated total remaining recoverable reserves for the Palm Valley gas field as at 30 June 2003 are as follows:

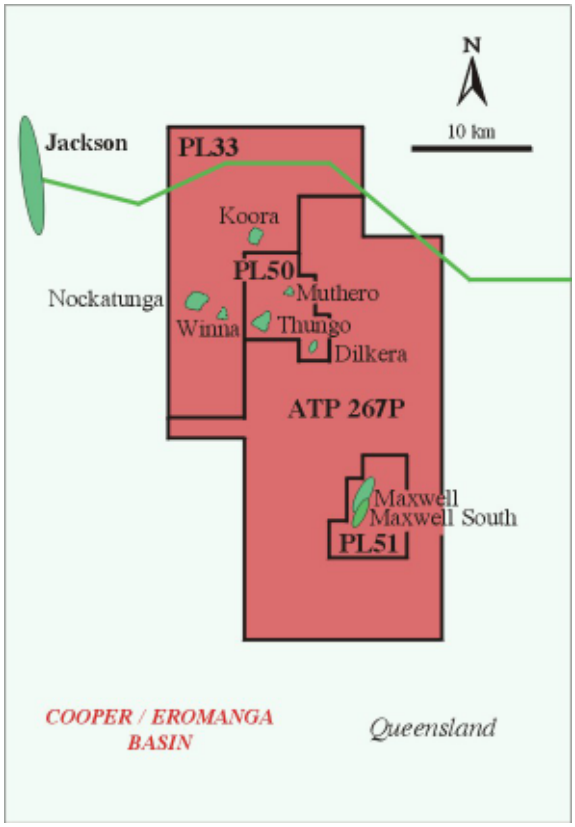
Remaining Recoverable	Gas Reserves
Proved Reserves	97 Bcf
Proved and Probable Reserves	101 Bcf
Proved, Probable and Possible Reserves	618 Bcf

Cumulative gas production to 30 June 2003 is 129 Bcf.

NOCKATUNGA AREA OIL FIELDS

Magellan announced in early July 2003, that it is acquiring a 40.936 percent working interest in Petroleum Leases 33, 50 and 51 and the surrounding exploration permit ATP 267P from Voyager Energy. The PLs cover eight small oil fields in the Nockatunga area in the Cooper Basin of southwest Queensland. The acquisition which is effective from 1 July 2003 currently is subject to Ministerial approval.

The acquisition of these producing fields represents a logical step in developing the Cooper–Eromanga Basin of South Australia and Queensland as a core area of activity for Magellan. The purchase augments the already solid exploration acreage base with Magellan's interests in PELs 94, 95 and 110 and production from the Aldinga-1 discovery in PEL 95 in South Australia.



PLs 33, 50 and 51 include the Dilkera, Koora, Maxwell, Maxwell South, Muthero, Nockatunga, Thungo and Winna oil fields. The fields were discovered during the 1980-1990s, and have been on production from that time. Cumulative production from all the fields as at 30 June 2003 is 3.5 million barrels.

Production from each of the fields is from the Murta Formation reservoir. Thungo and Maxwell are the two principal oil producing fields, and both fields have further development potential.

Oil Sales - Crude oil produced from each of the fields is trucked and sold to the IOR Energy oil refinery at Eromanga in south central Queensland.

Operations - Total production from the 19 producing wells on the fields currently is approximately 325 BOPD. Production from each of the fields is declining naturally, and a further development well will be drilled on the Thungo field by the operator of the joint venture, Santos Ltd, later this year. Remaining proved and probable recoverable reserves were estimated by the operator at the end of 2002 at 1.6 million barrels. Further development drilling will be required to tap the oil identified as probable reserves, which occur principally in the Maxwell and Thungo fields. The exploration potential of the ATP 267P area which surrounds the PLs is being re-assessed by the Company.

DINGO GAS FIELD

Magellan has a 34.3365 percent interest in the Dingo gas field, located approximately 60 kilometres south of Alice Springs in the Northern Territory. Discovered in the 1980s, the field is held under Retention Licence RL2. No market has emerged for the potentially commercial Dingo gas resource to date; however, evaluation of the gas deliverability of the two existing wells, Dingo-2 and 3, as well as the economics of developing the resource, are continuing in readiness for any gas marketing opportunity that may arise. A remedial workover, to ensure the safe integrity of the well, was conducted on Dingo-3 during 2003.

DEFINITION OF RESERVES

Oil and gas reserves commonly are quantified by the petroleum industry into three categories: proved, probable and possible. The following terms, as used in this report, are based on definitions recommended by the American Society of Petroleum Engineers.

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 percent probability that the quantities actually recovered will equal or exceed the estimate.

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 percent probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable reserves.

Possible reserves are those unproved reserves which analysis of geological and engineering data suggests are less likely to be recoverable than probable reserves. There should be at least a 10 percent probability that the quantities actually recovered will equal or exceed the sum of estimated proved plus probable plus possible reserves.

STAFF AND MANAGEMENT

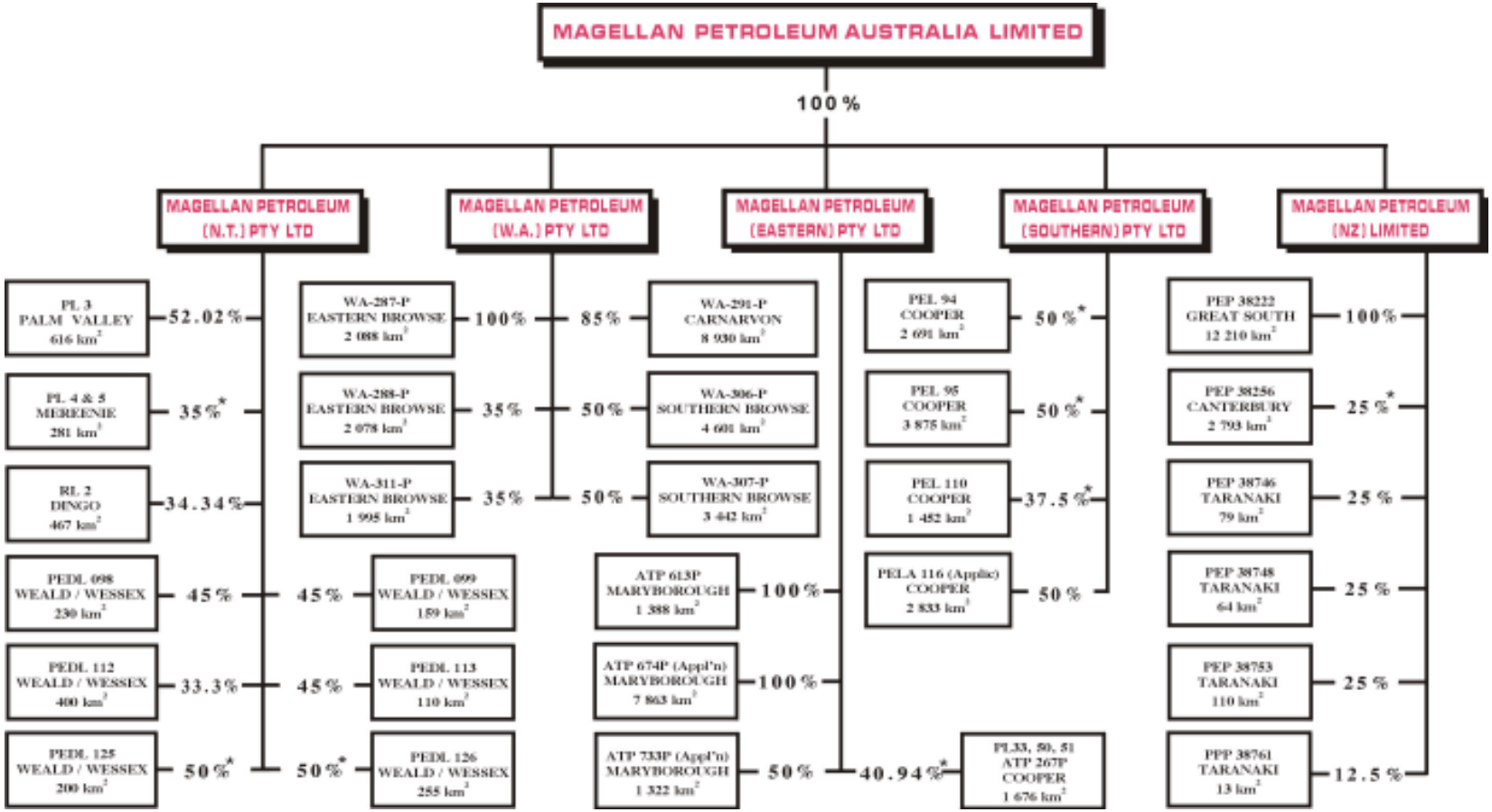
The Directors wish to acknowledge the contributions made by the Company's staff and management. The skills and dedication of the small, but efficient, team are greatly appreciated. They have made a major contribution to Magellan's continuing success.

DIRECTORS

The Directors would particularly like to express their appreciation to Roy Hopkins, who retired as a Director and Chairman of the Magellan Board of Directors in July this year, for his contribution to the success of the Company. Formerly the Company's Geologist and Managing Director, Mr Hopkins had been an employee and then a director of Magellan for the last 39 years, and was largely responsible for the development of the Company during that period. He has been Chairman of the Magellan Board of Directors for the past six years. The Directors wish him well in his full retirement.

Norbury Rogers AO was appointed a Director of the Company effective 1 August 2003. Mr Rogers is a company Director and Chartered Accountant, and was formerly Senior Partner and Managing Partner of an international Chartered Accounting firm in Queensland. He is Chairman of the Australian Institute of Marine Science, Chairman of Golden Casket Lottery Corporation Limited and Chairman of UniQuest Pty Ltd. The Board believes that Mr Rogers' depth of experience will allow him to make a valuable contribution to the Company as a Director and Chairman of the Magellan Audit Committee.

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.



* Subject to Ministerial conent

Each of the Australian areas is subject to a statutory Government royalty of 10 percent, with the exception of the Western Australian areas which are subject to the resource rent tax regime. 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 6.3125 percent respectively and (b) the Dingo licence is subject to overriding royalties aggregating 4.8125 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 subject to a statutory Government royalty of 12.5 percent.

Statutory Information

Your Directors present their report on the consolidated entity for the year ended 30 June 2003.

DIRECTORS

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:

	DIRECTORS' SHAREHOLDINGS AT THE DATE OF THIS REPORT	
	Magellan Petroleum Australia Limited	Magellan Petroleum Corporation
RODNEY F. CORMIE, BCom, AAUQ, ASA, FSIA, FAICD (70). Formerly a leading Brisbane stockbroker. Also a Director of Suncorp Metway Limited. Appointed Chairman of Directors on 18 July 2003.	1,843	–
JAMES R. JOYCE, BA, MBA, JD, CPA (62). President of Magellan Petroleum Corporation (the ultimate parent entity) since 1993 and Chief Financial Officer of that company for more than ten years.	–	107,585
JOHN P. KELLY, BA, LLB (52). Partner in the law firm of Corrs Chambers Westgarth with particular expertise in the resources area and contract negotiations.	–	–
WALTER McCANN (66). Director of Magellan Petroleum Corporation (the ultimate parent entity) since 1983. Former Head of various international academic institutions.	–	59,368
TIMOTHY L. LARGAY (60). 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 (65). Company Director and Chartered Accountant. Former Senior Partner and Managing Partner (Queensland) of an international Chartered Accounting firm. Senator of The University of Queensland. Appointed a Director 1 August 2003.	–	–
ROY M. HOPKINS, BSc and MSc in Geology (75). Former Chairman of Directors. Resigned as a Director on 18 July 2003.		

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 $3,319,000 (2002: $1,780,000). This result was recorded after writing off capitalised exploration expenditure totalling $4,859,000 (2002: $8,671,000). Earnings per share increased from 3.8 to 7.1 cents.

Statutory Information

DIVIDENDS

A dividend of 5 cents per share (fully franked), aggregating $2,335,000 was paid to Shareholders of Magellan Petroleum Australia Limited on 14 November 2002 as recommended in the 2002 Annual Report. The Directors are recommending, for approval by Shareholders at this year's Annual General Meeting, the payment on 6 November 2003 of a dividend of 5 cents per share (fully franked), aggregating $2,335,000.

DIRECTORS' MEETINGS

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

Director	Directors' Meetings		Audit Committee Meetings	
	Held	Attended	Held	Attended
Roy M. Hopkins	8	8	2	2
Rodney F. Cormie	8	7	2	2
James R. Joyce	8	8	–	–
John P. Kelly	8	8	2	2
Walter McCann	8	7	1	1
Timothy L. Largay	8	6	–	–

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.

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 20 and 21 of this report.

DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

The Remuneration Committee (comprised of non-executive Directors) as established by the Board, is responsible for reviewing and making recommendations to the Board on the remuneration packages for senior executives. In carrying out this function, the Remuneration Committee has due regard for the performance of the Company and, through access to an independent industry-based remuneration survey, ensures that remuneration levels are appropriate and comparative to those paid by peer companies in the industry. There was one formal meeting of the Remuneration Committee during the year.

Non-Executive Directors

Within the total annual fees approved by Shareholders, the Board of Directors 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.

After completing four years service as a Director, Australian-resident non-executive Directors are entitled to receive a retirement benefit upon ceasing to hold office as a Director. The amount of such retirement benefit, which will be reduced by any statutory superannuation contributions previously made by the consolidated entity, is not in excess of the limitation prescribed by Section 200G of the Corporations Act 2001. Effective 22 May 2003, in line with the ASX Corporate Governance Council's best practice 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.

Details of the nature and amount of each element of the emolument of each non-executive Director of the Company for the financial year are:

Name	Directors' Fees $	Consultancy Fees and Benefits $	Superannuation Contributions $	Total $
Rodney F. Cormie	30,000	—	780	30,780
Roy M. Hopkins	36,000	36,429	—	72,429
James R. Joyce	—	—	—	—
John P. Kelly	30,000	—	—	30,000
Walter McCann	15,500	6,523	—	22,023
Timothy L. Largay	21,500	—	—	21,500

Senior Executives

To achieve the objective of attracting, retaining and motivating a suitably qualified executive team, the Remuneration Committee recommends remuneration levels which it considers are competitive with those paid by comparative companies in the industry. To aid in this regard, the Company participates in an annual remuneration survey conducted by the Minerals and Energy Human Resources Conference.

Details of the nature and amount of each element of the emolument of each of the executive officers of the Company and the consolidated entity for the financial year are:

Name	Position	Base Remuneration (1) $	Other Benefits (2) $	Total $
Executive Officers				
Thomas G. Davies	General Manager	266,619	87,141	353,760
Larry N. Franks	Operations Manager	186,437	34,501	220,938
Bruce McInnes	Commercial Manager	166,901	30,284	197,185
Joseph P. Morfea	Finance Manager	174,318	30,284	204,602
Paul S. Lipski	Exploration Supervisor	184,886	16,528	201,414
Messrs Davies, Franks, McInnes, Morfea and Lipski 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 1 - Base Remuneration includes base salary, packaged benefits such as motor vehicles and FBT.
Note 2 - Other Benefits are non base remuneration benefits including Company contributions to superannuation and, where relevant, the payment of accrued statutory entitlements.

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. A premium of $15,667 was paid during the year (2002: $11,420).

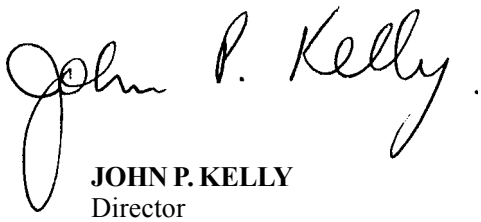
ROUNDING OF AMOUNTS TO NEAREST THOUSAND DOLLARS

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. 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 12 September 2003.



RODNEY F. CORMIE
Chairman



JOHN P. KELLY
Director

Corporate Governance Statement

This statement outlines the main corporate governance practices that were in place throughout the financial year.

The Board of Directors is well advanced in its review of the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations with a view to (where considered appropriate for the size and circumstances of the Company) adopting such recommendations as soon as possible.

BOARD OF DIRECTORS AND ITS COMMITTEES

The Board is responsible for the overall corporate governance of the consolidated entity including setting the strategic direction, establishment of goals for management and monitoring the achievement of these goals. It has established committees to assist in the execution of its responsibilities.

The Directors of the Company in office at the date of the statement are set out on page 16 of this report. None of the present Directors are Executive Directors. Unless otherwise determined by the Company in a general meeting, the Directors may number no more than eight.

The following principles apply:

- The Chairman of the Board should be a non-executive Director.
- The Board should comprise a majority of non-executive Directors.
- When a Board vacancy exists or where it is considered that a Director with particular skills or experience is required, the Board would make an appointment from a panel of candidates with the appropriate expertise and experience.
- There is no fixed time set that Directors may continue in office other than that the Company has adopted the policy that (unless otherwise determined by the Board) Directors should retire no later than at the Annual General Meeting immediately following the date on which they attain the age of 72 years. Furthermore, each Director is required to be re-elected by Shareholders at least once every three years.
- Each Director has the right to seek independent professional advice at the consolidated entity's expense provided that prior approval of the Chairman has been received. This cannot unreasonably be withheld.
- The Board has established a Remuneration Committee comprised of non-executive Directors, who review and make recommendations to the Board annually on the remuneration packages for the executive Directors and for the senior management personnel. The members of the Remuneration Committee during the financial year were Messrs R. F. Cormie (Chairman) and J. P. Kelly.
- The Board has established a framework for the management of the consolidated entity, including an overall framework of internal control, a business risk management process and the establishment of appropriate ethical standards. It also considers reports on the Group's performance in the areas of occupational health and safety and environmental protection.
- The Board regularly reviews the operational and financial performance of the consolidated entity. Each year the Board considers, amends where appropriate and adopts annual budgets.

AUDIT COMMITTEE

The role of the Audit Committee is documented in a charter, which has been approved by the Board of Directors. All of the members of the committee are non-executive Directors. The role of the committee is to advise on the establishment and maintenance of internal control and appropriate ethical standards for the management of the consolidated entity. The Audit Committee also gives the Board of Directors additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining policies or for inclusion in financial statements.

The members of the Audit Committee during the financial year were:

R. F. Cormie (Chairman), R. M. Hopkins, J. P. Kelly, W. McCann (appointed 23 January 2003).

The external auditors and senior executives of the consolidated entity are invited to Audit Committee Meetings at the discretion of the Committee. Minutes of all meetings of the Audit Committee are tabled at Board Meetings.

Responsibilities of the Audit Committee include:

- The viewing of all financial statements and making the necessary recommendations to the Board for approval and external release.
- Providing a right of direct access for external auditors either to the Committee or to the Board.
- Reviewing the scope and results of external audits with the auditors.
- The external auditors formally write each year to the Committee setting out in detail the scope and issues arising from their audit. The Committee discusses this report with the auditors at a formal meeting.
- Reviewing the Group's accounting policies, taxation affairs and the adequacy of internal controls.
- Liaising with the external auditors and ensuring that the statutory annual audit and half year audit review are conducted in an effective manner.
- Monitoring compliance with the Corporations Act 2001, Australian Stock Exchange Listing Rules and any matters outstanding with the auditors, Australian Taxation Office, Australian Securities & Investments Commission and the Australian Stock Exchange.
- Reviewing the Half-yearly/Preliminary Final Reports and making the necessary recommendations to the Board for the approval of these documents prior to their lodgement with the Australian Stock Exchange.

ETHICAL STANDARDS

Board members, executive officers and other employees are made aware of their requirements to follow corporate policies and procedures, to comply with the law and to behave with the highest standards of honesty, integrity, fairness and equity.

All Directors, executive officers and employees are expected to act with the utmost integrity and objectivity, trying at all times to enhance the reputation and performance of the consolidated entity.

The consolidated entity endeavours to ensure that the highest standards of occupational health and safety and environmental protection are achieved.

SHAREHOLDERS' ROLE

The Board of Directors aims to ensure that the Shareholders are continually informed of all major developments affecting the consolidated entity. The Board encourages full participation of Shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the consolidated entity's strategies and goals.

Stock Exchange Information

Additional information required by the Australian Stock Exchange Limited and not shown elsewhere in this report are as follows. The information current as at 29 August 2003:

(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
Santos Ltd	8,117,236
Origin Energy Limited	6,782,138

(ii) Twenty Largest Shareholders

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

Shareholders	Listed Ordinary Shares	
	Number of Shares	% of Shares
Magellan Petroleum Corporation	24,483,164	52.44
Sagasco Amadeus Pty Ltd	7,982,138	17.09
Santos Ltd	4,640,005	9.94
Santos Facilities Pty Ltd	3,883,092	8.32
ANZ Nominees Limited	1,240,171	2.66
Citicorp Nominees Pty Limited	430,335	0.92
Marwhit Pty Ltd	102,996	0.22
J P Morgan Nominees Australia	99,465	0.21
Merrill Lynch (Australia) Nominees Pty Ltd	87,192	0.19
National Nominees Limited	79,443	0.17
Robert Alexander Hoad	74,254	0.16
Ailsa Joan Hawker	72,500	0.15
Eric Gordon Benson	71,632	0.15
Lawrence Auriana	68,951	0.15
Malda J Hopkins	59,032	0.12
John Barr	50,000	0.11
Peter John Bird	50,000	0.11
Derek C A Cutting	47,962	0.10
Mary Graham Neild	43,692	0.09
Mary Jean Horder	36,823	0.08
	43,602,847	93.38

(iii) Voting Rights

There were 1,829 holders of ordinary shares in the issued capital of the Company. Each share entitles the holder to one vote.

(iv) Distribution of Equity Securities

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

			Listed Ordinary Shares
1	–	1,000	1,275
1,001	–	5,000	384
5,001	–	10,000	77
10,001	–	100,000	84
100,001	–	and over	9
			1,829

A total of 930 shareholders held less than 385 shares which at the then current market price was deemed to be the minimum marketable parcel.

Magellan Petroleum Australia Limited and Controlled Entities

Statements of Financial Performance

Year Ended 30 June 2003

	NOTES	CONSOLIDATED		PARENT ENTITY	
		2003 $000	2002 $000	**2003 $000**	2002 $000
Sales Revenue	2	**24,377**	24,075	**—**	—
Cost of Sales		**(19,287)**	(16,375)	**—**	—
GROSS PROFIT		**5,090**	7,700	**—**	—
Other Revenues from Ordinary Activities	2	**3,409**	4,393	**9,387**	9,118
Administration Expenses		**(2,680)**	(2,514)	**(970)**	(594)
Write Off of Investments in and Loans to Wholly-owned Controlled Entities		**—**	—	**(4,607)**	(8,632)
Other Expenses from Ordinary Activities		**(27)**	(23)	**(25)**	(42)
Profit (Loss) before Write Off of Capitalised Expenditure and Income Tax		**5,792**	9,556	**3,785**	(150)
Write Off of Capitalised Exploration Expenditure		**(4,859)**	(8,671)	**—**	—
PROFIT (LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX		**933**	885	**3,785**	(150)
INCOME TAX BENEFIT ATTRIBUTABLE TO PROFIT FROM ORDINARY ACTIVITIES	4	**2,386**	895	**—**	—
PROFIT (LOSS) FROM ORDINARY ACTIVITIES AFTER INCOME TAX BENEFIT		**3,319**	1,780	**3,785**	(150)
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS	14	**3,319**	1,780	**3,785**	(150)

Earnings Per Share

		CONSOLIDATED		PARENT ENTITY	
		2003 $000	2002 $000	**2003 $000**	2002 $000
Basic earnings per share (cents per share)	1Q	**7.1¢**	3.8¢	**8.1¢**	(0.3¢)
Diluted earnings per share (cents per share)	1Q	**7.1¢**	3.8¢	**8.1¢**	(0.3¢)
Franked dividends per share (cents per share)	5	**5.0¢**	5.0¢	**5.0¢**	5.0¢

Statements of Financial Position

30 June 2003

	NOTES	CONSOLIDATED		PARENT ENTITY	
		2003	2002	**2003**	2002
		$000	$000	**$000**	$000
CURRENT ASSETS					
Cash Assets	1I	**30,469**	26,461	**29,082**	25,897
Receivables	6	**6,405**	7,091	**957**	1,040
Inventories	1L	**629**	671	**—**	—
TOTAL CURRENT ASSETS		**37,503**	34,223	**30,039**	26,937
NON-CURRENT ASSETS					
Receivables	6	**—**	—	**18,264**	18,467
Other Financial Assets	7	**—**	—	**7,516**	7,516
Petroleum Properties - Exploration Phase	8	**8,698**	7,108	**—**	—
- Production Phase	8	**15,393**	18,490	**—**	—
		24,091	25,598	**25,780**	25,983
Property, Plant and Equipment	9	**13,859**	13,713	**722**	682
TOTAL NON-CURRENT ASSSETS		**37,950**	39,311	**26,502**	26,665
TOTAL ASSETS		**75,453**	73,534	**56,541**	53,602
CURRENT LIABILITIES					
Payables	10	**7,950**	5,491	**4,103**	2,889
Current Tax Liabilities	4	**—**	240	**—**	—
Provisions	1B & 11	**706**	2,800	**706**	2,800
TOTAL CURRENT LIABILITIES		**8,656**	8,531	**4,809**	5,689
NON-CURRENT LIABILITIES					
Deferred Tax Liabilities	4	**4,263**	6,483	**—**	—
Provisions	11	**3,465**	2,770	**600**	566
TOTAL NON-CURRENT LIABILITIES		**7,728**	9,253	**600**	566
TOTAL LIABILITIES		**16,384**	17,784	**5,409**	6,255
NET ASSETS		**59,069**	55,750	**51,132**	47,347
EQUITY					
Contributed Equity	12	**40,027**	40,027	**40,027**	40,027
Reserves	13	**476**	476	**—**	—
Retained Profits	14	**18,566**	15,247	**11,105**	7,320
TOTAL EQUITY		**59,069**	55,750	**51,132**	47,347

Magellan Petroleum Australia Limited and Controlled Entities

Statements of Cash Flows

Year Ended 30 June 2003

	NOTES	CONSOLIDATED		PARENT ENTITY	
		2003	2002	**2003**	2002
		$000	$000	**$000**	$000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers		**28,508**	31,708	**—**	—
Payments to Suppliers and Employees		**(11,643)**	(8,990)	**(851)**	(778)
Income Tax paid		**(75)**	(2,400)	**—**	—
Goods and Services Tax paid/Input Tax Credits received		**(399)**	(1,784)	**214**	77
Interest received		**1,317**	999	**1,252**	985
Royalties paid		**(2,278)**	(2,202)	**—**	—
Royalties received		**141**	150	**—**	—
Management Fees received		**—**	—	**1,299**	1,308
Dividends received		**—**	—	**6,802**	6,802
NET CASH FLOWS FROM OPERATING ACTIVITIES	15	**15,571**	17,481	**8,716**	8,394
CASH FLOWS FROM INVESTING ACTIVITIES					
Expenditure on:					
Exploration Phase Properties		**(5,513)**	(8,591)	**—**	—
Production Phase Properties		**(2,341)**	(2,495)	**—**	—
Property, Plant and Equipment		**(4,873)**	(2,460)	**(228)**	(227)
Proceeds from the sale of:					
Property, Plant and Equipment		**43**	62	**34**	22
Payments made on behalf of Joint Venture Partners		**(15,714)**	(4,582)	**(15,665)**	(4,558)
Reimbursements from Joint Venture Partners		**16,313**	4,604	**16,313**	4,604
Reimbursements of Operating and Development Expenditure		**2,857**	1,223	**—**	—
Investment in Wholly-owned Controlled Entities		**—**	—	**—**	—
Repayment of loans by Wholly-owned Controlled Entities		**—**	—	**48,306**	36,682
Loans to Wholly-owned Controlled Entities		**—**	—	**(51,956)**	(39,967)
NET CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES		**(9,228)**	(12,239)	**(3,196)**	(3,444)
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 INCREASE/(DECREASE) IN CASH HELD		**4,008**	2,907	**3,185**	2,615
Add Opening Cash brought forward		**26,461**	23,554	**25,897**	23,282
CLOSING CASH CARRIED FORWARD	15	**30,469**	26,461	**29,082**	25,897

Notes to the Financial Statements

30 June 2003

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) have also been complied with.

The statements have been prepared in accordance with the historical cost convention modified by certain revaluations of property and investments. 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 except for the accounting policy with respect to the provision for dividends.

The consolidated entity has adopted the new Accounting Standards AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets" which has resulted in a change in the accounting for the dividends provision. Previously, the consolidated entity recognised a provision for dividend based on the amount that was proposed or declared after the reporting date. In accordance with the requirements of the new Standard, a provision for dividends will only be recognised at the reporting date where the dividends have been declared, determined or publicly recommended prior to the reporting date. The effect of the revised policy has been to increase consolidated retained profits and decrease provisions at the beginning of the year by $2,335,000 (refer to Note 5). In accordance with the new Standard, no provision for dividends has been recognised for the year ended 30 June 2003.

C. Principles of Consolidation

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

The consolidated accounts 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 accounts include the results for the part of the reporting period during which the parent entity had control.

The accounts 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. 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)

E. 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.

F. 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 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 Profit and Loss 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 parent entity's investment in, and/or loan to, the relevant controlled entity to finance such expenditure, is recognised in the consolidated and the parent entity, Profit and Loss, 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. 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)

G. 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). A revision of estimated future expenditures was carried out at 30 June 2003 and this impacted the amortisation calculation and contributed to an additional $522,000 in amortisation for the year. 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.

H. 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	10 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)

I. 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.

J. Recoverable Amount

With the exception of exploration expenditure carried forward, which is covered in Note 1F, 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 of regular revaluation of non-current assets.

K. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. 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.

M. Provisions

General

Provisions are recognised when the economic entity has a 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. Such a revision was carried out for 2003 and together with the change in methodology regarding gas volumes resulted in an additional take-up in 2003 to the provision amounting to approximately $303,000.

N. 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 profit and loss account when due.

O. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. 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.

Q. Earnings Per Share

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.

R. 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.

S. Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

2. REVENUE FROM ORDINARY ACTIVITIES

	Notes	Consolidated		Parent Entity	
		2003	2002	**2003**	2002
		$000	$000	**$000**	$000
Sales Revenue					
Oil sales revenue		**6,246**	6,741	**—**	—
Gas sales revenue		**18,131**	17,334	**—**	—
Total sales revenue		**24,377**	24,075	**—**	—
Revenues From Non-operating Activities					
Interest from other persons/corporations		**1,318**	999	**1,252**	985
Proceeds from sale of non-current assets		**42**	62	**34**	23
Rent		**16**	16	**—**	—
Royalties		**141**	150	**—**	—
Other revenue		**1,892**	3,166	**—**	—
Dividends received from wholly-owned controlled entities		**—**	—	**6,802**	6,802
Management fees from wholly-owned controlled entities		**—**	—	**1,299**	1,308
Total Revenues from Non-Operating Activities		**3,409**	4,393	**9,387**	9,118
Total Revenue from Ordinary Activities	1D	**27,786**	28,468	**9,387**	9,118

3. EXPENSES AND LOSSES/(GAINS)

	Notes	Consolidated		Parent Entity	
		2003	2002	**2003**	2002
		$000	$000	**$000**	$000
(a) Expenses					
Amortisation of non-current assets:					
Amortisation of capitalised expenditure on production phase petroleum properties	1G	**4,371**	4,029	**—**	—
Depreciation of non-current assets:					
Depreciation of plant and equipment	1H	**4,645**	3,277	**149**	198
Depreciation of buildings	1H	**4**	4	**4**	4
Total Amortisation and Depreciation		**9,020**	7,310	**153**	202
Royalties paid to governments		**1,521**	1,558	**—**	—
Provision for employee entitlements	1N	**364**	176	**320**	143
Provision for future restoration costs	1M	**660**	337	**—**	—
Provision for Directors' retirement allowance		**22**	21	**22**	21
Operating lease rentals	1P	**245**	213	**245**	213
(b) (Gains)/Losses					
Net (gain)/loss on disposal of property, plant and equipment		**(11)**	(12)	**(8)**	20

4. INCOME TAX

	Notes	Consolidated		Parent Entity	
		2003	2002	**2003**	2002
		$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		**933**	885	**3,785**	(150)
Prima facie income tax expense at 30% (2002: 30%)		**280**	266	**1,136**	(45)
Income Tax effect of permanent differences:					
Non-assessable receipts net of non-deductible expenses		**(351)**	(499)	**1**	13
Rebateable dividends		**—**	—	**(2,041)**	(2,041)
Write down value of investments in and loans to wholly-owned controlled entities		**—**	—	**1,382**	2,589
Transfer tax losses from wholly-owned controlled entities		**—**	—	**(478)**	(516)
Prior period income tax benefits previously not brought to account		**(2,315)**	(662)	**—**	—
Income Tax attributable to Profit from Ordinary Activities	1E	**(2,386)**	(895)	**—**	—
Tax Assets and Liabilities					
Current tax payable		**—**	240	**—**	—
Provision for deferred income tax - non-current		**5,514**	7,454	**—**	—
Future income tax benefit - non-current		**1,251**	971	**—**	—

4. INCOME TAX (CONTINUED)

	Consolidated		Parent Entity	
	2003	2002	**2003**	2002
	$000	$000	**$000**	$000
Income Tax Losses				
The estimated allowable deductions (not brought to account because recovery is uncertain) arising from:				
- capital losses	**14,408**	14,408	**9,319**	9,319
- tax losses	**8,238**	—	**—**	—
	22,646	14,408	**9,319**	9,319
Possible future income tax benefit of the above deductions at 30% (2002: 30%)	**6,794**	4,322	**2,796**	2,796

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

At this stage, it is anticipated that Magellan Petroleum Australia Limited will elect to enter into the tax consolidations regime effective at some date in the year ended 30 June 2004. The accounting implications of such an election have not yet been determined.

5. DIVIDENDS PROVIDED FOR OR PAID

	Consolidated		Parent Entity	
	2003	2002	**2003**	2002
	$000	$000	**$000**	$000
Dividends Proposed:				
Final Dividend of 5 cents per share Fully franked based on tax paid at 30%	**2,335**	2,335	**2,335**	2,335
Dividends Paid During the Year:				
Final Dividend of 5 cents per share recognised as a liability at 30 June 2002 but adjusted against retained profits at the beginning of the financial year on the change in accounting policy for providing for dividends (Refer Note 1B). Fully franked based on tax paid at 30%.	**2,335**	2,335	**2,335**	2,335
Franking credits available for the subsequent financial year			**1,728**	2,729
These franking credits have been calculated as follows:				
Franking account balance as at end of financial year at 30%			**2,729**	3,250
Franking credits that will arise from the receipt of franked dividends at 30%			**—**	480
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)
			1,728	2,729

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		Parent Entity	
		2003	2002	**2003**	2002
		$000	$000	**$000**	$000
Current					
Trade debtors	17 & 23	**4,851**	4,565	**—**	—
Other debtors		**1,554**	2,526	**462**	107
Loans to wholly-owned controlled entities		**—**	—	**495**	933
		6,405	7,091	**957**	1,040
Non-Current					
Loans to wholly-owned controlled entities		**—**	—	**18,264**	18,467

7. OTHER FINANCIAL ASSETS

INVESTMENTS IN CONTROLLED ENTITIES

Name	Parent Entity's Investment in Controlled Entities		Percentage Interest in Issued Ordinary Capital		Country of Incorporation
	2003	2002	**2003**	2002	
	$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
	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.

8. PETROLEUM PROPERTIES (CAPITALISED EXPENDITURE)

	Notes	Consolidated		Parent Entity	
		2003	2002	**2003**	2002
		$000	$000	**$000**	$000
Production phase properties at Directors' valuation 1964		**5,083**	5,083	**—**	—
Less: Accumulated amortisation	1G	**3,822**	3,678	**—**	—
		1,261	1,405	**—**	—
At cost (net of recoverable development expenditure)		**53,198**	51,929	**—**	—
Less: Accumulated amortisation	1G	**39,066**	34,844	**—**	—
		14,132	17,085	**—**	—
Production phase properties at written down value		**15,393**	18,490	**—**	—
Exploration phase properties at cost		**13,557**	15,779	**—**	—
Less: Written off during the year		**4,859**	8,671	**—**	—
Exploration phase properties at written down value		**8,698**	7,108	**—**	—
Total Petroleum Properties at written down value		**24,091**	25,598	**—**	—

9. PROPERTY, PLANT AND EQUIPMENT

	Notes	Consolidated		Parent Entity	
		2003	2002	**2003**	2002
		$000	$000	**$000**	$000
Freehold Land at cost		**132**	132	**70**	70
Buildings at cost		**174**	174	**174**	174
Less: Accumulated depreciation	1H	**36**	32	**36**	32
		138	142	**138**	142
Other Plant and Equipment at cost		**1,636**	1,561	**1,636**	1,561
Less: Accumulated depreciation	1H	**1,122**	1,091	**1,122**	1,091
		514	470	**514**	470
Interests in Joint Venture Plant and Equipment at cost					
Mereenie Field, Pipeline and Brewer Estate		**40,881**	36,683	**—**	—
Palm Valley Field (net of recoverable development expenditure)		**1,968**	1,667	**—**	—
Aldinga Field		**121**	—	**—**	—
		42,970	38,350	**—**	—
Less: Accumulated depreciation	1H	**29,895**	25,381	**—**	—
		13,075	12,969	**—**	—
Total Property, Plant and Equipment at written down value		**13,859**	13,713	**722**	682
Recent Valuations — As at 30 June 2002 the Directors valued interests in the Freehold Land and Buildings included above at other than current value, as follows:					
Freehold Land		**340**	340	**278**	278
Buildings		**132**	132	**132**	132
Total Freehold Land and Buildings		**472**	472	**410**	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 $22,000 for the consolidated entity and the parent entity.

9. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

RECONCILIATIONS

	Notes	Consolidated		Parent Entity	
		2003	2002	**2003**	2002
		$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		**142**	147	**142**	147
Additions		**—**	—	**—**	—
Disposals		**—**	—	**—**	—
Depreciation Expense	3	**(4)**	(5)	**(4)**	(5)
Carrying amount at balance date		**138**	142	**138**	142
Plant and Equipment					
Carrying amount at beginning		**470**	491	**470**	491
Additions		**228**	227	**228**	227
Disposals		**(26)**	(51)	**(26)**	(51)
Depreciation Expense	3	**(158)**	(197)	**(158)**	(197)
Carrying amount at balance date		**514**	470	**514**	470
Interest in Joint Venture Plant and Equipment					
Carrying amount at beginning		**12,969**	13,743	**—**	—
Additions		**4,646**	2,283	**—**	—
Disposals		**(5)**	(8)	**—**	—
Depreciation Expense	3	**(4,535)**	(3,049)	**—**	—
Carrying amount at balance date		**13,075**	12,969	**—**	—

10. PAYABLES

	Notes	Consolidated		Parent Entity	
		2003	2002	**2003**	2002
		$000	$000	**$000**	$000
Current					
Trade creditors	18 & 24	**6,658**	4,539	**3,593**	2,430
Other creditors		**1,196**	898	**414**	405
Amounts owing to the ultimate parent entity		**96**	54	**96**	54
		7,950	5,491	**4,103**	2,889

11. PROVISIONS

	Notes	Consolidated		Parent Entity	
		2003	2002	**2003**	2002
		$000	$000	**$000**	$000
Current					
Employee benefits	1N	**603**	465	**603**	465
Directors' retirement allowance		**103**	—	**103**	—
Dividends	1B & 5	**—**	2,335	**—**	2,335
		706	2,800	**706**	2,800
Non-Current					
Employee benefits	1N	**483**	367	**483**	367
Directors' retirement allowance		**117**	199	**117**	199
Future restoration costs	1M	**2,865**	2,204	**—**	—
		3,465	2,770	**600**	566

The aggregate employee benefits liability amounts to $1,085,000 (2002: $832,000).

As discussed in Note 1M, 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 $7,557,000 (2002: $7,185,000).

12. CONTRIBUTED EQUITY

	Consolidated		Parent Entity	
	2003	2002	**2003**	2002
	$000	$000	**$000**	$000
Issued and paid up capital:				
Ordinary shares fully paid — 46,691,944 (2002: 46,691,944)	**40,027**	40,027	**40,027**	40,027

13. RESERVES

	Consolidated		Parent Entity	
	2003	2002	**2003**	2002
	$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. Last year, the increments recorded in the reserve became 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.

14. RETAINED PROFITS

	Notes	Consolidated		Parent Entity	
		2003	2002	**2003**	2002
		$000	$000	**$000**	$000
Balance at the beginning of the financial year		**15,247**	15,802	**7,320**	9,805
Adjustment resulting from change in accounting policy for providing for dividends	1B	**2,335**	—	**2,335**	—
Net Profit attributable to Members of Magellan Petroleum Australia Limited		**3,319**	1,780	**3,785**	(150)
Total available for appropriation		**20,901**	17,582	**13,440**	9,655
Dividend provided for or paid	5	**(2,335)**	(2,335)	**(2,335)**	(2,335)
Balance at the end of the financial year		**18,566**	15,247	**11,105**	7,320

15. STATEMENTS OF CASH FLOWS

	Consolidated		Parent Entity	
	2003	2002	**2003**	2002
	$000	$000	**$000**	$000
(a) Reconciliation of Cash				
Cash balances are comprised entirely of cash on hand, at bank and on deposit at call	**30,469**	26,461	**29,082**	25,897
(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	**3,319**	1,780	**3,785**	(150)
Non-cash items				
Net loss (gain) on disposal of property, plant and equipment	**(11)**	(12)	**(8)**	20
Amortisation of petroleum properties	**4,371**	4,029	**—**	—
Depreciation of plant and equipment	**4,645**	3,277	**149**	198
Depreciation of buildings	**4**	4	**4**	4
Provision for employee benefits	**253**	(308)	**151**	(358)
Provision for future restoration costs	**661**	337	**—**	—
Provision for Directors' retirement allowance	**22**	21	**22**	21
Write off of capitalised exploration expenditure	**4,859**	8,671	**—**	—
Write off of investments in and loans to wholly-owned controlled entities	**—**	—	**4,607**	8,631
Changes in assets and liabilities				
Trade debtors and other receivables	**(458)**	2,028	**(1)**	(5)
Inventories	**76**	350	**—**	—
Trade creditors and other payables	**250**	544	**(34)**	(22)
Amounts payable to ultimate parent entity	**41**	55	**41**	55
Current income tax liability	**(240)**	(1,487)	**—**	—
Deferred income tax liability	**(2,221)**	(1,808)	**—**	—
Net Cash Flows from Operating Activities	**15,571**	17,481	**8,716**	8,394

16. SUBSEQUENT EVENTS

On 15 August 2003, Magellan Petroleum (Eastern) Pty Ltd entered into an agreement with Chimelle Petroleum Limited for the purchase of, at a price of $2.0 million, its 40.936% interest in Petroleum Leases 33, 50 & 51 and Authority to Prospect 267P, covering several small oil fields in the Nockatunga area of the Cooper Basin in southwest Queensland. The acquisition, which will be effective from 1 July 2003, is subject to the approval of the Queensland Minister for Mines.

On 4 September 2003, 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.

17. DETAILS OF INTERESTS IN JOINT VENTURES

(a) The consolidated entity has the following material interests in unincorporated joint ventures at 30 June 2003:

Joint Venture	Output Interest Percent (Before Royalty)		Title No.	Principal Activity
	2003	2002		
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
Maryborough Basin	**100.0000** ♦	98.0000	ATP 613P	Exploration
Maryborough Basin	**50.0000**	—	ATP 613P North	Exploration
Maryborough Basin	**50.0000** ♦	—	ATPA 733P *	Exploration
Eastern Browse Basin	**35.0000**	100.0000	WA-288-P	Exploration
Carnarvon Basin	**85.0000**	100.0000	WA-291-P	Exploration
Southern Browse Basin	**50.0000**	37.5000	WA-306-P	Exploration
Southern Browse Basin	**50.0000**	37.5000	WA-307-P	Exploration
Eastern Browse Basin	**35.0000**	100.0000	WA-311-P	Exploration
Cooper Basin	**50.0000**	50.0000	PEL 94	Exploration
Cooper Basin	**50.0000**	50.0000	PEL 95	Exploration
Cooper Basin	**37.5000**	50.0000	PEL 110	Exploration
Cooper Basin	**50.0000**	50.0000	PELA 116 *	Exploration
Canterbury Basin (NZ)	**25.0000** ♦	7.5000	PEP 38256	Exploration
Taranaki Basin (NZ)	**25.0000**	—	PEP 38746	Exploration
Taranaki Basin (NZ)	**25.0000**	—	PEP 38748	Exploration
Taranaki Basin (NZ)	**25.0000**	—	PEP 38753	Exploration
Taranaki Basin (NZ)	**12.5000**	—	PPP 38761	Exploration
Weald/Wessex Basin (UK)	**45.0000**	30.0000	PEDL 098	Exploration
Weald/Wessex Basin (UK)	**45.0000**	30.0000	PEDL 099	Exploration
Weald/Wessex Basin (UK)	**33.3000**	33.3000	PEDL 112	Exploration
Weald/Wessex Basin (UK)	**45.0000**	30.0000	PEDL 113	Exploration

The participating interests in the abovementioned joint ventures are the same as the output interests with the exception of PEL 110, where the consolidated entity has a 25 percent participating interest for the period to 5 February 2005.

♦ Pending Ministerial consent.

* Grant of permits pending resolution of Native title negotiations.

17. 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		Parent Entity	
	2003	2002	**2003**	2002
	$000	$000	**$000**	$000
Current Assets				
Cash assets	**1,386**	563	**—**	—
Receivables	**22**	22	**—**	—
	1,408	585	**—**	—
Non-Current Assets				
Petroleum Properties				
Production phase properties	**15,393**	18,490	**—**	—
Exploration phase properties	**8,249**	2,313	**—**	—
	23,642	20,803	**—**	—
Land and buildings	**62**	62	**—**	—
Property, plant and equipment	**13,074**	12,969	**—**	—
	36,778	33,834	**—**	—
Share of assets employed in joint ventures	**38,186**	34,419	**—**	—

(c) Capital and exploration expenditure commitments in respect of joint ventures are disclosed in Note 20.

18. RECEIVABLES AND PAYABLES DENOMINATED IN FOREIGN CURRENCIES

	Consolidated		Parent Entity	
	2003	2002	**2003**	2002
	$000	$000	**$000**	$000
The Australian dollar equivalents (calculated at year end exchange rates) of amounts receivable and payable in foreign currency and which are not effectively hedged, are as follows:				
Receivables — Current	**447**	599	**—**	—
Payables — Current	**162**	503	**—**	—

19. CONTINGENT LIABILITIES

	Consolidated		Parent Entity	
	2003	2002	**2003**	2002
	$000	$000	**$000**	$000
Bank guarantees and bonds on leases and permits	**161**	161	**—**	—

20. EXPENDITURE AND OTHER COMMITMENTS

	Consolidated		Parent Entity	
	2003	2002	**2003**	2002
	$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	**3,937**	1,640	**—**	—
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	**3,997**	3,387	**—**	—
- contingent	**6,996**	8,025	**—**	—
later than one year and not later than five years				
- firm	**1,650**	2,188	**—**	—
- contingent	**38,138**	41,548	**—**	—
later than five years				
- contingent	**1,376**	871	**—**	—
	52,157	56,019	**—**	—
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	**9,459**	6,614	**—**	—
- contingent	**26,310**	7,037	**—**	—
	35,769	13,651	**—**	—
Lease Expenditure Commitments				
Operating Leases (Non-Cancellable) — Rental Payable				
Minimum lease payments:				
not later than one year	**204**	194	**204**	194
later than one year and not later than five years	**—**	204	**—**	204
	204	398	**204**	398

Operating leases have an average lease term of 1 year. The only operating lease in place is in respect of head office premises.

20. EXPENDITURE AND OTHER COMMITMENTS (CONTINUED)

	Consolidated		Parent Entity	
	2003	2002	**2003**	2002
	PJ's	PJ's	**PJ's**	PJ's
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 (PJs):				
not later than one year	**7.93**	7.90	**—**	—
later than one year and not later than five years	**31.50**	29.02	**—**	—
later than five years	**12.72**	17.18	**—**	—
	52.15	54.10	**—**	—

On 17 January 2003 the Palm Valley Producers and the purchaser executed a deed amending the Darwin gas purchase agreement in line with a Heads of Agreement signed by both parties to deal with future drilling and gas deliveries. The abovementioned commitments to supply gas reflect the consolidated entity's share of the revised commitments in accord with the deed of amendment.

21. REMUNERATION OF AUDITORS

	Consolidated		Parent Entity	
	2003	2002	**2003**	2002
	$	$	**$**	$
Amounts received or due and receivable by Ernst & Young for:				
An audit and review of the financial report of the parent entity and the consolidated entity	**104,091**	89,750	**44,384**	35,500
Other services in relation to the parent entity and the consolidated entity	**51,997**	24,394	**26,227**	12,270
	156,088	114,144	**70,611**	47,770

22. 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.

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 was no changes in segment accounting policies that had a material effect on the segment information.

Geographical Segments	Australia	Overseas	Consolidated
	2003	**2003**	**2003**
	$000	**$000**	**$000**
Revenue:			
Oil and gas sales	**24,377**	**—**	**24,377**
Other	**3,409**	**—**	**3,409**
Total Segment Revenue	**27,786**	**—**	**27,786**
Results:			
Segment result	**878**	**55**	**933**
Income Tax Expense	**2,386**	**—**	**2,386**
Net Profit	**3,264**	**55**	**3,319**
Total Assets	**74,282**	**1,171**	**75,453**
Total Liabilities	**16,379**	**5**	**16,384**
Other segment information:			
Acquisition of non-current assets	**11,176**	**1,551**	**12,727**
Depreciation	**4,649**	**—**	**4,649**
Amortisation	**4,371**	**—**	**4,371**
Non-cash expenses other than depreciation and amortisation	**5,850**	**(55)**	**5,795**

Geographical Segments	2002	2002	2002
	$000	$000	$000
Revenue:			
Oil and gas sales	24,075	—	24,075
Other	4,393	—	4,393
Total Segment Revenue	28,468	—	28,468
Results:			
Segment result	1,046	(161)	885
Income Tax Expense	895	—	895
Net Profit	1,941	(161)	1,780
Total Assets	73,416	118	73,534
Total Liabilities	17,713	71	17,784
Other segment information:			
Acquisition of non-current assets	13,135	411	13,546
Depreciation	3,281	—	3,281
Amortisation	4,029	—	4,029
Non-cash expenses other than depreciation and amortisation	8,561	160	8,721

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 asset, 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 78 percent of the total debtors amount at balance date was owed, directly or indirectly, by Government instrumentalities. The remaining 22 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	1I	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 provision for bad or doubtful debts. A provision 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	
	2003	2002	**2003**	2002	**2003**	2002
	$000	$000	**$000**	$000	**%**	%
Financial Assets:						
Cash	**30,462**	26,440	**7**	21	**4.8**	4.5
Receivables	**—**	—	**6,405**	7,091	**N/A**	N/A
Total Financial Assets	**30,462**	26,440	**6,412**	7,112		
Financial Liabilities:						
Trade and other creditors	**—**	—	**7,950**	5,491	**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. REMUNERATION OF DIRECTORS AND EXECUTIVES

A. Remuneration of Directors

	Directors of Entities in the Consolidated Entity		Directors of the Parent Entity	
	2003	2002	**2003**	2002
	$	$	**$**	$
Income paid or payable, or otherwise made available to Directors (including executive Directors whose remuneration also is included in Note 25B below), directly or indirectly, by entities in the consolidated entity and related parties in connection with management of the affairs of the entities in the consolidated entity	**176,732**	603,802	**176,732**	603,802
Number of parent entity Directors whose income from the parent entity and related parties was within the following bands:				
$0 — $9,999			**1**	1
$10,000 — $19,999			**—**	2
$20,000 — $29,999			**2**	1
$30,000 — $39,999			**2**	1
$70,000 — $79,999			**1**	1
$440,000 — $449,999			**—**	1

B. Remuneration of Executives

	Executives of the Consolidated Entity		Executives of the Parent Entity	
	2003	2002	**2003**	2002
	$	$	**$**	$
Remuneration received, or due and receivable, directly or indirectly, from entities in the consolidated entity and related parties by executive officers whose remuneration was at least $100,000 (including executive Directors whose remuneration also is included in Note 25A above)	**1,177,899**	1,331,272	**1,177,899**	1,331,272
Number of executive officers whose remuneration from entities in the consolidated entity and related parties was within the following bands:				
$180,000 — $189,999	**—**	1	**—**	1
$190,000 — $199,999	**1**	1	**1**	1
$200,000 — $209,999	**2**	1	**2**	1
$220,000 — $229,999	**1**	—	**1**	—
$290,000 — $299,999	**—**	1	**—**	1
$350,000 — $359,999	**1**	—	**1**	—
$440,000 — $449,999	**—**	1	**—**	1

The remuneration totals disclosed in Notes 25A and 25B above include retirement benefits and the payment on retirement of accrued statutory entitlements totalling $NIL (2002: $254,477).

26. RELATED PARTY DISCLOSURES

(a) During the financial year the Directors of Magellan Petroleum Australia Limited were:

Roy M. Hopkins	Rodney F. Cormie	James R. Joyce
John P. Kelly	Walter McCann	Timothy L. Largay

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

Transactions between the Consolidated Entity and Directors of Magellan Petroleum Australia Limited

Mr R. M. Hopkins holds a consultancy agreement with the parent entity. Remuneration under this contract is included in Note 25.

Transactions of Directors and Director-Related Entities Concerning Shares

The aggregate number of shares in Magellan Petroleum Australia Limited held directly, indirectly or beneficially by Directors or their Director-related entities at balance date was 1,843 (2002: 5,531).

Transactions with Director-Related Entities

Mr J. P. Kelly is a partner of the firm of Corrs Chambers Westgarth which received professional fees of $61,000 (2002: $37,000) for legal services provided during the year to the consolidated entity in the ordinary course of business.

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.

Income tax losses were transferred during the financial year between entities within the wholly-owned group. Such losses were transferred for no consideration. The amounts transferred to the parent entity from wholly-owned controlled entities are disclosed in Note 4.

Other Related Parties

On 24 February 2000, the ultimate parent entity, Magellan Petroleum Corporation (MPC), granted 40,000 options, in aggregate, to Directors and 110,000 options, in aggregate, to executive officers of Magellan Petroleum Australia Limited to purchase shares in MPC at the market price on the date of the grant. The granting of these options was at no cost to the entity or a related party. The final tranche for options vested on 24 February 2003.

(c) 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 2003 owns 52.44 percent (2002: 52.03 percent) of the issued ordinary shares of Magellan Petroleum Australia Limited.

27. SUPERANNUATION

A Defined Benefits Superannuation Fund has been operated by the parent entity since 1970 with the primary objective of attracting and retaining suitably qualified personnel. Management, however, is currently undertaking a review of this old style fund to determine its future, due to it no longer achieving its primary objective. Pending the completion of this review and a recommendation by management, no new salaried employees will be invited to become members of the Fund. The parent entity contributes to the Fund at rates which (based on actuarial determination) are sufficient to meet the cost of members' retirement benefits.

Fund members are entitled to defined benefits on normal retirement, death, or disablement. The retirement benefits are dependent on years of membership and final average salary. Death and disablement benefits are dependent on the potential period of membership at the date of joining the Fund and final salary. On ceasing employment, members are entitled to a full vesting of their equitable share of the Fund. Contributions to the Fund during the year amounted to $232,000 (2002: $253,000). For members of the Fund, the minimum vesting requirements specified by the Federal Government Superannuation Guarantee legislation are satisfied. For non-member employees, the parent entity contributes to industry funds at (at least) the minimum Superannuation Guarantee levels.

The parent entity is committed to make up any shortfall in the Fund's assets to meet retirement benefit payments to members as they become due. Due to the volatility of the equity markets subsequent to 30 June 2002 and the impact on the Fund's assets, the Directors decided to bring forward the next full actuarial assessment of the Fund to 31 December 2002. This actuarial assessment of the Fund was carried out by Mr S. Mather, BAppSc (Maths), on 16 April 2003. This assessment indicated a deficit of Fund assets over accrued benefits of $289,000 and recommended that the Company increase its level of contribution from 22% to 24% of salaries, effective 1 January 2003. The parent entity has accepted this recommendation and has increased contribution levels effective 1 January 2003. Based on this assessment and a subsequent review, the Directors are of the view that the assets of the Fund at balance date are sufficient to satisfy members' vested benefits in the event of: (i) termination of the Fund, or (ii) the cessation of employment of each employee who is a member of the Fund. Under the terms of the Trust Deed the Company's only legal obligation is to contribute to the fund at the level advised by the Trustee.

Details of the Superannuation Fund arising from the actuarial assessment of the Fund to 31 December 2002 are as follows:

	$000
Accrued benefits	3,139
Estimated net market value of Fund assets	2,850
Vested benefits	2,850

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 2003 and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards and 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.

Signed in accordance with a resolution of the Directors:

RODNEY F. CORMIE
Chairman

JOHN P. KELLY
Director

Brisbane, 12 September 2003

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 Magellan Petroleum Australia Limited (the company and the consolidated entity, for the year ended 30 June 2003. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, 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 in order to provide reasonable assurance as to 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 control, 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 assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of 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.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgment of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

Audit Opinion

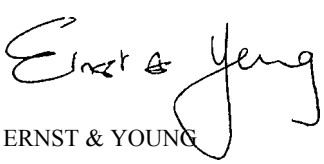
In our opinion, the financial report of Magellan Petroleum Australia Limited is in accordance with:

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

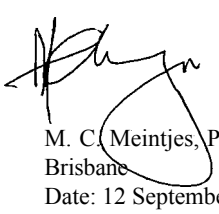
  (i) giving a true and fair view of the financial position of Magellan Petroleum Australia Limited and the consolidated entity at 30 June 2003 and of their performance for the year ended on that date; and

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

(b) other mandatory financial reporting requirements in Australia.



ERNST & YOUNG



M. C. Meintjes, Partner
Brisbane
Date: 12 September 2003