

MAGELLAN PETROLEUM (N.T.) PTY. LTD.**ABN 62 009 718 183****DIRECTORS' REPORT FOR THE YEAR ENDED JUNE 30, 2002**

Your Directors present their report on the accounts for the year ended June 30, 2002.

Directors

The following persons held office as Directors of Magellan Petroleum (N.T.) Pty. Ltd. during the whole of the financial year and up to the date of this report, unless otherwise specified:

Bruce McInnes and Joseph P. Morfea

Mr Hedley Howard, a Director for many years, sadly died during the year. Dr Gwynn Davies then consented to be a Director to fill the vacancy.

Principal Activities

The principal activities of the Company consist of petroleum exploration, development, production, processing and marketing. There were no significant changes in the nature of these activities during the financial year.

Results

The profit from ordinary activities after income tax expense was \$8,041,000 (2001: \$6,428,000).

Dividends

A fully franked dividend of \$3.00 per fully paid ordinary share totalling \$6,802,236 was paid to the shareholder of the Company on June 25, 2002. The Directors do not now recommend the payment of any further dividends.

Rounding of Amounts to Nearest Thousand Dollars

The amounts contained in this Report and in the Financial Statements have been rounded off 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 (N.T.) Pty. Ltd. dated October 30, 2002.



Joseph P. Morfea
Director



Bruce McInnes
Director



INDEPENDENT AUDIT REPORT

To the members of Magellan Petroleum (N.T.) Pty. Ltd.

Scope

We have audited the attached financial report, being a special purpose financial report of Magellan Petroleum (N.T.) Pty Ltd for the year ended 30 June 2002, as set out on pages 3 to 24. The company's directors are responsible for the financial report and have determined that the accounting policies used and described in Note 1 to the financial statements which form part of the financial report are appropriate to meet the requirements of the Corporations Act 2001 and appropriate to meet the needs of the members. We have conducted an independent audit of the financial report in order to express an opinion to the members of Magellan Petroleum (N.T.) Pty Ltd. No opinion is expressed as to whether the accounting policies used, and described in Note 1, are appropriate to the needs of the members.

The financial report has been prepared for distribution to members for the purpose of fulfilling the directors' financial reporting requirements under the Corporations Act 2001. We disclaim any assumption of responsibility for any reliance on this report or on the financial report to which it relates to any person other than the members, or for any purpose other than that for which it was prepared.

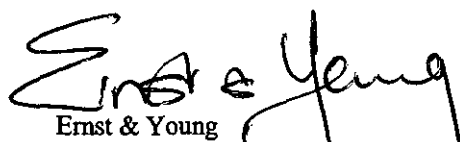
Our audit has been conducted in accordance with Australian Auditing Standards. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report and evaluation of significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the accounting policies described in Note 1 to the financial statements, so as to present a view which is consistent with our understanding of the entity's financial position, and performance as represented by the results of its operations and its cash flows. These policies do not require the application of all Accounting Standards and other professional reporting requirements in Australia.

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

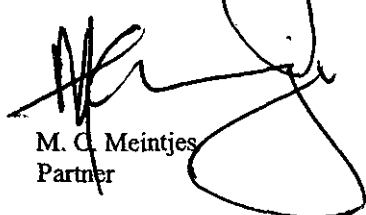
Audit Opinion

In our opinion, the financial report of Magellan Petroleum (N.T.) Pty. Ltd. is in accordance with:

- (a) the Corporations Act 2001 including:
 - (i) giving a true and fair view of the company's and consolidated financial position as at 30 June 2002 and their performance for the year ended on that date in accordance with the accounting policies described in Note 1; and
 - (ii) complying with AASB 1025 "Application of the Reporting Entity Concept and Other Amendments" and other Accounting Standards to the extent described in Note 1 and the Corporations Regulations; and
- (b) other professional reporting requirements to the extent described in Note 1.



Ernst & Young



M. G. Meintjes
Partner

Brisbane

Date: 30 October 2002

MAGELLAN PETROLEUM (N.T.) PTY. LTD.

DIRECTORS' DECLARATION

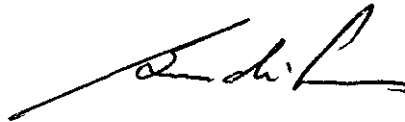
In the opinion of the Directors of Magellan Petroleum (N.T.) Pty. Ltd.:

- (a) the financial statements and notes of the Company are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's financial position as at June 30, 2002 and of its 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:



Joseph P. Morfea
Director



Bruce McInnes
Director

Brisbane, October 30, 2002

MAGELLAN PETROLEUM (N.T.) PTY. LTD.

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED JUNE 30, 2002

	NOTES	2002 \$000	2001 \$000
Sales Revenue	2	24,075	26,230
Cost of Sales		<u>(17,034)</u>	<u>(15,918)</u>
GROSS PROFIT		7,041	10,312
Other Revenues from Ordinary Activities	2	3,385	1,633
Administration Expenses		(3,184)	(3,274)
Other Expenses from Ordinary Activities		<u>(8)</u>	<u>(35)</u>
PROFIT BEFORE WRITE OFF OF CAPITALISED EXPENDITURE AND INCOME TAX EXPENSE		7,234	8,636
Write Off of Capitalised Exploration Expenditure		<u>(88)</u>	<u>(174)</u>
PROFIT FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE		7,146	8,462
INCOME TAX ATTRIBUTABLE TO PROFIT FROM ORDINARY ACTIVITIES	4	<u>895</u>	<u>(2,034)</u>
PROFIT FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE	12	<u>8,041</u>	<u>6,428</u>
TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS		<u>8,041</u>	<u>6,428</u>

MAGELLAN PETROLEUM (N.T.) PTY. LTD.

STATEMENT OF FINANCIAL POSITION AS AT JUNE 30, 2002

	NOTES	2002 \$000	2001 \$000
CURRENT ASSETS			
Cash Assets	1L / 13	441	151
Receivables	6	6,960	7,816
Inventories	IJ	671	1,052
TOTAL CURRENT ASSETS		<u>8,072</u>	<u>9,019</u>
NON-CURRENT ASSETS			
Petroleum properties - Exploration Phase	7	201	79
- Production Phase	7	23,489	27,310
Property, plant and equipment	8	13,030	13,804
TOTAL NON-CURRENT ASSETS		<u>36,720</u>	<u>41,193</u>
TOTAL ASSETS		<u>44,792</u>	<u>50,212</u>
CURRENT LIABILITIES			
Payables	9	3,352	2,769
Current Tax Liabilities	4	240	1,727
TOTAL CURRENT LIABILITIES		<u>3,592</u>	<u>4,496</u>
NON-CURRENT LIABILITIES			
Payables	9	14,521	18,806
Deferred Tax Liabilities	4	6,483	8,291
Provisions	10	2,205	1,867
TOTAL NON-CURRENT LIABILITIES		<u>23,209</u>	<u>28,964</u>
TOTAL LIABILITIES		<u>26,801</u>	<u>33,460</u>
NET ASSETS		<u>17,991</u>	<u>16,752</u>
EQUITY			
Contributed Equity	11	4,535	4,535
Reserves	12	415	415
Retained Profits	12	13,041	11,802
TOTAL EQUITY		<u>17,991</u>	<u>16,752</u>

MAGELLAN PETROLEUM (N.T.) PTY. LTD.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2002

	NOTES	2002 \$000	2001 \$000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		32,203	28,943
Payments to suppliers and employees		(8,606)	(9,483)
Income tax paid		(2,400)	(3,257)
Goods and services tax paid/input tax credits received		(2,168)	(2,311)
Interest received		14	55
Royalties paid		(2,202)	(2,513)
Royalties received		149	151
Management fees paid to immediate parent entity		<u>(1,308)</u>	<u>(1,265)</u>
Net Cash Flows from Operating Activities	13	<u>15,682</u>	<u>10,320</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Expenditure on:			
Exploration phase properties		(193)	(172)
Production phase properties		(2,283)	(3,475)
Property, plant and equipment		(3,132)	(2,150)
Proceeds from the sale of:			
Property, plant and equipment		40	237
Proceeds of borrowings from immediate parent entity		30,512	29,525
Repayment of borrowings from immediate parent entity		(34,757)	(30,803)
Reimbursements of operating and development expenditure		<u>1,223</u>	<u>127</u>
Net Cash Flows (used in)/from Investing Activities		<u>(8,590)</u>	<u>(6,711)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	5	<u>(6,802)</u>	<u>(4,535)</u>
Net Cash Flows used in Financing Activities		<u>(6,802)</u>	<u>(4,535)</u>
NET INCREASE/(DECREASE) IN CASH HELD			
Add opening cash brought forward		<u>151</u>	<u>1,077</u>
CLOSING CASH CARRIED FORWARD	13	<u>441</u>	<u>151</u>

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

MAGELLAN PETROLEUM (N.T.) PTY. LTD.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Financial Statements

This special purpose financial report has been prepared for distribution to the members to fulfil the Directors' financial reporting requirements under the Corporations Act 2001. The accounting policies used in the preparation of this report, as described below, are consistent with previous years, and are, in the opinion of the Directors, appropriate to meet the needs of members.

By virtue of Accounting Standard AASB 1025: Application of the Reporting Entity Concept and Other Amendments, the requirements of Accounting Standards issued by the Australian Accounting Standards Board and other professional reporting requirements do not have mandatory applicability to Magellan Petroleum (N.T.) Pty Ltd in relation to the year ended June 30, 2002 because the Directors have determined that the Company is not a reporting entity. However the Directors have determined that in order for the financial report to give a true and fair view of the company's results of operations and state of affairs, the requirements of Accounting Standards and other professional reporting requirements, with the exception of AASB 1005 Segment Reporting, should be complied with.

The financial statements have been prepared in accordance with the historical cost convention, except for certain assets, which are at valuation.

B. Corporate Information

Magellan Petroleum (N.T.) Pty Ltd is a company limited by shares that is incorporated and domiciled in Australia. The Company's registered office and principle place of business is:

10th Floor, 145 Eagle Street, Brisbane, Qld 4000.

At June 30, 2002, the Company had no (2001: nil) employees.

C. 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.

MAGELLAN PETROLEUM (N.T.) PTY. LTD.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

D. Petroleum Properties - Capitalised Expenditure

All exploration and development expenditure incurred by the Company on the various petroleum property interests is capitalised and carried in the Statement of Financial Position as Non-Current Assets. 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 is written off to the Profit and Loss 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 is written off to 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 Company has entered into joint venture agreements with other parties whereby those parties have earned or may earn a portion of certain of the Company's petroleum property interests in return for conducting approved exploration programs on such properties at no cost to the Company. No adjustment is made to capitalised expenditure to reflect the change in the Company'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 Statement of Financial Position is recoverable is dependent on the Company obtaining revenue, at some future date, from the sale of petroleum production or the sale of assets.

MAGELLAN PETROLEUM (N.T.) PTY. LTD.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. 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 added to the unamortised balance of capitalised expenditure already incurred in respect of the production phase properties and the aggregate amounts are amortised by apportionment in the ratio of the production for the period to the total remaining economically recoverable reserves of oil and gas (i.e. on a production output basis). In the case of gas, the economically recoverable reserves used for amortisation purposes are limited to the 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.

F. 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 used for depreciating the Mereenie oil pipeline and Brewer Estate oil handling facilities is on a production output basis over their expected useful lives. 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 Company.

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)

G. Recoverable Amount

With the exception of exploration expenditure carried forward, which is covered in Note 1D, 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 Company has no policy of regular revaluation of non-current assets.

MAGELLAN PETROLEUM (N.T.) PTY. LTD.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Provision For Future Restoration Costs

A provision is being built up in the financial statements (on a production output basis) over the period required to produce all the proved reserves of petroleum in the various areas of interest for the estimated future restoration obligations in respect of such areas. The estimated restoration obligations recognised include removal of facilities, abandoning of wells and restoring the disturbed areas and are based upon current undiscounted costs, current legal requirements and current technology. Estimates of future restoration obligations are reviewed and reassessed regularly and if revisions to estimates arise, they are made on a prospective basis.

I. Translation of Foreign Currencies

Foreign currency transactions are translated into Australian currency at the rate of exchange ruling at the date of the transaction. 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.

J. 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.

K. Joint Venture Operations

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

L. Cash and Cash Equivalents

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

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

M. Comparatives

Where necessary, the previous year's comparative figures have been adjusted to ensure consistent presentation with disclosures adopted in the current year.

MAGELLAN PETROLEUM (N.T.) PTY. LTD.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. 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 the goods has passed to the buyer.

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.

O. 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.

MAGELLAN PETROLEUM (N.T.) PTY. LTD.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2002

	NOTES	2002 \$000	2001 \$000
2. REVENUE FROM ORDINARY ACTIVITIES			
Sales Revenue			
Oil sales revenue		6,741	9,292
Gas sales revenue		<u>17,334</u>	<u>16,938</u>
Total sales revenue		<u>24,075</u>	<u>26,230</u>
Revenues from Non-Operating Activities			
Interest from other persons/corporations		14	55
Proceeds from sale of non-current assets		40	237
Rent		16	23
Royalties		149	151
Other revenue		<u>3,166</u>	<u>1,167</u>
Total Revenues from Non-Operating Activities		<u>3,385</u>	<u>1,633</u>
Total Revenue from Ordinary Activities	1N	<u>27,460</u>	<u>27,863</u>
3. EXPENSES AND LOSSES/(GAINS)			
(a) Expenses			
Amortisation of non-current assets:			
Amortisation of capitalised expenditure on production phase petroleum properties	1E	4,688	3,983
Depreciation of non-current assets:			
Depreciation of plant and equipment	1F	<u>3,079</u>	<u>2,705</u>
Total Amortisation and Depreciation		<u>7,767</u>	<u>6,688</u>
Royalties paid to governments		1,558	1,730
Provision for future restoration costs	1H	337	301
(b) (Gains)/Losses			
Net (gain)/loss on disposal of property, plant and equipment		<u>(32)</u>	<u>(202)</u>

MAGELLAN PETROLEUM (N.T.) PTY. LTD.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2002

	NOTES	2002 \$000	2001 \$000
4. INCOME TAX			
The Company applies tax-effect accounting procedures as set out in Note 1C.			
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 from Ordinary Activities		<u>7,146</u>	<u>8,462</u>
Prima facie income tax expense at 30% (2001: 34%)		2,144	2,877
Income Tax effect of permanent differences:			
Non-assessable receipts net of non-deductible expenses		(512)	(327)
Transfer of tax losses to (from) related entities		<u>(2,527)</u>	<u>(234)</u>
Income Tax Expense/(Benefit) attributable to Profit from Ordinary Activities at 30% (2001: 34%)		(895)	2,316
Gain on change in Income Tax rate from 34% (2000: 36%) to 30% (2001: 34%) effective July 1, 2001		<u>—</u>	<u>(282)</u>
Income Tax Attributable to Profit from Ordinary Activities		<u>(895)</u>	<u>2,034</u>
Tax Assets and Liabilities			
Current tax payable		240	1,727
Provision for deferred income tax – non-current		6,483	8,291
5. DIVIDENDS PROVIDED FOR OR PAID			
Dividends Proposed		<u>—</u>	<u>—</u>
Dividends Paid during the Year:			
Current year dividend			
- Franked at 30% (2001: 34%)		6,802	4,535
- Unfranked		<u>—</u>	<u>—</u>
		<u>6,802</u>	<u>4,535</u>
Franking credits available for the subsequent year		<u>949</u>	<u>1,789</u>

This franking account disclosures have been calculated using the franking rate applicable at 30 June 2002.

MAGELLAN PETROLEUM (N.T.) PTY. LTD.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2002

	NOTES	2002 \$000	2001 \$000
6. RECEIVABLES			
Current Assets			
Trade debtors		4,768	6,801
Other debtors		<u>2,192</u>	<u>1,015</u>
		<u>6,960</u>	<u>7,816</u>
7. PETROLEUM PROPERTIES (CAPITALISED EXPENDITURE)			
Production phase properties			
- at Directors' valuation 1964		2,736	2,736
Less: Accumulated amortisation	1D	<u>1,979</u>	<u>1,900</u>
		<u>757</u>	<u>836</u>
- at cost (net of recoverable development expenditure)		63,889	63,024
Less: Accumulated amortisation	1D	<u>41,157</u>	<u>36,550</u>
		<u>22,732</u>	<u>26,474</u>
Production phase properties at written down value		<u>23,489</u>	<u>27,310</u>
Exploration phase properties at cost		289	253
Less: Written off during the year		<u>88</u>	<u>174</u>
Exploration phase properties at written down value		<u>201</u>	<u>79</u>
Total Petroleum Properties at written down value		<u>23,690</u>	<u>27,389</u>

MAGELLAN PETROLEUM (N.T.) PTY. LTD.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2002

	NOTES	2002 \$000	2001 \$000
8. PROPERTY, PLANT AND EQUIPMENT			
Freehold land at cost		<u>61</u>	<u>61</u>
Interests in Joint Venture Plant and Equipment at cost:			
Mereenie Field, Pipeline & Brewer Estate		36,683	34,582
Palm Valley Field (net of recoverable development expenditure)		<u>1,667</u>	<u>1,601</u>
		38,350	36,183
Less: Accumulated depreciation		<u>25,381</u>	<u>22,440</u>
		<u>12,969</u>	<u>13,743</u>
Total Property, Plant and Equipment at written down value		<u>13,030</u>	<u>13,804</u>
Recent Valuations – as at June 30, 2002 the Directors valued interests in the Freehold Land and Buildings included above at other than current value, as follows:			
Freehold Land		61	61
Buildings		<u>—</u>	<u>—</u>
Total Freehold Land and Buildings		<u>61</u>	<u>61</u>

These interests are recorded in the accounts at cost. If these assets were sold at balance date at the valuation amounts, the capital gains tax payable would be \$Nil.

MAGELLAN PETROLEUM (N.T.) PTY. LTD.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2002

	NOTES	2002 \$000	2001 \$000
8. PROPERTY, PLANT AND EQUIPMENT (continued)			
Freehold land			
Carrying amount at beginning		61	70
Disposals		<u>—</u>	<u>(9)</u>
Carrying amount at balance date		61	61
Plant and Equipment			
Carrying amount at beginning		—	5
Additions		—	—
Disposals		—	(5)
Depreciation Expense		<u>—</u>	<u>—</u>
Carrying amount at balance date		<u>—</u>	<u>—</u>
Interest in Joint Venture Plant and Equipment			
Carrying amount at beginning		13,743	13,282
Additions		2,283	3,475
Disposals		(8)	(22)
Depreciation Expense		<u>(3,049)</u>	<u>(2,992)</u>
Carrying amount at balance date		<u>12,969</u>	<u>13,743</u>
9. PAYABLES			
Current Liabilities			
Trade creditors		2,406	2,103
Amount owing to immediate parent entity		<u>946</u>	<u>666</u>
		<u>3,352</u>	<u>2,769</u>
Non-Current Liabilities			
Amount owing to immediate parent entity		<u>14,521</u>	<u>18,806</u>

MAGELLAN PETROLEUM (N.T.) PTY. LTD.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2002

	NOTES	2002 \$000	2001 \$000
10. PROVISIONS			
Non-Current Liabilities			
Future restoration costs		<u>2,205</u>	<u>1,867</u>
As discussed in Note 1H, the provision for future restoration costs is being built up (on a production output basis) over the period required to produce all the proved reserves of petroleum in the various areas of interest. It is estimated that the Company's share of the total cost (undiscounted and based upon current costs) of such future restoration after petroleum production operations cease is \$7,185,000 (2001: \$6,842,000).			
11. CONTRIBUTED EQUITY			
Issued and paid up capital:			
Ordinary shares fully paid - 2,267,412 (2001: 2,267,412)		<u>4,535</u>	<u>4,535</u>
12. RESERVES AND RETAINED PROFITS			
Reserves			
Asset revaluation		<u>415</u>	<u>415</u>
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 deemed cost. The reserve cannot be used for future decrements in the valuation of non-current assets.			
Retained Profits			
Balance at the beginning of the financial year		11,802	9,909
Net Profit		<u>8,041</u>	<u>6,428</u>
Total available for appropriation		19,843	16,337
Dividend provided for or paid		<u>6,802</u>	<u>4,535</u>
Balance at the end of the financial year		<u>13,041</u>	<u>11,802</u>

MAGELLAN PETROLEUM (N.T.) PTY. LTD.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2002

	NOTES	2002 \$000	2001 \$000
13. STATEMENT OF CASH FLOWS			
(a) Reconciliation of Cash			
Cash balances are comprised entirely of cash on hand, at bank and on deposit at call		<u>441</u>	<u>151</u>
(b) Reconciliation of the Operating Profit after Income Tax to the Net Cash Flows from Operating Activities:			
Profit from Ordinary Activities after Income Tax		8,041	6,428
Add (less) items classified as investing or financing activities			
Net loss/(gain) on sale of non-current assets		(32)	(202)
Add (less) non-cash flow items			
Amortisation of petroleum properties		4,688	3,983
Depreciation of property, plant and equipment		3,079	2,913
Provision for future restoration costs		338	302
Write off of capitalised exploration expenditure		88	174
Change in assets and liabilities			
Trade debtors and other receivables		2,526	(901)
Inventories		350	(489)
Trade creditors and other payables		(101)	(665)
Current income tax liability		(1,487)	(332)
Deferred income tax liability		<u>(1,808)</u>	<u>(891)</u>
Net Cash Flows from Operating Activities		<u>15,682</u>	<u>10,320</u>

MAGELLAN PETROLEUM (N.T.) PTY. LTD.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2002

14. DETAILS OF INTERESTS IN JOINT VENTURES

- (a) The Company has the following material interests in unincorporated joint ventures at June 30, 2002:

Joint Venture	Output Interest Percent (Before Royalty)		Title Number	Principal Activity
	2002	2001		
Palm Valley Field	52.0230*	50.7750	OL 3	Gas Production
Mereenie Field	35.0000	35.0000	OL 4 & 5	Oil and Gas Production
Mereenie Pipeline	35.0000	35.0000	—	Oil Transportation
Dingo Field	34.3365	34.3365	RL 2	Exploration
Weald/Wessex Basin	30.0000	30.0000	PEDL 098	Exploration
Weald/Wessex Basin	30.0000	30.0000	PEDL 099	Exploration
Weald/Wessex Basin	33.3000	—	PEDL 112	Exploration
Weald/Wessex Basin	30.0000	—	PEDL 113	Exploration

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

* Pending Ministerial consent.

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

	NOTES	2002 \$000	2001 \$000
Current Assets			
Cash		<u>441</u>	<u>151</u>
Non-Current Assets			
Petroleum Properties			
- Production phase properties		23,488	27,310
Land and buildings		61	61
Property, plant and equipment		<u>12,970</u>	<u>13,743</u>
		<u>36,519</u>	<u>41,114</u>
Share of assets employed in joint ventures		<u>36,960</u>	<u>41,265</u>

- (c) Capital and exploration expenditure commitments in respect of joint ventures are disclosed in Note 21.

MAGELLAN PETROLEUM (N.T.) PTY. LTD.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2002

15. ECONOMIC DEPENDENCY

The Company has entered into long term contracts 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.

16. SEGMENT INFORMATION

The Company 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.

17. REMUNERATION OF DIRECTORS

	2002 \$	2001 \$
Income paid or payable, or otherwise made available to Directors, directly or indirectly, by the Company and related parties	<u>1,125,040</u>	<u>718,746</u>

The number of Directors of the Company (in respect of whom disclosure is required) whose income (including superannuation contributions) from the Company or related parties was within the specified bands is as follows:

\$170,000 — \$180,000	—	2
\$180,000 — \$190,000	1	—
\$190,000 — \$200,000	1	—
\$290,000 — \$300,000	1	—
\$360,000 — \$370,000	—	1
\$440,000 — \$450,000	1	—

18. REMUNERATION OF AUDITORS

Amounts received or due and receivable by auditors of the Company for:

Audit of the accounts	45,650	45,577
Other services	<u>9,074</u>	<u>14,990</u>
	<u>54,724</u>	<u>60,567</u>

MAGELLAN PETROLEUM (N.T.) PTY. LTD.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2002

19. CONTINGENT LIABILITY

The Company has contingent liabilities in respect of bank guarantees and bonds on production leases and exploration permits aggregating \$139,000 (2001: \$138,000).

20. RECEIVABLES DENOMINATED IN FOREIGN CURRENCIES

	2002 \$	2001 \$
The Australian dollar equivalents (calculated at year end exchange rates) of amounts receivable in United States currency and which are not effectively hedged, are as follows:		

Receivables – Current	<u>599</u>	<u>594</u>
-----------------------	------------	------------

21. EXPENDITURE AND OTHER COMMITMENTS

Capital Expenditure Commitments

Total capital expenditure contracted for at balance date but not provided for in the accounts, payable:

- not later than one year	<u>1,640</u>	<u>1,470</u>
---------------------------	--------------	--------------

Exploration Expenditure Commitments

The Company holds interest in various petroleum concessions. To maintain these interests, the Company is required to meet its share of minimum work and expenditure obligations set by the relevant government authorities. The estimated cost of such obligations not provided for in the accounts, payable:

- not later than one year	74	87
- later than one year and not later than five years	1,241	1,139
- later than five years	<u>871</u>	<u>—</u>
	<u>2,186</u>	<u>1,226</u>

In certain circumstances, these obligations may be renegotiated, or farmed out, or the area may be relinquished.

Joint Venture Expenditure Commitments

The above commitments include the Company's share of capital and exploration expenditure commitments in respect of joint ventures

	<u>3,826</u>	<u>2,696</u>
--	--------------	--------------

MAGELLAN PETROLEUM (N.T.) PTY. LTD.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2002

	2002 PJ's	2001 PJ's
Gas Sales Commitments		
The Company 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 Company has agreed to sell and deliver to the purchaser in each contract year, its ownership percentage of the annual contract quantity. The Company's commitment to supply sales gas expressed in petajoules (PJs):		
not later than one year	7.90	10.32
later than one year and not later than five years	29.02	39.56
later than five years	17.18	36.00
	<u>54.10</u>	<u>85.88</u>

The Palm Valley Producers and the purchaser are currently in the process of 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 2002 commitments to supply gas reflect the Company's share of the revised commitments in accord with the Heads of Agreement.

22. RELATED PARTY DISCLOSURES

- (a) During the financial year the Directors of the Company were:

Hedley Howard (Deceased December 1, 2001)
Bruce McInnes and Joseph P. Morfea
Thomas G. Davies (Appointed January 24, 2002)

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

Transactions with the immediate parent entity

In its role as operator for the Magellan group of companies, Magellan Petroleum Australia Limited undertakes transactions on behalf of, and re-charges costs to, Magellan Petroleum (N.T.) Pty. Ltd. Any funds required in this process are advanced to the Company by Magellan Petroleum Australia Limited interest free.

During the current financial year Magellan Petroleum Australia Limited charged the Company management fees totalling \$1,308,000 (2001: \$1,265,000).

Transactions with other related parties

During the year, income tax losses were transferred for no consideration from related entities. The amounts transferred are disclosed in Note 4.

MAGELLAN PETROLEUM (N.T.) PTY. LTD.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2002

22. RELATED PARTY DISCLOSURES (Continued)

- (c) The ultimate Australian parent entity and sole shareholder is Magellan Petroleum Australia Limited. The ultimate parent entity is Magellan Petroleum Corporation (incorporated in the USA) which at June 30, 2002 owns 52.03 percent (2001: 51.28 percent) of the issued ordinary shares of Magellan Petroleum Australia Limited.

23. FINANCIAL INSTRUMENTS

The Company 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 Company 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 76 percent of the total debtors amount at balance date was owed, directly or indirectly, by Government instrumentalities. The remaining 24 percent was largely attributable to major Australian companies in the petroleum exploration, production and refining industry.

Accounting Policies, Terms and Conditions

The Company'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	1L	Apart from small amounts of cash 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.
Financial Liabilities:			
Trade and other Creditors	9	Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the economic entity.	Trade and other liabilities are normally settled on 30 day terms.