UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended June 30, 2006

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 1-5507

Magellan Petroleum Corporation

(Exact name of registrant as specified in its charter)

Delaware	**06-0842255**
State or other jurisdiction of incorporation or organization	*(I.R.S. Employer Identification No.)*
10 Columbus Boulevard, Hartford, CT	**06106**
(Address of principal executive offices)	*(Zip Code)*

Registrant's telephone number, including area code
(860) 293-2006

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, par value $.01 per share	Boston Stock Exchange NASDAQ Capital Market

Securities registered pursuant to Section 12(g) of the Act

Title of Class
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☑

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant at the $1.75 closing price on December 30, 2005 (the last business day of the most recently completed second quarter) was $44,975,656.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:

Common stock, par value $.01 per share, 41,500,138 shares outstanding as of September 22, 2006.

DOCUMENTS INCORPORATED BY REFERENCE

None

TABLE OF CONTENTS

Unless otherwise indicated, all dollar figures set forth herein are in United States currency. Amounts expressed in Australian currency are indicated as "A.$00". The exchange rate at September 22, 2006 was approximately A.$1.00 equaled U.S. $.76.

PART I

Item 1. *Business*

Magellan Petroleum Corporation (the Company or MPC) is engaged in the sale of oil and gas and the exploration for and development of oil and gas reserves. At June 30, 2006, MPC's principal asset was a 100.00% equity interest in its subsidiary, Magellan Petroleum Australia Limited (MPAL). At June 30, 2005, MPC's equity interest in MPAL was 55.13%. During the fourth quarter of fiscal 2006, MPC completed an exchange offer (the Offer) to acquire all of the 44.87% of ordinary shares of MPAL that it did not own. The Offer consideration was .75 newly-issued shares of MPC common stock and A$0.10 in cash consideration for each of the 20,952,916 MPAL shares that it did not own. New MPC shares were issued to MPAL's Australian shareholders either as registered MPC shares or in the form of CDIs (CHESS Depository Interests), which have been listed on the Australian Stock Exchange ("ASX"), effective April 26, 2006, under the symbol "MGN"(see Note 2 to the financial statements).

MPAL's major assets are two petroleum production leases covering the Mereenie oil and gas field (35% working interest) and one petroleum production lease covering the Palm Valley gas field (52% working interest). Both fields are located in the Amadeus Basin in the Northern Territory of Australia. Santos Ltd., a publicly owned Australian company, owns a 48% interest in the Palm Valley field and a 65% interest in the Mereenie field.

During July 2004, MPAL reached an agreement with Voyager Energy Limited for the purchase of its 40.936% working interest (38.703% net revenue interest) in its Nockatunga assets in southwest Queensland. The assets comprise several producing oil fields in Petroleum Leases 33, 50 and 51 together with exploration acreage in ATP 267P at a purchase price of approximately $1.4 million. The project is currently producing about 320 barrels of oil per day (MPAL share 125 bbls).

MPC has a direct 2.67% carried interest in the Kotaneelee gas field in the Yukon Territory of Canada. During September 2003, the litigants in the Kotaneelee litigation entered into a settlement agreement. The following chart illustrates the various relationships between MPC and the various companies discussed above.

The following is a tabular presentation of the omitted material:

MPC — MPAL RELATIONSHIPS CHART

MPC owns 100% of MPAL.
MPC owns 2.67% of the Kotaneelee Field, Canada.
MPAL owns 52% of the Palm Valley Field, Australia.
MPAL owns 35% of the Mereenie Field, Australia.
MPAL owns 40.94% of the Nockatunga Field, Australia.
SANTOS owns 48% of the Palm Valley Field, Australia.
SANTOS owns 65% of the Mereenie Field, Australia.
SANTOS owns 59.06% of the Nockatunga Field, Australia.

(a) *General Development of Business.*

Operational Developments Since the Beginning of the Last Fiscal Year:

The following is a summary of oil and gas properties that the Company has an interest in. The Company is committed to certain exploration and development expenditures, some of which may be farmed out to third parties.

AUSTRALIA

Mereenie Oil and Gas Field

MPAL (35%) and Santos (65%), the operator (together known as the Mereenie Producers) own the Mereenie field which is located in the Amadeus Basin of the Northern Territory. MPAL's share of the

Mereenie field proved developed oil reserves (net of royalties), based upon contract amounts, was approximately 161,000 barrels and 11.5 billion cubic feet (bcf) of gas at June 30, 2006. Two gas development wells were drilled in late 2004 to increase gas deliverability in order to meet the gas contractual requirements until June 2009.

During fiscal 2006, MPAL’s share of oil sales was 116,000 barrels and 4.7 bcf of gas sold, which is subject to net overriding royalties aggregating 4.0625% and the statutory government royalty of 10%. The oil is transported by means of a 167-mile eight-inch oil pipeline from the field to an industrial park near Alice Springs. The oil is then shipped south approximately 950 miles by road to the Port Bonython Export Terminal, Whyalla, South Australia for sale. The cost of transporting the oil to the terminal is being borne by the Mereenie Producers. The Mereenie Producers are providing Mereenie gas in the Northern Territory to the Power and Water Corporation (PAWC) for use in Darwin and other Northern Territory centers. See “Gas Supply Contracts” below. The petroleum lease covering the Mereenie field expires in November 2023.

Palm Valley Gas Field

MPAL has a 52.023% interest in, and is the operator of, the Palm Valley gas field which is also located in the Amadeus Basin of the Northern Territory. Santos, the operator of the Mereenie field, owns the remaining 47.977% interest in Palm Valley which provides gas to meet the Alice Springs and Darwin supply contracts with PAWC. See “Gas Supply Contracts” below. MPAL’s share of the Palm Valley proved developed reserves, net of royalities, was 7.8 bcf at June 30, 2006 and is based upon contract amounts. During fiscal 2006, MPAL’s share of gas sales was 2.1 bcf which is subject to a 10% statutory government royalty and net overriding royalties aggregating 7.3125%. The producers and PAWC installed additional compression equipment in the field in early 2006 that will assist field deliverability during the remaining Darwin gas contract period. PAWC funds the cost of the additional compression under the gas supply agreement. The petroleum lease covering the Palm Valley field expires in November 2024.

Gas Supply Contracts

In 1983, the Palm Valley Producers (MPAL and Santos) commenced the sale of gas to Alice Springs under a 1981 agreement. In 1985, the Palm Valley Producers and Mereenie Producers signed agreements for the sale of gas to PAWC, through its wholly-owned company Gasgo, for use in the PAWC’s Darwin electricity generating station and at a number of other generating stations in the Northern Territory. The gas is being delivered via the 922-mile Amadeus Basin gas pipeline which was built by an Australian consortium. Since 1985, there have been several additional contracts for the sale of Mereenie gas, the latest being in June 2006 for the supply of an additional 4.4 bcf of gas to be supplied prior to December 31, 2008. The Palm Valley Darwin contract expires in the year 2012 and the Mereenie contracts expire in the year 2009. The price of gas under the Palm Valley and Mereenie gas contracts is adjusted quarterly to reflect changes in the Australian Consumer Price Index.

The Mereenie and Palm Valley Producers are actively pursuing gas sales contracts for the remaining uncontracted reserves at both the Mereenie and Palm Valley gas fields. As indicated above, gas production from both fields is substantially contracted through to 2009 and 2012, respectively. While opportunities exist to contract additional gas sales in the Northern Territory market after these dates, there is strong competition within the market and there are no assurances that the Mereenie and Palm Valley producers will be able to contract for the sale of the remaining uncontracted reserves.

At June 30, 2006, MPAL’s commitment to supply gas under the above agreements was as follows:

Period	Bcf
Less than one year	7.64
Between 1-5 years	18.12
Greater than 5 years	0.98
Total	26.74

Nockatunga Oil Fields

MPAL purchased its 40.936% working interest (38.703% net revenue interest) in the Nockatunga oil fields in the Cooper Basin in southwest Queensland with effect from July 2003. Santos is operator of the fields and holds the remaining interest. The assets comprise eight producing oil fields in Petroleum Leases 33, 50 and 51 together with exploration acreage in ATP 267P. The fields are currently producing about 320 barrels of oil per day (MPAL share 125 bbls). During fiscal 2006, MPAL's share of oil sales was 39,000 barrels which is subject to a 10% statutory government royalty and net overriding royalties aggregating 3.0%. MPAL's share of the Nockatunga fields' proved developed oil reserves was approximately 114,000 barrels at June 30, 2006. Petroleum Lease 33 expires in April 2007 and Petroleum Leases 50 and 51 expire in June 2011.

The drilling of two appraisal wells and one exploration well was undertaken in late 2005-early 2006. All three wells have been completed as oil producing wells. The drilling of an additional ten wells, appraisal, development as well as exploration, is planned for late 2006. MPAL's share of the cost is approximately $2,750,000. At June 30, 2006, the work obligations of ATP 267P had been fulfilled.

Dingo Gas Field

MPAL has a 34.3365% interest in the Dingo gas field which is held under Retention License 2 in the Amadeus Basin in the Northern Territory. No market has emerged for the gas volumes that have been discovered in the Dingo gas field. MPAL's share of potential production from this permit area is subject to a 10% statutory government royalty and overriding royalties aggregating 4.8125%. The license expires in October 2008.

Maryborough Basin

MPAL holds a 100% interest in exploration permit ATP 613P in the Maryborough Basin in Queensland, Australia. MPAL (100%) also has applications pending for permits ATP 674P and ATP 733P which are adjacent to ATP 613P. In May 2006, MPAL entered into a farmout agreement in relation to a portion of ATP 613P, ATPA 674P and ATPA 733P with Eureka Petroleum under which that company will fund the drilling of two exploration wells to test the coal seam gas potential of the Burrum Coal Measures near the city of Maryborough. Eureka Petroleum has the option to undertake a staged evaluation of the area to earn a 90% interest in any petroleum lease granted in the area. MPAL has the option to retain a 50% interest in any petroleum lease by carrying Eureka Petroleum through any development to the extent of Eureka Petroleum's prior exploration and evaluation expenditures. MPAL will operate the joint venture. At June 30, 2006, MPAL's share of the work obligations of permit ATP 613P totaled $38,000 which is fully committed. Exploration Permit ATP 613P is due for renewal in March 2007 for a further four year term.

Cooper/ Eromanga Basin

PEL 94, PEL 95 &PPL 210

During fiscal year 1999, MPAL (50%) and its partner Beach Petroleum were successful in bidding for two exploration blocks (PEL 94 and PEL 95) in South Australia's Cooper Basin. Aldinga-1 was completed in September 2002 and began producing in May 2003 at about 80 barrels of oil per day. By June 2006, production had declined to about 15 barrels of oil per day. Petroleum Production Licence 210 was granted over the Aldinga field in December 2004. No further development is planned for the field. Black Rock Petroleum NL contributed to the cost of drilling the Myponga-1 well in June 2004 to earn a 15% interest in the PEL 94 permit. MPAL's interest in PEL 94 was reduced to 35%. Black Rock Petroleum NL subsequently assigned its interest in PEL 94 to Victoria Petroleum NL. The 41-mile 2D Discuss seismic survey was acquired in PEL 95 in October 2005. MPAL's share of the cost of the survey was approximately $130,000. At June 30, 2006, MPAL's share of the work obligations of PEL 94 totaled $263,000 which is fully committed. The work obligations of PEL 95 have been fulfilled. PEL 94 is due for renewal for a further five year term in May 2007 and PEL 95 is due for renewal in October 2006.

PEL 106, PEL 107 & PPL 212

During fiscal year 2005, MPAL entered into a farmin arrangement with Great Artesian Oil and Gas to drill explorations wells in exploration permits PEL 106 and PEL 107 in the Cooper Basin of South Australia. The Tyringa-1 and Kiana-1 wells were drilled in PEL 107 during August-September 2005. Tyringa-1 was a dry hole and Kiana-1 was completed for production as an oil producer. MPAL's share of the cost of the two wells was approximately $1,353,000. Petroleum Production Licence 212 was granted over the Kiana field in January 2006. MPAL earned a 30% interest in PPL 212 by contributing to the drilling cost of the Kiana-1 well. It earned no interest in the Tyringa area as the well was a dry hole. Beach Petroleum is operator of the joint venture which is planning to drill an appraisal well, Kiana-2, in the licence area later in 2006. MPAL has the option to participate in a further two wells in PEL 107 under the farmin arrangement with Great Artesian Oil and Gas to earn a 30% interest in any discoveries and a 20% interest in the PEL 107 permit. The PEL 107 joint venture is planning to drill the two wells later in 2006.

The Udacha-1 well was drilled in a farmin area covering portion of PEL 106 and the adjacent PEL 91 permit. Udacha-1 was completed for production as a gas discovery. MPAL's share of the cost of the Udacha-1 well was approximately $1,110,000. A production test is planned to establish whether the discovery is commercially viable. If the discovery is commercial, MPC will earn a 30% interest in any petroleum production licence granted over the Udacha field.

PEL 110

During fiscal year 2001, MPAL and its partner Beach Petroleum were also successful in bidding for an additional exploration block PEL 110 (37.5%) in the Cooper Basin. PEL 110 was granted in February 2003. During July 2005, the Yanerbie-1 well was drilled in PEL 110 at an approximate cost of $156,000 to MPAL. Cooper Energy NL contributed to the cost of the well to earn a 25% interest in PEL 110, and Enterprise Energy NL contributed to the cost of the well to earn 12.5% in any discovery. The well was a dry hole. Enterprise Energy NL elected not to exercise its option to earn a 6.25% interest in the PEL 110 by funding further exploration in the area and has withdrawn from the venture. At June 30, 2006, MPAL's share of the work obligations of the PEL 110 permit totaled $493,000, of which $127,000 was committed.

NEW ZEALAND

PEP 38225

In November 2003, MPAL (100%) was granted exploration permit PEP 38225 in the Great South Basin, offshore south of the South Island of New Zealand. Following a program of seismic reprocessing and interpretation, the permit was surrendered during May 2006.

PEP 38765

MPAL was granted exploration permit PEP 38765 (12.5%) in February 2004. The Miromiro-1 well was drilled in PEP 38765 during December 2004. The well was a dry hole. MPAL has elected to withdraw from PEP 38765.

UNITED KINGDOM

PEDL 098 & PEDL 099

During fiscal year 2001, MPAL acquired an interest in two exploration licenses in southern England in the Weald-Wessex basin. The two licenses, PEDL 098 (22.5%) in the Isle of Wight and PEDL 099 (40%) in the Portsdown area of Hampshire, were each granted for a period of six years. The Sandhills-2 well was drilled in the PEDL 098 permit during August-September 2005. Sandhills-2 intersected oil shows in the objective but was low to prognosis. A sidetrack Sandills-2, drilled to intersect the reservoir up-dip, encountered a heavily biodegraded remnant oil column. The well was plugged and abandoned. The UK companies, Northern Petroleum and Montrose Industries, funded part of MPAL's share of the cost of the Sandhills-2 well. MPAL's share of the cost of Sandhills-2Z was approximately $400,000. At June 30, 2006, MPAL's share of the work obligations of the permits totaled $81,000, which is fully committed.

PEDL 112 & PEDL 113

During fiscal year 2002, MPAL acquired two additional exploration licenses in southern England. The two licenses, PEDL 113 (22.5%) in the Isle of Wight in the Wessex Basin and PEDL 112 (33.3%) in the Kent area on the north-eastern margin of the Weald Basin, were each granted for a period of six years. At June 30, 2006, MPAL's share of the work obligations of the permits totaled $1,521,000, of which $34,000 was committed.

PEDL 125 & PEDL 126

Effective July 1, 2003, MPAL acquired two exploration licenses each granted for a period of six years in southern England, PEDL 125 (40%) in Hampshire and PEDL 126 (40%) in West Sussex. The drilling plans for the Hedge End-2 well in PEDL 125 and Horndean Extension-1 in PEDL 126 are in progress and spudding of these wells is expected in late 2006-early 2007. The UK company, Oil Quest Resources Plc, will fund part of MPAL's share of the cost of the two wells to acquire a 10% interest in each of the permits. At June 30, 2006, MPAL's share of the work obligations of the two permits totaled $1,848,000, of which $1,800,000 was committed.

PEDL 135, PEDL 136 & PEDL 137

Effective October 1, 2004, MPAL was granted 100% interest in PEDL 135, PEDL 136 and PEDL 137 in the Weald Basin in southern England for a term of six years, each with a drill or drop obligation at the end of the third year of the term. MPAL is undertaking a program of seismic data purchase, reprocessing and interpretation. At June 30, 2006, MPAL's work obligation for the three licenses totaled $10,890,000, of which $675,000 was committed.

PEDL 151, PEDL 152, PEDL 153, PEDL 154 & PEDL 155

Effective October 1, 2004, MPAL acquired five licenses in the Weald Basin each granted for a period of six years in southern England, PEDL 151 (11.25%), PEDL 152 (22.5%), PEDL 153 (33.3%), PEDL 154 (50%) and PEDL 155 (40%). Each licence has a drill or drop obligation at the end of the third year of the term. The drilling plans for the Leigh Park-1 well in PEDL 155 are in progress and spudding of this well is expected in 2007. The UK company, Oil Quest Resources Plc, will fund part of MPAL's share of the PEDL 155 exploration costs to acquire a 10% interest in the license. At June 30, 2006, MPAL's work obligation for the five licenses totaled $4,334,000, of which $1,022,000 was committed.

CANADA

MPC owns a 2.67% carried interest in a lease (31,885 gross acres, 850 net acres) in the southeast Yukon Territory, Canada, which includes the Kotaneelee gas field. Devon Canada Corporation is the operator of this partially developed field which is connected to a major pipeline system. Production at Kotaneelee commenced in February 1991. The Company received cash of $60,083 from this field in 2006. Due to the completion of well L-38 drilled in fiscal 2006 in the Kotaneelee gas field in which MPC has a carried interest, MPC will not receive any revenue from the operator of this field until its share of the drilling costs are absorbed. Based upon average field production and costs for the last seven months provided to us by the operator, we currently estimate that it will take until the third or fourth calendar quarter of 2007 for the operator to recover the Company's share of the wells' costs from the Company's carried interest account. This estimate could change based upon future production and expenses related to this well.

(b) *Financial Information About Industry Segments.*

The Company is engaged in only one industry, namely, oil and gas exploration, development, production and sale. The Company conducts such business through its two operating segments; MPC and its wholly owned subsidiary MPAL.

(c) (1) *Narrative Description of the Business.*

MPC was incorporated in 1957 under the laws of Panama and was reorganized under the laws of Delaware in 1967. MPC is directly engaged in the exploration for, and the development and production and sale of oil and gas reserves in Canada, and indirectly through its subsidiary MPAL in Australia and the United Kingdom.

(i) *Principal Products.*

MPAL has an interest in the Palm Valley gas field and in the Mereenie oil and gas field in the Amadeus Basin of the Northern Territory as well as the Nockatunga, Kiana and Aldinga oil fields in the Cooper Basin of South Australia and Queensland. See Item 1(a) — Australia — for a discussion of the oil and gas production from these fields. MPC has a direct 2.67% carried interest in the Kotaneelee gas field in Canada.

(ii) *Status of Product or Segment.*

See Item 1(a) and (b) — Australia and Canada — for a discussion of the current and future operations of the Mereenie, Palm Valley, Nockatunga, Kiana and Aldinga fields in Australia and MPC's interest in the Kotaneelee field in Canada.

(iii) *Raw Materials.*

Not applicable.

(iv) *Patents, Licenses, Franchises and Concessions Held.*

MPAL has interests directly and indirectly in the following permits. Permit holders are generally required to carry out agreed work and expenditure programs.

Permit	Expiration Date	Location
Petroleum Lease No. 4 and No. 5 (Mereenie) (Amadeus Basin)	November 2023	Northern Territory, Australia
Petroleum Lease No. 3 (Palm Valley) (Amadeus Basin)	November 2024	Northern Territory, Australia
Retention License No. 2 (Dingo) (Amadeus Basin)	October 2008	Northern Territory, Australia
Petroleum Lease No. 33 (Nockatunga) (Cooper Basin)	April 2007	Queensland, Australia
Petroleum Lease No. 50 and No. 51(Nockatunga) (Cooper Basin)	June 2011	Queensland, Australia
Petroleum Production Licence No. 210 (Aldinga) (Cooper Basin)	Held by production	South Australia
Petroleum Production Licence No. 212 (Kiana) (Cooper Basin)	Held by production	South Australia
ATP 267P (Nockatunga) (Cooper Basin)	November 2007	Queensland, Australia
ATP 613P (Maryborough Basin)	March 2007	Queensland, Australia
ATP 674P (Maryborough Basin)	Application pending	Queensland, Australia
ATP 733P (Maryborough Basin)	Application pending	Queensland, Australia
ATP 732P (Cooper Basin)	Application pending	Queensland, Australia
PEL 94 (Cooper Basin)	May 2007	South Australia
PEL 95 (Cooper Basin)	October 2006	South Australia
PEL110 (Cooper Basin)	February 2008	South Australia

Permit	Expiration Date	Location
PEDL 098 (Weald-Wessex Basins)	September 2011	United Kingdom
PEDL 099 (Weald-Wessex Basins)	September 2007	United Kingdom
PEDL 112 (Weald-Wessex Basins)	January 2008	United Kingdom
PEDL 113 (Weald Basin)	January 2008	United Kingdom
PEDL 125 (Weald-Wessex Basins)	June 2009	United Kingdom
PEDL 126 (Weald-Wessex Basins))	June 2009	United Kingdom
PEDL 135 (Weald Basin)	September 2010	United Kingdom
PEDL 136 (Weald Basin)	September 2010	United Kingdom
PEDL 137 (Weald Basin)	September 2010	United Kingdom
PEDL 151 (Weald-Wessex Basins)	September 2010	United Kingdom
PEDL 152 (Weald-Wessex Basin)	September 2010	United Kingdom
PEDL 153 (Weald Basin)	September 2010	United Kingdom
PEDL 154 (Weald Basin)	September 2010	United Kingdom
PEDL 155 (Weald-Wessex Basins)	September 2010	United Kingdom

Petroleum Leases issued by the Northern Territory and Queensland Governments are subject to the Petroleum (Prospecting and Mining) Act of the Northern Territory and the Petroleum Act and Petroleum and Gas (Production & Safety) Act of Queensland. Lessees have the exclusive right to produce petroleum from the land subject to payment of a rental and a royalty at the rate of 10% of the wellhead value of the petroleum produced. Rental payments may be offset against the royalty paid. The term of a lease is 21 years, and leases may be renewed for successive terms of 21 years each. Petroleum Production Licences issued by the South Australian Government are subject to the Petroleum Act of South Australia. Licensees have the exclusive right to produce petroleum from the land subject to payment of a rental and a royalty at the rate of 10% of the wellhead value of the petroleum produced. Licenses terminate two years after production ceases.

Since 1992, there has been an ongoing controversy regarding the Aborigines and the ownership of their traditional lands. There has been legislation aimed at resolving this controversy. The Company does not believe that this issue will have a material adverse impact on MPAL’s properties.

(v) *Seasonality of Business.*

Although the Company’s business is not seasonal, the demand for oil and especially gas is subject to fluctuations in the Australian weather.

(vi) *Working Capital Items.*

See Item 7 — Liquidity and Capital Resources for a discussion of this information.

(vii) *Customers.*

Although the majority of MPAL’s producing oil and gas properties are located in a relatively remote area in central Australia (See Item 1 — Business and Item 2 — Properties), the completion in January 1987 of the Amadeus Basin to Darwin gas pipeline has provided access to and expanded the potential market for MPAL’s gas production.

Natural Gas Production

Substantially all of MPAL’s gas sales were to the Power and Water Corporation (PAWC), a Northern Territory Government corporation. The Northern Territory Government also has regulatory authority over MPAL’s oil and gas operations in the Northern Territory. The loss of PAWC as a customer would have a material adverse affect on MPAL’s business.

Oil Production

Presently all of the crude oil and condensate production from Mereenie is being shipped and sold through the Port Bonython Export Terminal, Whyalla, South Australia. Crude oil production from Kiana and Aldinga is shipped through the Moomba processing facility in northeastern South Australia and piped from there to the Port Bonython Export Terminal where it is sold. Nockatunga crude oil is shipped and sold through the IOR Energy refinery at Eromanga, Southwest Queensland. Oil sales during 2006 were 53.3% to the Santos group of companies, 16.2% to Delhi Petroleum, 10.5% to Origin Energy Resources and 20.0% to IOR Energy.

(viii) *Backlog.*

Not applicable.

(ix) *Renegotiation of Profits or Termination of Contracts or Subcontracts at the Election of the Government.*

Not applicable.

(x) *Competitive Conditions in the Business.*

The exploration for and production of oil and gas are highly competitive operations. The ability to exploit a discovery of oil or gas is dependent upon such considerations as the ability to finance development costs, the availability of equipment, and the possibility of engineering and construction delays and difficulties. The Company also must compete with major oil and gas companies which have substantially greater resources than the Company.

Furthermore, various forms of energy legislation which have been or may be proposed in the countries in which the Company holds interests may substantially affect competitive conditions. However, it is not possible to predict the nature of any such legislation which may ultimately be adopted or its effects upon the future operations of the Company.

At the present time, the Company's principal income producing operations are in Australia and for this reason, current competitive conditions in Australia are material to the Company's future. Currently, most indigenous crude oil is consumed within Australia. In addition, refiners and others import crude oil to meet the overall demand in Australia. The Palm Valley Producers and the Mereenie Producers are developing and separately marketing the production from each field. Because of the relatively remote location of the Amadeus Basin and the inherent nature of the market for gas, it would be impractical for each working interest partner to attempt to market separately its respective share of gas production from each field.

(xi) *Research and Development.*

Not applicable.

(xii) *Environmental Regulation.*

The Company is subject to the environmental laws and regulations of the jurisdictions in which it carries on its business, and existing or future laws and regulations could have a significant impact on the exploration for and development of natural resources by the Company. However, to date, the Company has not been required to spend any material amounts for environmental control facilities. The federal and state governments in Australia strictly monitor compliance with these laws but compliance therewith has not had any adverse impact on the Company's operations or its financial resources.

At June 30, 2006, the Company had accrued approximately $7.1 million for asset retirement obligations for the Mereenie, Palm Valley, Kotaneelee, Nockatunga, Kiana, Aldinga and Dingo fields. See Note 4 of the Consolidated Financial Statements under Item 8. Financial Statements and Supplementary Data.

(xiii) *Number of Persons Employed by Company.*

At June 30, 2006, MPC had two full-time employees in the United States and MPAL had 27 employees in Australia. MPC relies to a great extent on consultants for legal, accounting, administrative and geotechnical services.

(d)(2) *Financial Information Relating to Foreign and Domestic Operations.*

See Note 11 to the Consolidated Financial Statements.

(3) *Risks Attendant to Foreign Operations.*

Most of the properties in which the Company has interests are located outside the United States and are subject to certain risks involved in the ownership and development of such foreign property interests. These risks include but are not limited to those of: nationalization; expropriation; confiscatory taxation; changes in foreign exchange controls; currency revaluations; price controls or excessive royalties; export sales restrictions; limitations on the transfer of interests in exploration licenses; and other laws and regulations which may adversely affect the Company's properties, such as those providing for conservation, proration, curtailment, cessation, or other limitations of controls on the production of or exploration for hydrocarbons. Thus, an investment in the Company represents a speculation with risks in addition to those inherent in domestic petroleum exploratory ventures.

Since 1992, there has been an ongoing controversy regarding the Aborigines and the ownership of their traditional lands. There has been legislation aimed at resolving this controversy. The Company does not believe that this issue will have a material adverse impact on MPAL's properties.

(4) *Data Which are Not Indicative of Current or Future Operations.*

None.

Item 1A. ***Risk Factors***

Set forth below and elsewhere in this Annual Report on Form 10-K are risks that should be considered in evaluating the Company's Common Stock, as well as risks and uncertainties that could cause the actual future results of the Company to differ from those expressed or implied in the forward-looking statements contained in this Report and in other public statements the Company makes. Additionally, because of the following risks and uncertainties, as well as other variables affecting the Company's operating results, the Company's past financial performance should not be considered an indicator of future performance.

The principal oil and gas properties owned by MPAL could stop producing oil and gas.

MPAL's Palm Valley and Mereenie fields could stop producing oil and gas or there could be a material decrease in production levels at the fields. Since these are the two principal revenue producing properties of MPAL, any decline in production levels at these properties could cause MPAL's revenues to decline, thus reducing the amount of dividends paid by MPAL to Magellan. Any such adverse impact on the revenues being received by Magellan from MPAL could restrict our ability to explore and develop oil and gas properties in the future.

In addition, the Kotaneelee gas field, which has in recent years provided Magellan with an additional source of revenue, could stop producing natural gas, produce gas in decreased amounts, or be shut-in completely (so that production would cease). In this event, Magellan may experience a decline in revenues and would be forced to rely completely on our receipt of dividends from MPAL.

If MPAL's existing long-term gas supply contracts are terminated or not renewed, MPAL's share price and business could be adversely affected.

MPAL's financial performance and cash flows are substantially dependent upon its Palm Valley and Mereenie existing supply contracts to sell gas produced at these fields to MPAL's major customers, The Power and Water Corporation of the Northern Territories and its subsidiary, Gasgo Pty Ltd. The Palm Valley Darwin contract expires in the year 2012 and the Mereenie contracts expire in the year 2009. If these gas supply contracts were to be terminated or not renewed when they become due, MPAL's revenues, share price and business outlook could be adversely affected. The Palm Valley Producers are actively pursuing gas sales contracts for the remaining uncontracted reserves at both the Mereenie and Palm Valley gas fields in the

Amadeus Basin. There is strong competition within the market and the Palm Valley producers may not be able to contract for the sale of the remaining uncontracted reserves.

Fluctuations in our operating results and other factors may depress our stock price.

During the past few years, the equity trading markets in the United States have experienced price volatility that has often been unrelated to the operating performance of particular companies. These fluctuations may adversely affect the trading price of our common stock. From time to time, there may be significant volatility in the market price of our common stock. Investors could sell shares of our common stock at or after the time that it becomes apparent that the expectations of the market may not be realized, resulting in a decrease in the market price of our common stock.

We only have two full time employees, including our Chief Executive Officer, and our operations could be disrupted if he was unable or unwilling to perform his duties.

We only have two full time employees, including Daniel J. Samela, our President, Chief Executive Officer, and Chief Financial Officer. Mr. Samela has an employment agreement with an automatically renewing three-year and three-month term. Mr. Samela may terminate his employment relationship with us at any time with no penalty other than the loss of future compensation. If Mr. Samela resigned or were unable or unwilling to perform the duties of President, Chief Executive Officer and Chief Financial Officer, our operations could face significant delay and disruption until a suitable replacement could be found to succeed Mr. Samela. Any such delay or disruption could also prevent the achievement of our business objectives. In order to minimize any delay or disruption, we have retained a consultant to assist Mr. Samela in the performance of his duties.

The loss of key MPAL personnel could adversely affect our ability to operate.

We depend, and will continue to depend in the foreseeable future, on the services of the officers and key employees of MPAL. The ability to retain its officers and key employees is important to MPAL's and our continued success and growth. The unexpected loss of the services of one or more of these individuals could have a detrimental effect on MPAL's and our business. We do not maintain key person life insurance on any of our personnel.

There are risks inherent in foreign operations such as adverse changes in currency values and foreign regulations relating to MPAL's exploration and development operations and to MPAL's payment of dividends to us.

The properties in which Magellan has interests are located outside the United States and are subject to certain risks related to the indirect ownership and development of foreign properties, including government expropriation, adverse changes in currency values and foreign exchange controls, foreign taxes, nationalization and other laws and regulations, any of which may adversely affect the Company's properties. In addition, MPAL's principal present customer for gas in Australia is the Northern Territory Government, which also has substantial regulatory authority over MPAL's oil and gas operations. Although there are currently no exchange controls on the payment of dividends to the Company by MPAL, such payments could be restricted by Australian foreign exchange controls, if implemented.

Our Restated Certificate of Incorporation includes provisions that could delay or prevent a change in control of our Company that some of our shareholders may consider favorable.

Our Restated Certificate of Incorporation provides that any matter to be voted upon at any meeting of shareholders must be approved not only by a simple majority of the shares voted at such meeting, but also by a majority of the shareholders present in person or by proxy and entitled to vote at the meeting. This provision may have the effect of making it more difficult to take corporate action than customary "one share one vote" provisions, because it may not be possible to obtain the necessary majority of both votes.

As a consequence, our Restated Certificate of Incorporation may make it more difficult that a takeover of Magellan will be consummated, which could prevent the Company's shareholders from receiving a premium for their shares. In addition, an owner of a substantial number of shares of our common stock may be unable to influence our policies and operations through the shareholder voting process (e.g., to elect directors).

In addition, our Restated Certificate of Incorporation requires the approval of 66.67% of the voting shareholders and of the voting shares for the consummation of any business combination (such as a merger, consolidation, other acquisition proposal or sale, transfer or other disposition of $5 million or more of Magellan's assets) involving our company and certain related persons (generally, any 10% or greater shareholders and their affiliates and associates). This higher vote requirement may deter business combination proposals which shareholders may consider favorable.

Our dividend policy could depress our stock price.

We have never declared or paid dividends on our common stock and have no current intention to change this policy. We plan to retain any future earnings to reduce our accumulated deficit and finance growth. As a result, our dividend policy could depress the market price for our common stock and cause investors to lose some or all of their investment.

We may issue a substantial number of shares of our common stock under our stock option plans and shareholders may be adversely affected by the issuance of those shares.

As of June 30, 2006, there were 430,000 stock options outstanding, of which 420,000 were fully vested and exercisable and 10,000 were not vested. There were also 395,000 options available for future grants under our Stock Option Plan. If all of these options, which total 825,000 in the aggregate, were awarded and exercised these shares would represent approximately 2% of our outstanding common stock and would, upon their exercise and the payment of the exercise prices, dilute the interests of other shareholders and could adversely affect the market price of our common stock.

If our shares are delisted from trading on the Nasdaq Capital Market, their liquidity and value could be reduced.

In order for us to maintain the listing of our shares of common stock on the Nasdaq Capital Market, the Company's shares must maintain a minimum bid price of $1.00 as set forth in Marketplace Rule 4310(c)(4). If the bid price of the Company's shares trade below $1.00 for 30 consecutive trading days, then the bid price of the Company's shares must trade at $1.00 or more for 10 consecutive trading days during a 180 day grace period to regain compliance with the rule. On September 22, 2006, the Company's shares closed at $1.28 per share. If the Company shares were to be delisted from trading on the Nasdaq Capital Market, then most likely the shares would be traded on the Electronic Bulletin Board. The delisting of the Company's shares could adversely impact the liquidity and value of the Company's shares of common stock.

RISKS RELATED TO THE OIL AND GAS INDUSTRY

Oil and gas prices are volatile. A decline in prices could adversely affect our financial position, financial results, cash flows, access to capital and ability to grow.

Our revenues, operating results, profitability, future rate of growth and the carrying value of our oil and gas properties depend primarily upon the prices we receive for the oil and gas we sell. Prices also affect the amount of cash flow available for capital expenditures and our ability to borrow money or raise additional capital. The prices of oil, natural gas, methane gas and other fuels have been, and are likely to continue to be, volatile and subject to wide fluctuations in response to numerous factors, including the following:

- worldwide and domestic supplies of oil and gas;
- changes in the supply and demand for such fuels;

- political conditions in oil, natural gas, and other fuel-producing and fuel-consuming areas;
- the extent of Australian domestic oil and gas production and importation of such fuels and substitute fuels in Australian and other relevant markets;
- weather conditions, including effects on prices and supplies in worldwide energy markets because of recent hurricanes in the United States;
- the competitive position of each such fuel as a source of energy as compared to other energy sources; and
- the effect of governmental regulation on the production, transportation, and sale of oil, natural gas, and other fuels.

These factors and the volatility of the energy markets make it extremely difficult to predict future oil and gas price movements with any certainty. Declines in oil and gas prices would not only reduce revenue, but could reduce the amount of oil and gas that we can produce economically and, as a result, could have a material adverse effect on our financial condition, results of operations and reserves. Further, oil and gas prices do not necessarily move in tandem. Because more than 80% of our proved reserves at June 30, 2006 were natural gas reserves, we are more affected by movements in natural gas prices and would receive lower revenues if natural gas prices in Australian and Canada were to decline. Based on 2006 gas sales volumes and revenues, a 10% change in gas prices would increase or decrease gas revenues by approximately $1,406,000.

Competition in the oil and natural gas industry is intense, and many of our competitors have greater financial and other resources than we do.

We operate in the highly competitive areas of oil and natural gas acquisition, development, exploitation, exploration and production and face intense competition from both major and other independent oil and natural gas companies. Many of our Australian competitors have financial and other resources substantially greater than ours, and some of them are fully integrated oil companies. These companies may be able to pay more for development prospects and productive oil and natural gas properties and may be able to define, evaluate, bid for and purchase a greater number of properties and prospects than our financial or human resources permit. Our ability to develop and exploit our oil and natural gas properties and to acquire additional properties in the future will depend upon our ability to successfully conduct operations, evaluate and select suitable properties and consummate transactions in this highly competitive environment. In addition, we may not be able to compete with, or enter into cooperative relationships with, any such firms.

Our oil and gas exploration and production operations are subject to numerous environmental laws, compliance with which may be extremely costly.

Our operations are subject to environmental laws and regulations in the various countries in which they are conducted. Such laws and regulations frequently require completion of a costly environmental impact assessment and government review process prior to commencing exploratory and/or development activities. In addition, such environmental laws and regulations may restrict, prohibit, or impose significant liability in connection with spills, releases, or emissions of various substances produced in association with fuel exploration and development.

We can provide no assurance that we will be able to comply with applicable environmental laws and regulations or that those laws, regulations or administrative policies or practices will not be changed by the various governmental entities. The cost of compliance with current laws and regulations or changes in environmental laws and regulations could require significant expenditures. Moreover, if we breach any governing laws or regulations, we may be compelled to pay significant fines, penalties, or other payments. Costs associated with environmental compliance or noncompliance may have a material adverse impact on our financial condition or results of operations in the future.

The actual quantities and present value of our proved reserves may prove to be lower than we have estimated.

This annual report and the documents incorporated by reference in this annual report contain estimates of our proved reserves and the estimated future net revenues from our proved reserves as well as estimates relating to recent and pending acquisitions. These estimates are based upon various assumptions, including assumptions required by the SEC relating to oil and gas prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. The process of estimating oil and gas reserves is complex. The process involves significant decisions and assumptions in the evaluation of available geological, geophysical, engineering and economic data for each reservoir. Therefore, these estimates are inherently imprecise.

Actual future production, oil and gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and gas reserves most likely will vary from these estimates. Such variations may be significant and could materially affect the estimated quantities and present value of our proved reserves. In addition, we may adjust estimates of proved reserves to reflect production history, results of exploration and development drilling, prevailing oil and gas prices and other factors, many of which are beyond our control. Our properties may also be susceptible to hydrocarbon drainage from production by operators on adjacent properties.

There are many uncertainties in estimating quantities of oil and gas reserves. In addition, the estimates of future net cash flows from our proved developed reserves and their present value are based upon assumptions about future production levels, prices and costs that may prove to be inaccurate. Our estimated reserves may be subject to upward or downward revision based upon our production, results of future exploration and development, prevailing oil and gas prices, operating and development costs and other factors.

We may not have funds sufficient to make the significant capital expenditures required to replace our reserves.

Our exploration, development and acquisition activities require substantial capital expenditures. Historically, we have funded our capital expenditures through a combination of cash flows from operations, farming-in other companies or investors to MPAL’s exploration and development projects in which we have an interest and/or equity issuances. Future cash flows are subject to a number of variables, such as the level of production from existing wells, prices of oil and gas, and our success in developing and producing new reserves. If revenue were to decrease as a result of lower oil and gas prices or decreased production, and our access to capital were limited, we would have a reduced ability to replace our reserves. If our cash flow from operations is not sufficient to fund MPAL’s capital expenditure budget, we may not be able to rely upon additional farm-in opportunities, debt or equity offerings or other methods of financing to meet these cash flow requirements.

If we are not able to replace reserves, we may not be able to sustain production.

Our future success depends largely upon our ability to find, develop or acquire additional oil and gas reserves that are economically recoverable. Unless we replace the reserves we produce through successful development, exploration or acquisition activities, our proved reserves will decline over time. Recovery of any additional reserves will require significant capital expenditures and successful drilling operations. We may not be able to successfully find and produce reserves economically in the future. In addition, we may not be able to acquire proved reserves at acceptable costs.

Exploration and development drilling may not result in commercially productive reserves.

We do not always encounter commercially productive reservoirs through our drilling operations. The new wells we drill or participate in may not be productive and we may not recover all or any portion of our investment in wells we drill or participate in. The seismic data and other technologies we use do not allow us to know conclusively prior to drilling a well that oil or gas is present or may be produced economically. The cost of drilling, completing and operating a well is often uncertain, and cost factors can adversely affect the economics of a project. Our efforts will be unprofitable if we drill dry wells or wells that are productive but do not produce enough reserves to return a profit after drilling, operating and other costs. Further, our drilling operations may be curtailed, delayed or canceled as a result of a variety of factors, including:

- unexpected drilling conditions;
- title problems;
- pressure or irregularities in formations;
- equipment failures or accidents;
- adverse weather conditions;
- compliance with environmental and other governmental requirements; and
- increases in the cost of, or shortages or delays in the availability of, drilling rigs and equipment.

Future price declines may result in a write-down of our asset carrying values.

We follow the successful efforts method of accounting for our oil and gas operations. Under this method, the costs of successful wells, development dry holes and productive leases are capitalized and amortized on a units-of-production basis over the life of the related reserves. Cost centers for amortization purposes are determined on a field-by-field basis. Magellan records its proportionate share in its working interest agreements in the respective classifications of assets, liabilities, revenues and expenses. Unproved properties with significant acquisition costs are periodically assessed for impairment in value, with any required impairment charged to expense. The successful efforts method also imposes limitations on the carrying or book value of proved oil and gas properties. Oil and gas properties, along with goodwill and other intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. We estimate the future undiscounted cash flows from the affected properties to determine the recoverability of carrying amounts. In general, analyses are based on proved developed reserves, except in circumstances where it is probable that additional resources will be developed and contribute to cash flows in the future. For Mereenie and Palm Valley, proved developed natural gas reserves are limited to contracted quantities. If such contracts are extended, the proved developed reserves will be increased to the lesser of the actual proved developed reserves or the contracted quantities. A significant decline in oil and gas prices from current levels, or other factors, without other mitigating circumstances, could cause a future writedown of capitalized costs and a non-cash charge against future earnings.

Oil and gas drilling and producing operations are hazardous and expose us to environmental liabilities.

Oil and gas operations are subject to many risks, including well blowouts, cratering and explosions, pipe failure, fires, formations with abnormal pressures, uncontrollable flows of oil, natural gas, brine or well fluids, and other environmental hazards and risks. Our drilling operations involve risks from high pressures and from mechanical difficulties such as stuck pipes, collapsed casings and separated cables. If any of these risks occur, we could sustain substantial losses as a result of:

- injury or loss of life;
- severe damage to or destruction of property, natural resources and equipment;
- pollution or other environmental damage;
- clean-up responsibilities;
- regulatory investigations and penalties;
- and suspension of operations.

Our liability for environmental hazards includes those created either by the previous owners of properties that we purchase or lease or by acquired companies prior to the date we acquire them. We maintain insurance against some, but not all, of the risks described above. Our insurance may not be adequate to cover casualty losses or liabilities. Also, in the future we may not be able to obtain insurance at premium levels that justify its purchase.

Item 1B. ***Unresolved SEC Staff Comments***

None

Item 2. ***Properties.***

(a) MPC has interests in properties in Australia through its 100% equity interest in MPAL which holds interests in the Northern Territory, Queensland and South Australia. MPAL also has interests in the United Kingdom. In Canada, MPC has a direct interest in one lease. For additional information regarding the Company's properties, See Item 1 — Business.

(b) (1) The information regarding reserves, costs of oil and gas activities, capitalized costs, discounted future net cash flows and results of operations is contained in Supplementary Oil & Gas Information under Item 8 — Financial Statements and Supplementary Data.

The following graphic presentation has been omitted, but the following is a description of the omitted material:

AUSTRALIAN MAP WITH MPAL PROJECTS SHOWN

The following graphic presentation has been omitted, but the following is a description of the omitted material:

AMADEUS BASIN PROJECTS MAP

The map indicates the location of the Amadeus Basin interests in the Northern Territory of Australia. The following items are identified:

Palm Valley Gas Field
Mereenie Oil & Gas Field
Dingo Gas Field
Palm Valley — Alice Springs Gas Pipeline
Palm Valley — Darwin Gas Pipeline
Mereenie Spur Gas Pipeline

The following graphic presentation has been omitted, but the following is a description of the omitted material:

CANADIAN PROPERTY INTERESTS MAP

The map indicates the location of the Kotaneelee Gas Field in the Yukon Territories of Canada. The map identifies the following items:

Kotaneelee Gas Field
Pointed Mountain Gas Field
Beaver River Gas Field

The following graphic presentation has been omitted, but the following is a description of the omitted material:

UNITED KINGDOM PROPERTY INTERESTS MAP

The map indicates the location of the MPAL property interests in the United Kingdom.

(2) *Reserves Reported to Other Agencies.*

None

(3) *Production.*

MPC's net production volumes for gas and oil during the three years ended June 30, 2006 were as follows (data for Canada has not been included since MPC is in a carried interest position and the data is not material)

	2006	2005	2004
Australia:			
Gas (bcf)	5.7	5.7	5.7
Crude oil (bbl)	155,000	151,000	150,000

The average sales price per unit of production for Australia for the following fiscal years is as follows:

	2006	2005	2004
Australia:			
Gas (per mcf)	A.$ 3.04	A.$ 2.67	A.$ 2.61
Crude oil (per bbl)	A.$ 86.17	A.$ 62.74	A.$ 42.12

The average production cost per unit of production for the following fiscal years has been impacted by transportation costs on Mereenie oil in Australia. During fiscal 2006, 2005 and 2004, the cost of remedial work on various wells in the Mereenie field and lower production levels increased production costs.

	2006	2005	2004
Australia:			
Gas (per mcf)	A.$ .93	A.$ .49	A.$ .49
Crude oil (per bbl)	A.$ 26.59	A.$ 21.20	A.$ 25.68

Amounts presented above are in Australian dollars to show a more meaningful trend of underlying operations. For the year ended June 30, 2006, 2005 and 2004 the average foreign exchange rates were .7477, .7533, and .7179, respectively.

(4) *Productive Wells and Acreage.*

Productive wells and acreage at June 30, 2006

	Productive Wells				Developed Acreage	
	Oil		Gas			
	Gross	Net	Gross	Net	Gross Acres	Net Acres
Australia	39.0	14.9	13.0	5.40	80,770	35,663
Canada	—	—	3.0	.08	3,350	89
	39.0	14.9	16.0	5.48	84,120	35,752

(5) *Undeveloped Acreage.*

The Company's undeveloped acreage (except as indicated below) is set forth in the table below:

GROSS AND NET ACREAGE AS OF JUNE 30, 2006

MPAL has interests in the following properties (before royalties). MPC has an interest in these properties through its 100% interest in MPAL.

	MPC		
	Gross Acres	**Net Acres**	**Interest %**
Australia			
Northern Territory			
PL 4/ PL 5 Mereenie (Amadeus Basin)(1)	70,049	24,517	35.0000
PL 3 Palm Valley (Amadeus Basin)(2)	157,932	82,161	52.0230
RL 2 Dingo (Amadeus Basin)	116,139	39,878	34.3365
	344,120	146,556	
Queensland:			
PL 33/ PL 50/ PL 51 Nockatunga (Cooper Basin)(3)	87,932	35,996	40.936
ATP 267P (Cooper Basin)	120,783	49,444	40.936
ATP 613P (Maryborough Basin)	153,568	153,568	100.000
	362,283	239,008	
South Australia:			
PPL 210 Aldinga (Cooper Basin)(4)	939	469	50.00
PPL 212 Kiana (Cooper Basin)(5)	395	119	30.00
PEL 94 (Cooper Basin)	669,296	234,254	35.00
PEL 95 (Cooper Basin)	958,928	479,464	50.00
PELA 110 (Cooper Basin)	361,188	135,446	37.50
	1,990,746	849,752	
United Kingdom			
PEDL 098/113/152 (Wessex Basin)	82,407	18,542	22.50
PEDL 099/154 (Weald Basin)	52,514	21,006	40.00
PEDL 112/153 (Weald Basin)	140,342	46,776	33.33
PEDL 125/126 (Weald Basin)	111,975	44,790	40.00
PEDL 135/136/137 (Weald Basin)	123,152	123,152	100.00
PEDL 151 (Weald Basin)	23,540	2,648	11.25
PEDL 154 (Weald Basin)	84,834	42,417	50.00
	618,764	299,331	
Total MPAL	3,315,913	1,534,647	
Properties held directly by MPC:			
Canada			
Yukon and Northwest Territories:			
Kotaneelee Carried interest(6)	31,885	850	2.67
Total	3,347,798	1,535,497	

(1) Includes 41,644 gross developed acres and 21,664 net acres.

(2) Includes 31,567 gross developed acres and 11,048 net acres.

(3) Includes 7,040 gross developed acres and 2,725 net acres.

(4) Includes 364 gross developed acres and 173 net acres.

(5) Includes 173 gross developed acres and 52 net acres.

(6) Includes 3,350 gross developed acres and 89 net acres.

(6) *Drilling Activity.*

Productive and dry net wells drilled during the following years (data concerning Canada and the United States is insignificant):

Year Ended June 30,	Australia/New Zealand Exploration Productive	Exploration Dry	Development Productive	Development Dry
2006	1.01	0.53	0.82	—
2005	—	1.88	0.70	—
2004	—	3.11	0.41	0.52

(7) *Present Activities.*

See Item 1 — Cooper Basin and United Kingdom for a discussion of the present activities of MPAL.

(8) *Delivery Commitments.*

See discussion under Item 1 concerning the Palm Valley and Mereenie fields.

Item 3. *Legal Proceedings.*

None.

Item 4. *Submission of Matters to a Vote of Security Holders.*

None.

PART II

Item 5. *Market for the Company's Common Equity, Related Stockholder Matters and Issuer Purchases of Securities*

(a) *Principal Market*

The principal market for MPC's common stock is the NASDAQ Capital Market under the symbol **MPET**. The stock is also traded on the Boston Stock Exchange under the symbol **MPC** and on the Australian Stock Exchange in the form of CHESS depository interests under the symbol **MGN**. The quarterly high and low prices on the most active market, NASDAQ, during the quarterly periods indicated were as follows:

2006	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
High	3.77	2.59	2.23	2.63
Low	2.31	1.51	1.64	1.33

2005	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
High	1.59	1.65	1.97	3.60
Low	1.19	1.22	1.23	1.05

(b) *Approximate Number of Holders of Common Stock at September 22, 2006*

Title of Class	Number of Record Holders
Common stock, par value $.01 per share	6,350

(c) *Frequency and Amount of Dividends*

MPC has never paid a cash dividend on its common stock.

Recent Sales of Unregistered Securities

None

Issuer Purchases of Equity Securities

The following table sets forth the number of shares that the Company has repurchased under any of its repurchase plans for the stated periods, the cost per share of such repurchases and the number of shares that may yet be repurchased under the plans:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan(1)	Maximum Number of Shares that May Yet Be Purchased Under Plan
April 1-30, 2006	0	0	0	319,150
May 1-31, 2006	0	0	0	319,150
June 1-30, 2006	0	0	0	319,150

(1) The Company through its stock repurchase plan may purchase up to one million shares of its common stock in the open market. Through June 30, 2006, the Company had purchased 680,850 of its shares at an average price of $1.01 per share, or a total cost of approximately $686,000, all of which shares have been cancelled. No shares were purchased during 2006, 2005 or 2004.

Table of Contents

Item 6. ***Selected Financial Data.***

The following table sets forth selected data (in thousands except for exchange rates and per share data) and other operating information of the Company. The selected consolidated financial data in the table are derived from the consolidated financial statements of the Company. This data should be read in conjunction with the consolidated financial statements, related notes and other financial information included herein.

	Years Ended June 30,				
	2006	**2005**	**2004**	**2003**	**2002**
Financial Data					
Total revenues	$ 26,562	$ 21,871	$ 19,424	$ 14,736	$ 13,700
Income before cumulative effect of accounting change	749	87	350	890	92
Net income	749	87	350	152	92
Net income per share (basic and diluted)	.03	—	.01	.01	—
Working capital	24,820	26,208	21,696	21,798	17,862
Cash provided by operating activities	11,766	8,776	10,718	7,109	8,157
Property and equipment (net)	27,783	24,265	24,421	21,592	17,046
Total assets	68,580	56,424	52,894	50,741	40,166
Long-term liabilities	8,583	5,729	5,256	5,629	3,974
Minority interests	—	18,583	16,533	16,931	13,933
Stockholders' equity:					
Capital	73,560	44,660	44,660	43,152	43,332
Accumulated deficit	(14,413)	(15,161)	(15,248)	(15,598)	(15,751)
Accumulated other comprehensive loss	(3,028)	(2,323)	(4,491)	(5,407)	(8,965)
Total stockholders' equity	56,119	27,176	24,920	22,147	18,616
Exchange rate A.$ = U.S. at end of period	.73	.76	.70	.67	.56
Common stock outstanding shares end of period	41,500	25,783	25,783	24,427	24,607
Book value per share	1.35	1.05	.97	.91	.76
Quoted market value per share (NASDAQ)	1.57	2.40	1.31	1.20	.88
Operating Data					
Standardized measure of discounted future cash flow relating to proved oil and gas reserves (approximately 45% attributable to minority interest in 2005 and prior) (See Note 14)	70,000	31,000	30,000	26,000	26,000
Annual production (net of royalties) Gas (bcf)	5.7	5.7	5.7	6.0	6.0
Oil (bbls) (In thousands)	155	151	150	126	141

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations.***

Forward Looking Statements

Statements included in Management's Discussion and Analysis of Financial Condition and Results of Operations which are not historical in nature are intended to be, and are hereby identified as, forward looking statements for purposes of the "Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995. The Company cautions readers that forward looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward looking statements. Among these risks and uncertainties are pricing and production levels from the properties in which the Company has interests, and the extent of the recoverable reserves at those properties. In addition, the Company has a large number of exploration permits and there is the risk that any wells drilled may fail to encounter hydrocarbons in commercial quantities. The Company undertakes no obligation to update or revise forward-looking statements, whether as a result of new information, future events, or otherwise.

Executive Summary

MPC is engaged in the sale of oil and gas and the exploration for and development of oil and gas reserves. MPC's principal asset is a 100.00% equity interest in its subsidiary, Magellan Petroleum Australia Limited (MPAL). During the fourth quarter of fiscal 2006, MPC completed an exchange offer (the Offer) to acquire all of the 44.87% of ordinary shares of MPAL that it did not own. The Offer consideration was .75 newly-issued shares of MPC common stock and A$0.10 in cash consideration for each of the 20,952,916 MPAL shares that it did not own. New MPC shares were issued to MPAL's Australian shareholders either as registered MPC shares or in the form of CDIs (CHESS Depository Interests), which have been listed on the Australian Stock Exchange ("ASX"), effective April 26, 2006, under the symbol "MGN"(see Note 2 to the financial statements).

MPAL's major assets are two petroleum production leases covering the Mereenie oil and gas field (35% working interest) and one petroleum production lease covering the Palm Valley gas field (52% working interest). Both fields are located in the Amadeus Basin in the Northern Territory of Australia. Santos Ltd., a publicly owned Australian company, owns a 48% interest in the Palm Valley field and a 65% interest in the Mereenie field.

MPAL is refocusing its exploration activities into two core areas, the Cooper Basin in onshore Australia and the Weald Basin in the onshore southern United Kingdom with an emphasis on developing a low to medium risk acreage portfolio.

MPC also has a direct 2.67% carried interest in the Kotaneelee gas field in the Yukon Territory of Canada. The Company received cash of $60,083 from this investment during fiscal 2006. Due to the completion of well L-38 drilled in fiscal 2006 in the Kotaneelee gas field in which MPC has a carried interest, MPC will not receive any revenue from the operator of this field until its share of the drilling costs are absorbed. Based upon average field production and costs for the last seven months provided to us by the operator, we currently estimate that it will take until the third or fourth calendar quarter of 2007 for the operator to recover the Company's share of the wells' costs from the Company's carried interest account. This estimate could change based upon future production and expenses related to this well.

Critical Accounting Policies

Oil and Gas Properties

The Company follows the successful efforts method of accounting for its oil and gas operations. Under this method, the costs of successful wells, development dry holes, productive leases, and permit and concession costs are capitalized and amortized on a units-of-production basis over the life of the related reserves. Cost centers for amortization purposes are determined on a field-by-field basis. The Company records its proportionate share in joint venture operations in the respective classifications of assets, liabilities and expenses. Unproved properties with significant acquisition costs are periodically assessed for impairment in value, with any impairment charged to expense. The successful efforts method also imposes limitations on the carrying or book value of proved oil and gas properties. Oil and gas properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The Company estimates the future undiscounted cash flows from the affected properties to determine the recoverability of carrying amounts. In general, analyses are based on proved developed reserves except in circumstances where it is probable that additional resources will be developed and contribute to cash flows in the future. For Mereenie and Palm Valley, proved developed reserves are limited to contracted quantities. If such contracts are extended, the proved developed reserves will be increased to the lesser of the actual proved developed reserves or the contracted quantities.

Exploratory drilling costs are initially capitalized pending determination of proved reserves but are charged to expense if no proved reserves are found. Other exploration costs, including geological and geophysical expenses, leasehold expiration costs and delay rentals, are expensed as incurred. Because the Company follows the successful efforts method of accounting, the results of operations may vary materially from quarter to quarter. An active exploration program may result in greater exploration and dry hole costs.

Goodwill and Intangibles

Goodwill and intangible exploration rights are not amortized. The Company evaluates goodwill and intangible exploration rights for impairment annually or whenever events or changes in circumstances indicate that the carrying value may be impaired in accordance with methodologies prescribed in Statement of Financial Accounting Standards ("SFAS") SFAS No. 142 "Goodwill and Other Intangible Assets." There was no impairment of goodwill or intangible exploration rights as of June 30, 2006.

Asset Retirement Obligations

Effective July 1, 2002, the Company adopted the provisions of SFAS 143, "Accounting for Asset Retirement Obligations." SFAS 143 requires legal obligations associated with the retirement of long-lived assets to be recognized at their fair value at the time that the obligations are incurred. Upon initial recognition of a liability, that cost is capitalized as part of the related long-lived asset (oil & gas properties) and amortized on a units-of-production basis over the life of the related reserves. Accretion expense in connection with the discounted liability is recognized over the remaining life of the related reserves.

The estimated liability is based on the future estimated cost of land reclamation, plugging the existing oil and gas wells and removing the surface facilities equipment in the Palm Valley, Mereenie, Kotaneelee, Nockatunga fields and the Cooper Basin. The liability is a discounted liability using a credit-adjusted risk-free rate on the date such liabilities are determined. A market risk premium was excluded from the estimate of asset retirement obligations because the amount was not capable of being estimated. Revisions to the liability could occur due to changes in the estimates of these costs, acquisition of additional properties and as new wells are drilled.

Estimates of future asset retirement obligations include significant management judgment and are based on projected future retirement costs. Judgments are based upon such things as field life and estimated costs. Such costs could differ significantly when they are incurred.

Revenue Recognition

The Company recognizes oil and gas revenue from its interests in producing wells as oil and gas is produced and sold from those wells. Oil and gas sold is not significantly different from the Company's share of production. Revenues from the purchase, sale and transportation of natural gas are recognized upon completion of the sale and when transported volumes are delivered. Shipping and handling costs in connection with such deliveries are included in production costs (cost of goods sold). Revenue under carried interest agreements is recorded in the period when the net proceeds become receivable, measurable and collection is reasonably assured. The time when the net revenues become receivable and collection is reasonably assured depends on the terms and conditions of the relevant agreements and the practices followed by the operator. As a result, net revenues from carried interests may lag the production month by one or more months.

Liquidity and Capital Resources

Consolidated

At June 30, 2006, the Company on a consolidated basis had approximately $21.9 million of cash and cash equivalents and $540,000 in marketable securities.

Net cash provided by operations was $11,766,000 in 2006 compared to $8,776,000 in 2005. The increase is primarily related to an increase of approximately $662,000 in net income, an increase in non cash items of $1,790,000 and an increase in current payables of approximately $144,000. Cash flow from operations is primarily the result of MPAL’s oil and gas activities.

During 2006, the Company had a net decrease in marketable securities of $2,677,000 compared to a net investment of $40,000 in 2005. The decrease in investments resulted from the use of investments to fund MPC’s purchase of MPAL’s minority shares during 2006 (See Note 2 to the Consolidated Financial Statements).

As to MPC (Unconsolidated)

During fiscal 2006, MPC received a dividend from MPAL of approximately $941,000. In August 2006, a dividend of approximately $5.9 million was received from MPAL. Also in August 2006, MPC loaned approximately $4.1 million to MPAL payable August, 2011. Interest on the loan will be paid annually. The tax effects of these transactions was recorded in fiscal year 2006.

At June 30, 2006, MPC, on an unconsolidated basis, had working capital of approximately $480,000. Working capital is comprised of current assets less current liabilities. MPC’s current cash position and its annual MPAL dividend should be adequate to meet its current and future cash requirements. In fiscal 2006, MPC invested substantial portions of its cash to purchase the remaining minority shares of MPAL (See Note 2 to the financial statements.)

MPC has a stock repurchase plan to purchase up to one million shares of its common stock in the open market. Through June 30, 2006, MPC purchased 680,850 of its shares at a cost of approximately $686,000. There were no shares purchased during fiscal 2006 or 2005.

As to MPAL

At June 30, 2006, MPAL had working capital of approximately $24.3 million. MPAL had budgeted approximately A$15.5 million for specific exploration projects in fiscal year 2006 as compared to the A$5.8 million expended during fiscal 2006. The current composition of MPAL’s oil and gas reserves are such that MPAL’s future revenues in the long-term are expected to be derived from the sale of gas in Australia. MPAL’s current contracts for the sale of Palm Valley and Mereenie gas will expire during fiscal year 2012 and 2009, respectively. Unless MPAL is able to obtain additional contracts for its remaining gas reserves or be successful in its current exploration program, its revenues will be materially reduced after 2009. The Palm Valley Producers are actively pursuing gas sales contracts for the remaining uncontracted reserves at both the Mereenie and Palm Valley gas fields in the Amadeus Basin. While opportunities exist to contract additional gas sales in the Northern Territory market after these dates, there is strong competition within the market and there are no assurances that the Palm Valley producers will be able to contract for the sale of the remaining uncontracted reserves.

MPAL expects to fund its exploration costs through its cash and cash equivalents and cash flow from Australian operations. MPAL also expects that it will continue to seek partners to share its exploration costs. If MPAL’s efforts to find partners are unsuccessful, it may be unable or unwilling to complete the exploration program for some of its properties.

Off Balance Sheet Arrangements

We do not use off-balance sheet arrangements such as securitization of receivables with any unconsolidated entities or other parties. The Company does not engage in trading or risk management activities and does not have material transactions involving related parties.

Contractual Obligations

The following is a summary of our consolidated contractual obligations as of June 30, 2006:

	Payments Due by Period				
Contractual Obligations	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Long-Term Debt Obligations	$ —	$ —	$ —	$ —	$ —
Capital Lease Obligations	—	—	—	—	—
Operating Lease Obligations	555,000	184,000	371,000	—	—
Purchase Obligations(1)	3,380,000	3,380,000	—	—	—
Asset Retirement Obligations	7,147,000	169,000	4,677,000	—	2,301,000
Total	$11,082,000	$3,733,000	$ 5,048,000	$ —	$2,301,000

(1) Represents firm commitments for exploration and capital expenditures. The Company is committed to these expenditures, however some may be farmed out to third parties. Exploration contingent expenditures of $15,284,000 which are not legally binding have been excluded from the table above and based on exploration decisions would be due as follows: $1,158,000 (less than 1 year), $14,126,000 (1-3 years), $0 (3-5 years).

Recent Accounting Pronouncements

On March 30, 2005, the FASB issued FASB Interpretation No. (“FIN”) 47, “Accounting for Conditional Asset Retirement Obligations.” FIN 47 requires an entity to recognize a liability for the fair value of an asset retirement obligation that is conditional on a future event if the liability’s fair value can be reasonably estimated. FIN 47 is effective for the fiscal year ended June 30, 2006.

Management has determined that the Company currently does not have any conditional asset retirement obligations, but may incur such in the future at which time they will be recorded.

On February 3, 2006, the FASB issued FASB Staff Position (“FSP”) 123(R)-4, “Classification of Options and Similar Instruments Issued as Employee Compensation that Allow for Cash Settlement upon the Occurrence of a Contingent Event.” FSP 123(R)-4 requires that an option or similar instrument that is classified as equity, but subsequently becomes a liability because a contingent cash settlement event is probable of occurring, shall be accounted for similar to a modification from equity to liability award. FSP 123(R)-4 was effective for the Company for the quarter ended March 31, 2006. There was no impact on the Company’s financial statements upon adoption of this FSP since the terms of the Company’s Stock Option Plan do not provide for cash settlements as contemplated by the FSP.

In June 2006, the FASB issued FIN 48, “Accounting for Uncertainty in Income Taxes”. FIN 48 is an interpretation of FASB Statement No. 109 “Accounting for Income Taxes” and must be adopted by the Company no later than July 1, 2007. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting, and disclosing in the financial statements uncertain tax positions that the company has taken or expects to take in its tax returns. The Company is evaluating the impact of adopting FIN 48.

On September 13, 2006, the SEC issued Staff Accounting Bulletin (“SAB”) No. 108 which is effective for the fiscal year ended June, 2007. SAB 108 provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements. The Company believes that SAB 108 will not have a material impact on the consolidated financial statements.

Results of Operations

2006 vs. 2005

Revenues

Oil sales increased 40% in 2006 to $10,616,000 from $7,574,000 in 2005 because of a 37% increase in the average sales price per barrel and a 2% increase in barrels sold due mostly to Kiana-1 in the Cooper Basin. The increase was offset by the 1% Australian foreign exchange rate decrease discussed below. Oil unit sales (net of royalties) in barrels (bbls) and the average price per barrel sold during the periods indicated were as follows:

	Twelve Months Ended June 30,			
	2006 Sales		2005 Sales	
	Bbls	Average Price A.$ per bbl	Bbls	Average Price A.$ per bbl
Australia:				
Mereenie Field	99,838	86.23	116,920	64.15
Cooper Basin	20,700	94.91	4,002	62.65
Nockatunga Project	34,127	80.79	30,567	57.28
Total	154,665	86.17	151,489	62.74

Amounts presented above for oil prices and below for gas prices are in Australian dollars to show a more meaningful trend of underlying operations. For the years ended June 30, 2006 and 2005, the average foreign exchange rates were .7477 and ..7533 respectively.

Gas sales increased 13% to $14,061,000 in 2006 from $12,478,000 in 2005. The increase was primarily the result a 14% increase in price per mcf sold offset by decreased sales volume in 2006 and the 1% Australian foreign exchange rate decrease discussed below.

The volumes in billion cubic feet (bcf) (net of royalties) and the average price of gas per thousand cubic feet (mcf) sold during the periods indicated were as follows:

	Twelve Months Ended June 30,			
	2006 Sales		2005 Sales	
	Bcf	A.$ Average Price per mcf	Bcf	A.$ Average Price per mcf
Australia: Palm Valley	1.698	2.17	2.017	2.14
Australia: Mereenie	4.028	3.42	3.724	2.97
Total	5.726	3.04	5.741	2.67

Other production related revenues increased 4% to $1,886,000 in 2006 from $1,818,000 in 2005. Other production related revenues are primarily MPAL's share of gas pipeline tariff revenues which increased as a result of the higher volumes of gas sold at Mereenie, and offset by the 1% Australian foreign exchange rate decrease discussed below.

Costs and Expenses

Production costs increased 34% in 2006 to $8,220,000 from $6,144,000 in 2005. The increase in 2006 was primarily the result of increased expenditures of $1,600,000 in the Mereenie and Palm Valley fields mostly due to the Mereenie workover program, $102,000 in the Nockatunga project and $409,000 in the Cooper Basin. The increase was partially offset by the 1% Australian foreign exchange rate decrease discussed below.

Exploration and dry hole costs decreased 21% to $3,265,000 in 2006 from $4,157,000 in 2005. These costs related to the exploration work being performed on MPAL's properties. The primary reasons for the decrease in 2006 were work performed on the Nockatunga project ($630,000), costs related to exploration activities in New Zealand ($1,141,000) and the 1% Australian foreign exchange rate decrease discussed below. The decrease in costs was partially offset by an increase in costs incurred in 2006 on properties in the Mereenie and Palm Valley fields ($880,000).

Depletion, depreciation and amortization decreased 10% to $6,314,000 in 2006 from $6,994,000 in 2005. Depletion expense for the Palm Valley and Mereenie fields decreased 20% during the 2006 period primarily because of a decrease in depletable costs of $4,740,000. This decrease was partially offset by an increase in depletion for the Nockatunga project ($378,000) and properties in the Cooper Basin ($198,000) primarily because of a higher depletion rate for 2006 due to a change in reserve estimates. Depletion also decreased due to the 1% Australian foreign exchange rate decrease discussed below.

Auditing, accounting and legal expenses increased 7% to $472,000 in 2006 from $442,000 in 2005 primarily because of the administrative, auditing and legal expenses with respect to new SEC and accounting rules adopted pursuant to the Sarbanes-Oxley Act of 2002, offset by the 1% Australian foreign exchange rate decrease discussed below. The Company anticipates that it will be required in the future to incur significant administrative, auditing and legal expenses with respect to the Sarbanes-Oxley Act of 2002, particularly the requirements to document, test and audit the Company's internal controls to comply with Section 404 of the Act and rules adopted thereunder. Management's opinion on the internal controls of the Company is required for the fiscal year ending June 30, 2008. An audit opinion on the design and operating effectiveness of controls is expected to be required for the fiscal year ending June 30, 2009.

Accretion expense increased 4% to $425,000 in 2006 from $407,000 in 2005. Accretion expense represents the accretion on the asset retirement obligations (ARO) under SFAS 143. The increase in the 2006 period is partially offset by the 1% decrease in the Australian foreign exchange rate discussed below.

Loss on asset retirement obligation settlement is the result of adjusting the estimated asset retirement cost to actual expenditures incurred for producing wells in the Mereenie field that were plugged and restored in accordance with environmental regulations. The loss recorded for 2006 is $445,000.

Shareholder communications costs increased 98% to $450,000 from $227,000 in 2006 due to costs related to the exchange offer (see Note 2 to the Consolidated Financial Statements).

Other administrative expenses increased 82% to $1,456,000 from $800,000 in 2006 primarily due to a non-cash charge for directors' stock option expense of $365,000, increased consulting costs of $191,000 relating to Mereenie contract negotiations and a charge to bad debts of $48,000, offset by the 1% decrease in the Australian foreign exchange rate discussed below.

Income Taxes

Provision for income tax for the year ended June 30, 2006 was $1,679,000 compared to an income tax benefit for the year ended June 30, 2005 of $82,152. The increase in the tax provision relates primarily to the increase in income for the year ended June 30, 2006, an adjustment to prior year deferred taxes, and reduced benefits relating to New Zealand foreign losses (see Note 6 to the Consolidated Financial Statements).

Exchange Effect

The value of the Australian dollar relative to the U.S. dollar decreased to $.7301 at June 30, 2006 compared to $.7620 at June 30, 2005. This resulted in a $705,817 debit to accumulated translation adjustments for fiscal 2006. The 4% decrease in the value of the Australian dollar decreased the reported asset and liability amounts in the balance sheet at June 30, 2006 from the June 30, 2005 amounts. The annual average exchange rate used to translate MPAL's operations in Australia for fiscal 2006 was $.7477, which is a 1% decrease compared to the $.7533 rate for fiscal 2005.

2005 vs. 2004

Revenues

Oil sales increased 54% in 2005 to $7,574,000 from $4,923,000 in 2004 because of the 5% Australian foreign exchange rate increase discussed below and a 49% increase in the average sales price per barrel. Oil unit sales (net of royalties) in barrels (bbls) and the average price per barrel sold during the periods indicated were as follows:

	Twelve Months Ended June 30,			
	2005 Sales		2004 Sales	
	Bbls	Average Price A.$ per bbl	Bbls	Average Price A.$ per bbl
Australia:				
Mereenie Field	116,920	64.15	110,955	43.44
Cooper Basin	4,002	62.65	6,522	37.29
Nockatunga Project	30,567	57.28	34,105	38.73
Total	151,489	62.74	151,582	42.12

Amounts presented above for oil prices and below for gas prices are in Australian dollars to show a more meaningful trend of underlying operations. For the years ended June 30, 2005 and 2004, the average foreign exchange rates were .7533 and ..7179, respectively.

Gas sales decreased 3% to $12,478,000 in 2005 from $12,870,000 in 2004. The decrease was primarily the result of the one time proceeds of $1,135,000 from the Kotaneelee gas field settlement recorded in 2004. This was partially offset by the 5% Australian foreign exchange rate increase discussed below, an increase in price per mcf sold and increased sales volume in 2005.

The volumes in billion cubic feet (bcf) (net of royalties) and the average price of gas per thousand cubic feet (mcf) sold during the periods indicated were as follows:

	Twelve Months Ended June 30,			
	2005 Sales		2004 Sales	
	Bcf	A.$ Average Price per mcf	Bcf	A.$ Average Price per mcf
Australia: Palm Valley	2.017	2.14	2.376	2.25
Australia: Mereenie	3.724	2.97	3.287	2.86
Total	5.741	2.67	5.663	2.61

Other production related revenues increased 11% to $1,818,000 in 2005 from $1,632,000 in 2004. Other production related revenues are primarily MPAL’s share of gas pipeline tariff revenues which increased as a result of the higher volumes of gas sold at Mereenie, and because of the 5% Australian foreign exchange rate increase discussed below.

Costs and Expenses

Production costs increased 13% in 2005 to $6,144,000 from $5,416,000 in 2004. The increase in 2005 was primarily the result of increased expenditures in the Mereenie and Palm Valley fields ($789,000) and the 5% Australian foreign exchange rate increase discussed below, partially offset by lower expenditures for the Nockatunga project and the Cooper Basin.

Exploration and dry hole costs increased 29% to $4,157,000 in 2005 from $3,225,000 in 2004. The 2005 and 2004 costs related to the exploration work being performed on MPAL’s properties. The primary reasons for the increase in 2005 were work performed on the Nockatunga project ($893,000), costs related to exploration activities in New Zealand ($567,000) and the 5% Australian foreign exchange rate increase discussed below. These costs were partially offset by lower costs incurred in 2005 on properties in Southern Australia ($476,000).

Salaries and employee benefits decreased 28% to $2,726,000 in 2005 from $3,812,000 in 2004. During the 2004 period, MPAL curtailed its pension plan, which resulted in a $1,248,000 charge, of which $961,000 was non cash. This reduction was partially offset by the 5% Australian foreign exchange rate increase discussed below.

Depletion, depreciation and amortization increased 10% from $6,342,000 in 2004 to $6,994,000 in 2005. Depletion expense for the Palm Valley and Mereenie fields increased 16% during the 2005 period primarily because of a higher depletion rate for 2005 due to a change in reserve estimates. Depletion also increased due to the 5% Australian foreign exchange rate increase discussed below.

Auditing, accounting and legal expenses increased 7% in 2005 to $442,000 from $414,000 in 2004 primarily because of the 5% Australian foreign exchange rate increase discussed below. The Company anticipates that it will be required in the future to incur significant administrative, auditing and legal expenses with respect to new SEC and accounting rules adopted pursuant to the Sarbanes-Oxley Act of 2002, particularly the requirements to document, test and audit the Company's internal controls to comply with Section 404 of the Act and rules adopted thereunder. Management's opinion on the internal controls of the Company is required for the fiscal year ending June 30, 2008. An audit opinion on the design and operating effectiveness of controls is expected to be required for the fiscal year ending June 30, 2009.

Accretion expense increased 14% in the 2005 period from $357,000 in 2004 to $407,000 in 2005. Accretion expense represents the accretion on the asset retirement obligations (ARO) under SFAS 143 that was adopted effective July 1, 2002. The increase in the 2005 period is primarily the 5% increase in the Australian foreign exchange rate discussed below.

Shareholder communications costs increased 26% from $180,000 in 2004 to $227,000 in 2005 primarily because of MPC and MPAL's increased costs related to preparing public filings for distribution and the 5% increase in the Australian foreign exchange rate discussed below.

Other administrative expenses increased 21% from $660,000 in 2004 to $800,000 in 2005 primarily due to increased consulting costs and the 5% increase in the Australian foreign exchange rate discussed below.

Interest Income

Interest income increased 4% to $1,142,000 in 2005 from $1,099,000 in 2004 primarily because of the 5% Australian foreign exchange rate increase discussed below.

Income Taxes

Income tax benefits for the years ended June 30, 2005 and 2004 were $82,152 and $778,085, respectively. Income tax benefits were reduced in 2005 as a result of the lack of the reversal of the reserve of $1,266,000 recognized in 2004 on MPAL deferred tax assets generated from MPAL's financing subsidiary. This was offset by a reduction in Canadian income tax expense of $421,000 in 2005, as a result of reduced Canadian revenues. As a result of a change in Australian tax law during 2004, MPAL docs not expect to receive similar financing benefits in the future.

Exchange Effect

The value of the Australian dollar relative to the U.S. dollar increased to $.7620 at June 30, 2005 compared to $.6993 at June 30, 2004. This resulted in a $2,169,000 credit to accumulated translation adjustments for fiscal 2005. The 9% increase in the value of the Australian dollar increased the reported asset and liability amounts in the balance sheet at June 30, 2005 from the June 30, 2004 amounts. The annual average exchange rate used to translate MPAL's operations in Australia for fiscal 2005 was $.7533, which is a 5% increase compared to the $.7179 rate for fiscal 2004.

Item 7A. ***Quantitative and Qualitative Disclosure About Market Risk.***

The Company does not have any significant exposure to market risk, other than as previously discussed regarding foreign currency risk and the risk of fluctuations in the world price of crude oil, as the only market risk sensitive instruments are its investments in marketable securities. At June 30, 2006, the carrying value of such investments including those classified as cash and cash equivalents was approximately $22.4 million, which approximates the fair value of the securities. Since the Company expects to hold the investments to maturity, the maturity value should be realized. A 10% change in the Australian foreign currency rate compared to the U.S. dollar would increase or decrease revenues and costs and expenses by $2.7 million and $2.4 million, respectively. For the twelve months ended June 30, 2006, oil sales represented approximately 43% of production revenues. Based on 2006 sales volume and revenue, a 10% change in oil price would increase or decrease oil revenues by $1,062,000. Gas sales, which represented approximately 57% of production revenues in 2006, are derived primarily from the Palm Valley and Mereenie fields in the Northern Territory of Australia and the gas prices are set according to long term contracts that are subject to changes in the Australian Consumer Price Index.

Item 8. ***Financial Statements and Supplementary Data.***

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Magellan Petroleum Corporation
Hartford, Connecticut

We have audited the accompanying consolidated balance sheets of Magellan Petroleum Corporation (the "Company") as of June 30, 2006 and 2005, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended June 30, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Magellan Petroleum Corporation as of June 30, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2006, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

September 27, 2006
Hartford, Connecticut

MAGELLAN PETROLEUM CORPORATION

CONSOLIDATED BALANCE SHEETS

	June 30, 2006	June 30, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 21,882,882	$ 21,733,375
Accounts receivable — Trade	4,809,051	4,210,174
Accounts receivable — Working Interest Partners	413,786	864,922
Marketable securities	539,675	3,216,541
Inventories	734,887	591,997
Other assets	317,496	526,703
Total current assets	28,697,777	31,143,712
Deferred income taxes	1,129,719	1,014,907
Property and equipment, net:		
Oil and gas properties (successful efforts method)	87,831,709	80,765,911
Land, buildings and equipment	2,448,790	2,552,980
Field equipment	789,921	1,620,909
	91,070,420	84,939,800
Less accumulated depletion, depreciation and amortization	(63,287,726)	(60,674,306)
Net property and equipment	27,782,694	24,265,494
Intangible exploration rights	5,323,347	—
Goodwill	5,646,747	—
Total assets	$ 68,580,284	$ 56,424,113
LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,856,515	$ 3,602,085
Accrued liabilities	1,919,739	1,308,004
Income taxes payable	101,746	25,879
Total current liabilities	3,878,000	4,935,968
Long term liabilities:		
Deferred income taxes	1,435,583	—
Asset retirement obligations	7,147,261	5,729,180
Total long term liabilities	8,582,844	5,729,180
Minority interests	—	18,583,046
Commitments (Note 11)	—	—
Stockholders' equity:		
Common stock, par value $.01 per share:		
Authorized 200,000,000 shares Outstanding 41,500,138 and 25,783,243	415,001	257,832
Capital in excess of par value	73,145,577	44,402,182
Total capital	73,560,578	44,660,014
Accumulated deficit	(14,412,688)	(15,161,462)
Accumulated other comprehensive loss	(3,028,450)	(2,322,633)
Total stockholders' equity	56,119,440	27,175,919
Total liabilities, minority interests and stockholders' equity	$ 68,580,284	$ 56,424,113

See accompanying notes.

MAGELLAN PETROLEUM CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended June 30,		
	2006	2005	2004
Revenues:			
Oil sales	$ 10,615,761	$ 7,574,022	$ 4,922,585
Gas sales	14,060,968	12,478,293	12,870,065
Other production related revenues	1,885,706	1,818,471	1,631,613
Total revenues	26,562,435	21,870,786	19,424,263
Costs and expenses:			
Production costs	8,220,013	6,144,339	5,416,465
Exploratory and dry hole costs	3,264,837	4,157,344	3,225,066
Salaries and employee benefits	2,709,172	2,726,341	3,812,012
Depletion, depreciation and amortization	6,314,049	6,994,253	6,341,998
Auditing, accounting and legal services	471,596	441,642	413,754
Accretion expense	425,254	406,960	356,981
Shareholder communications	449,561	227,032	179,840
Loss on settlement of asset retirement obligation	444,566	—	—
Gain on sale of field equipment	(119,445)	—	—
Other administrative expenses	1,455,696	800,200	659,751
Total costs and expenses	23,635,299	21,898,111	20,405,867
Operating income (loss)	2,927,136	(27,325)	(981,604)
Interest income	1,268,641	1,141,802	1,099,440
Income before income taxes and minority interests	4,195,777	1,114,477	117,836
Income tax expense (benefit)	1,678,980	(82,152)	(778,085)
Income before minority interests	2,516,797	1,196,629	895,921
Minority interests	(1,768,023)	(1,109,669)	(545,860)
Net income	$ 748,774	$ 86,960	$ 350,061
Average number of shares:			
Basic	28,353,463	25,783,243	25,644,566
Diluted	28,453,270	25,783,243	25,682,160
Per share (basic and diluted)			
Net income	$ .03	—	$ .01

See accompanying notes.

Table of Contents

MAGELLAN PETROLEUM CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Three Years Ended June 30, 2006

	Number of Shares	Common Stock	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total	Total Comprehensive Income
June 30, 2003	24,427,376	$244,274	$42,907,741	$(15,598,483)	$ (5,406,527)	$22,147,005	
Net income	—	—	—	350,061	—	350,061	350,061
Foreign currency translation adjustments	—	—	—	—	915,150	915,150	915,150
Total comprehensive income	—	—	—	—	—	—	1,265,211
Stock exchange	1,300,000	13,000	1,495,000			1,508,000	
Issuance of common stock	55,867	558	(559)	—	—	(1)	
June 30, 2004	25,783,243	$257,832	$44,402,182	$(15,248,422)	$ (4,491,377)	$24,920,215	
Net income	—	—	—	86,960	—	86,960	86,960
Foreign currency translation adjustments	—	—	—	—	2,168,744	2,168,744	2,168,744
Total comprehensive income	—	—	—	—	—	—	2,255,704
June 30, 2005	25,783,243	$257,832	$44,402,182	$(15,161,462)	$ (2,322,633)	$27,175,919	
Net income	—	—	—	748,774	—	748,774	748,774
Foreign currency translation adjustments	—	—	—	—	(705,817)	(705,817)	(705,817)
Stock exchange	15,716,895	157,169	28,367,956	—	—	28,525,125	
Stock option compensation	—	—	375,439	—	—	375,439	
Total comprehensive income	—	—	—	—	—	—	42,957
June 30, 2006	41,500,138	$415,001	$73,145,577	$(14,412,688)	$ (3,028,450)	$56,119,440	

See accompanying notes.

MAGELLAN PETROLEUM CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended June 30,		
	2006	**2005**	**2004**
Operating Activities:			
Net income	$ 748,774	$ 86,960	$ 350,061
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain from sale of field equipment	(119,445)	—	—
Depletion, depreciation and amortization	6,314,049	6,994,253	6,341,998
Accretion expense	425,254	406,960	356,981
Deferred income taxes	(157,300)	(1,454,544)	(1,445,241)
Director’s options expense	375,439	—	—
Minority interests	1,768,023	1,109,669	545,860
Exploration and dry hole costs	2,997,026	3,200,816	2,897,766
Loss on settlement of asset retirement obligation	444,566	—	—
Increase (decrease) in operating assets and liabilities:			
Accounts receivable	(774,696)	(978,727)	1,456,833
Other assets	209,207	(208,563)	905,146
Inventories	(170,664)	57,207	(142,397)
Accounts payable and accrued liabilities	(368,724)	(191,341)	(715,548)
Income taxes payable	74,416	(246,495)	166,477
Net cash provided by operating activities	11,765,925	8,776,195	10,717,936
Investing Activities:			
Additions to property and equipment	(5,072,500)	(4,132,434)	(5,254,771)
Proceeds from sale of field equipment	119,445	—	—
Oil and gas exploration activities	(2,997,026)	(3,200,816)	(2,897,766)
Decrease in construction payables	(627,732)	(1,022,120)	(785,386)
Acquisition of minority interest in MPAL	(3,630,374)	—	—
Marketable securities matured	5,044,574	5,599,328	5,760,239
Marketable securities purchased	(2,367,707)	(5,639,435)	(6,750,171)
Net cash used in investing activities	(9,531,320)	(8,395,477)	(9,927,855)
Financing Activities:			
Dividends to MPAL minority shareholders	(765,641)	(821,732)	(744,971)
Net cash used in financing activities	(765,641)	(821,732)	(744,971)
Effect of exchange rate changes on cash and cash equivalents	(1,319,457)	1,767,769	320,046
Net increase in cash and cash equivalents	149,507	1,326,755	365,156
Cash and cash equivalents at beginning of year	21,733,375	20,406,620	20,041,464
Cash and cash equivalents at end of year	$ 21,882,882	$ 21,733,375	$ 20,406,620
Cash Payments:			
Income taxes	1,773,727	13,000	12,000
Interest	—	—	—

Supplemental Schedule of Noncash Investing and Financing Activities:

The Company purchased the remaining minority shares of MPAL for $32,155,498 which includes cash consideration of $1,563,507, transaction costs of $1,990,410 and stock consideration of $28,601,581. Costs of registering securities in the amount of $76,457 were treated as a reduction to additional paid in capital.

Fair value of assets acquired	$ 37,980,603
Consideration paid for capital stock	32,155,498
Liabilities assumed	5,825,105

See Note 2 to the Consolidated Financial Statements.

In addition, non-cash asset retirement obligations increased as a result of a revision in estimates by $1,667,877.

1. Summary of Significant Accounting Policies

Principles of Consolidation

Magellan Petroleum Corporation (the Company or MPC) is engaged in the sale of oil and gas and the exploration for and development of oil and gas reserves. At June 30, 2006 and 2005, MPC's principal asset was a 100% and 55%, respectively, equity interest in its subsidiary, Magellan Petroleum Australia Limited (MPAL) (See Note 2.). MPAL's major assets are two petroleum production leases covering the Mereenie oil and gas field (35% working interest), one petroleum production lease covering the Palm Valley gas field (52% working interest), and three petroleum production leases covering the Nockatunga oil field (41% working interest). Both the Mereenie and Palm Valley fields are located in the Amadeus Basin in the Northern Territory of Australia. The Nockatunga filed is located in the Cooper Basin in South Australia. MPC has a direct 2.67% carried interest in the Kotaneelee gas field in the Yukon Territory of Canada.

The accompanying consolidated financial statements include the accounts of MPC and its subsidiary, MPAL, collectively the Company. All intercompany transactions have been eliminated.

Revenue Recognition

The Company recognizes oil and gas revenue from its interests in producing wells as oil and gas is produced and sold from those wells. Oil and gas sold is not significantly different from the Company's share of production. Revenues from the purchase, sale and transportation of natural gas are recognized upon completion of the sale and when transported volumes are delivered. Other production related revenues are primarily MPAL's share of gas pipeline tariff revenues which are recorded at the time of sale. Shipping and handling costs in connection with such deliveries are included in production costs. Revenue under carried interest agreements is recorded in the period when the net proceeds become receivable, measurable and collection is reasonably assured. The time the net revenues become receivable and collection is reasonably assured depends on the terms and conditions of the relevant agreements and the practices followed by the operator. As a result, net revenues from carried interests may lag the production month by one or more months.

Stock-Based Compensation

The Company has one Stock Option Plan. Under SFAS No. 123(R) "Share-Based Payment," the costs resulting from all share-based payment transactions are recognized in the consolidated financial statements. This statement establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires the application of a fair-value measurement method of accounting for share-based payment transactions with employees and non-employees. The Company uses the Black-Scholes option valuation model to determine the fair value of its Stock Option share awards. The Black-Scholes model includes various assumptions, including the expected volatility and the expected life of the share awards. These assumptions reflect the Company's best estimates, but they involve inherent uncertainties based on market conditions generally outside of the control of the Company. As a result, if other assumptions had been used, stock-based compensation expense, as calculated and recorded under SFAS 123(R) could have been materially impacted. Furthermore, if the Company uses different assumptions in future periods, stock-based compensation expense could be materially impacted in future periods. The Company's policy for attributing the value of graded vest share-based payments is an accelerated multiple-option approach.

Oil and Gas Properties

Oil and gas properties are located in Australia, Canada and the United Kingdom. The Company follows the successful efforts method of accounting for its oil and gas operations. Under this method, the costs of successful wells, development dry holes, productive leases, and permitted concession costs are capitalized and amortized on a units-of-production basis over the life of the related reserves. Cost centers for amortization purposes are determined on a field-by-field basis. The Company records its proportionate share in its working interest agreements in the respective classifications of assets, liabilities and expenses. Unproved properties with significant acquisition costs are periodically assessed for impairment in value, with any impairment charged to expense. The successful efforts method also imposes limitations on the carrying or book value of proved oil and gas properties. Oil and gas properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The Company estimates the future undiscounted cash flows from the affected properties to determine the recoverability of carrying amounts. In general, analyses are based on proved developed reserves, except in circumstances where it is probable that additional resources will be developed and contribute to cash flows in the future. For Mereenie and Palm Valley, proved developed natural gas reserves are limited to contracted quantities. If such contracts are extended, the proved developed reserves will be increased to the lesser of the actual proved developed reserves or the contracted quantities.

Exploratory drilling costs are initially capitalized pending determination of proved reserves but are charged to expense if no proved reserves are found. Other exploration costs, including geological and geophysical expenses, leasehold expiration costs and delay rentals, are expensed as incurred. Because the Company follows the successful efforts method of accounting, the results of operations may vary materially from quarter to quarter. An active exploration program may result in greater exploration and dry hole costs.

Goodwill and Intangibles

Goodwill and intangible exploration rights are not amortized. The Company evaluates goodwill and intangible exploration rights for impairment annually or whenever events or changes in circumstances indicate that the carrying value may be impaired in accordance with methodologies prescribed in Statement of Financial Accounting Standards (“SFAS”) SFAS No. 142 “Goodwill and Other Intangible Assets.” There was no impairment of goodwill or intangible exploration rights as of June 30, 2006.

Asset Retirement Obligations

SFAS No. 143, “Accounting for Asset Retirement Obligations” requires legal obligations associated with the retirement of long-lived assets to be recognized at their fair value at the time that the obligations are incurred. Upon initial recognition of a liability, that cost is capitalized as part of the related long-lived asset (oil & gas properties) and amortized on a units-of-production basis over the life of the related reserves. Accretion expense in connection with the discounted liability is recognized over the remaining life of the related reserves.

The estimated liability is based on the future estimated cost of land reclamation, plugging the existing oil and gas wells and removing the surface facilities equipment in the Palm Valley, Mereenie, Kotaneelee, and Nockatunga fields and the Cooper Basin. The liability is a discounted liability using a credit-adjusted risk-free rate on the date such liabilities are determined. A market risk premium was excluded from the estimate of asset retirement obligations because the amount was not capable of being estimated. Revisions to the liability could occur due to changes in the estimates of these costs, acquisition of additional properties and as new wells are drilled.

Estimates of future asset retirement obligations include significant management judgment and are based on projected future retirement costs. Such costs could differ significantly when they are incurred.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Land, Buildings and Equipment and Field Equipment

Land, buildings and equipment and field equipment are carried at cost. Depreciation and amortization are provided on a straight-line basis over their estimated useful lives. The estimated useful lives are: buildings — 40 years, equipment and field equipment — 3 to 15 years.

Accounts Receivable

The Company has determined that an allowance for doubtful accounts was not necessary as all receivables were expected to be realized in full.

Inventories

Inventories consist of crude oil in various stages of transit to the point of sale and are valued at the lower of cost (determined on an average cost basis) or market.

Foreign Currency Translations

The accounts of MPAL, whose functional currency is the Australian dollar, are translated into U.S. dollars in accordance with SFAS No. 52. The translation adjustment is included as a component of stockholders' equity and comprehensive income (loss), whereas gains or losses on foreign currency transactions are included in the determination of income. All assets and liabilities are translated at the rates in effect at the balance sheet dates. Revenues, expenses, gains and losses are translated using quarterly weighted average exchange rates during the period. At June 30, 2006 and 2005, the Australian dollar was equivalent to U.S. $.73 and $.76, respectively. The annual average exchange rates used to translate MPAL's operations in Australia for the fiscal years 2006, 2005 and 2004 were $.75, $.75 and $.72, respectively.

Accrued Liabilities

At June 30, 2006 and 2005, balances in accrued liabilities which exceeded 5% of the total balance include $1,032,037 and $1,046,438 of employment benefits, respectively, $321,145 and $226,578 of payroll withholding taxes, respectively, and $457,635 and $11,963 of MPAL exchange offer costs, respectively.

Accounting for Income Taxes

The Company follows FASB Statement 109, the liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company records a valuation allowance for deferred tax assets when it is more likely than not that such assets will not be recovered.

Financial Instruments

The carrying value for cash and cash equivalents, accounts receivable, marketable securities and accounts payable approximates fair value based on anticipated cash flows and current market conditions.

Cash and Cash Equivalents

The Company considers all highly liquid short term investments with maturities of three months or less at the date of acquisition to be cash equivalents. Cash and cash equivalents are carried at cost which approximates market value. The components of cash and cash equivalents are as follows:

	June 30, 2006	June 30, 2005
Cash	$ 1,925,923	$ 309,283
Australian money market accounts and short-term commercial paper	19,956,959	21,424,092
	$ 21,882,882	$ 21,733,375

Marketable Securities

At June 30, 2006 and 2005, MPC had the following marketable securities which are expected to be held until maturity:

June 30, 2006	Par Value	Maturity Date	Amortized Cost	Fair Value
Short-term securities				
U.S. government agency note	$ 150,000	Sept. 12, 2006	$ 149,991	$ 149,671
U.S. government agency note	240,000	Nov. 15, 2006	239,288	238,874
U.S. government agency note	150,000	Dec. 20, 2006	150,396	149,250
Total short-term	$ 540,000		$ 539,675	$ 537,795

June 30, 2005	Par Value	Maturity Date	Amortized Cost	Fair Value
Short-term securities				
U.S. government agency note	$ 300,000	Jul. 21, 2005	$ 295,437	$ 299,460
U.S. government agency note	575,000	Aug. 23, 2005	565,532	572,240
U.S. government agency note	210,000	Sep. 16, 2005	206,920	208,488
U.S. government agency note	100,000	Sep. 16, 2005	98,380	99,280
U.S. government agency note	200,000	Oct. 24, 2005	196,611	197,840
State of Connecticut bond	200,000	Nov. 15, 2005	200,585	199,852
Lewiston, Maine Pension bond	390,000	Dec. 15, 2005	390,000	392,336
U.S. government agency note	310,000	Jan. 10, 2006	302,863	304,141
U.S. government agency note	300,000	Feb. 24, 2006	291,980	292,950
U.S. government agency note	300,000	Mar. 28, 2006	300,000	298,500
U.S. government agency note	230,000	Apr. 28, 2006	223,035	223,008
U.S. government agency note	150,000	May 02, 2006	145,198	145,350
Total short-term	$ 3,265,000		$ 3,216,541	$ 3,233,445

Earnings per Share

Earnings per common share are based upon the weighted average number of common and common equivalent shares outstanding during the period. The only reconciling item in the calculation of diluted EPS is the dilutive effect of stock options which were computed using the treasury stock method. At June 30, 2006, the Company had 430,000 stock options that were issued that had a strike price below the average stock price for the year and resulted in 99,807 incremental diluted shares. In 2005, the Company did not have any stock options that were issued that had a strike price below the average stock price for the year. There were no other potentially dilutive items at June 30, 2005. At June 30, 2004, the Company had 595,000 stock options that were issued that had a strike price below the average stock price for the year and resulted in 37,594 incremental diluted shares.

Stock Options

The Company's 1998 Stock Option Plan (the "Plan") provides for grants of non-qualified stock options principally at an option price per share of 100% of the fair value of the Company's common stock on the date of the grant. The Plan has 1,000,000 shares authorized for awards of equity share options. Stock options are generally granted with a 3-year vesting period and a 10-year term. The stock options vest in equal annual installments over the vesting period, which is also the requisite service period. The 400,000 options granted to Directors on November 28, 2005 had an immediate vesting period.

In December 2004, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share-Based Payment." SFAS 123(R) is effective for the first interim or annual reporting period beginning after June 15, 2005 and is a revision of SFAS No. 123, "Accounting for Stock Based Compensation" and supersedes Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees". SFAS 123(R) eliminates the alternative to use the intrinsic value method of accounting provided by SFAS 123, which generally resulted in no compensation expense recorded in the financial statements related to the issuance of equity awards to employees. SFAS 123(R) requires recognition in the financial statements of the cost resulting from all share-based payment transactions by applying a fair-value-based measurement method to account for all share-based payment transactions with employees.

On July 1, 2005, the Company adopted SFAS 123(R) and elected the modified prospective application permitted under SFAS 123(R). Under this application, the Company is required to record compensation expense for all awards granted after the date of adoption and for the unvested portion of previously granted awards that remain outstanding at the date of adoption. Compensation expense has been and will continue to be recorded for the unvested portion of previously issued awards that were outstanding at July 1, 2005 using the same estimate of the grant date fair value and the same attribution method used to determine the pro forma disclosure under SFAS No. 123. Prior to the adoption of SFAS 123(R), the Company applied the requirements of APB 25 to account for its stock-based awards. Under APB 25, because the exercise price of the Company's stock option equaled the market price of the underlying stock on the date of grant, no compensation expense was recognized.

The Company determined the fair value of the options at the date of grant using the Black-Scholes option pricing model. Option valuation models require the input of highly subjective assumptions including the expected stock price volatility. The assumptions used to value the Company's grants on July 1, 2004 and November 28, 2005, respectively were: risk free interest rate -4.95% and 4.58%, expected life - -10 years and 5 years, expected volatility -.518 and ..627, expected dividend -0. The expected life of the options granted on November 28, 2005 was determined under the "simplified" method described in SAB No. 107.

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss at June 30, 2006 and 2005 was as follows:

	2006	2005
Foreign currency translation adjustments	$ (3,028,450)	$ (2,322,633)

Sales Taxes

Government sales taxes related to MPAL's oil and gas production revenues are collected by MPAL and remitted to the Australian government. Such amounts are excluded from revenue and expenses.

Reclassifications

Certain reclassifications of prior period data included in the accompanying consolidated financial statements have been made to conform with the current period presentation.

Recent Accounting Pronouncements

In June 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes". FIN 48 is an interpretation of FASB Statement No. 109 "Accounting for Income Taxes" and must be adopted by the Company no later than July 1, 2007. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting, and disclosing in the financial statements uncertain tax positions that the company has taken or expects to take in its tax returns. The Company is evaluating the impact of adopting FIN 48.

On September 13, 2006, the SEC issued SAB No. 108 which is effective for the fiscal year ended June, 2007. SAB 108 provides guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements. The Company believes that SAB 108 will not have a material impact on the consolidated financial statements.

2. Acquisition of Minority Interest of MPAL

During the fourth quarter of fiscal 2006, MPC completed an exchange offer (the Offer) to acquire all of the 44.87% of ordinary shares of MPAL that it did not own. Reasons for the Offer included: (1) simplification of Magellan's corporate structure, (2) greater liquidity for investors, (3) access to capital on potentially more favorable terms for future strategic initiatives or exploration activities, (4) opportunities for cost reductions leading to organizational efficiencies and (5) the potential improvements in cash flow and tangible asset value per share for Magellan The Offer consideration was .75 newly-issued shares of MPC common stock and A$0.10 in cash consideration for each of the 20,952,916 MPAL shares that it did not own. New MPC shares were issued to MPAL's Australian shareholders either as MPC registered shares or in the form of CDIs (CHESS Depository Interests), which have been listed on the Australian Stock Exchange ("ASX"), effective April 26, 2006, under the symbol "MGN."

The Offer was accounted for using the purchase method of accounting. Under the purchase method of accounting, the total purchase price was allocated to the minority interests' proportionate interest in MPAL's identifiable assets and liabilities acquired by MPC based upon their estimated fair values. The fair value of the significant assets acquired (primarily oil and gas properties and intangible exploration rights) and the liabilities assumed was determined by management with the assistance of third party valuation experts. This process is not complete, thus the purchase price allocation is subject to refinement.

The purchase price of the exchange offer was $32,155,498. This was based upon a value of $1.82 per share of MPC common stock for the 15,716,895 shares issued, cash consideration of $1,563,507 and transaction costs of $1,990,410. The value of the MPC common stock issued was determined based on the average market price of MPC's common stock over the 3-day period before and 3-day period after the date that MPAL agreed to recommend the terms of the acquisition.

The following table summarizes the estimated fair values of the assets acquired and the liabilities assumed at June 30, 2006:

Current assets	$	12,153,855
Property and equipment		14,364,613
Deferred income taxes		492,041
Intangible exploration rights		5,323,347
Goodwill		5,646,747
Total assets acquired		37,980,603
Current liabilities		(1,396,332)
Long term liabilities		(4,428,773)
Total liabilities assumed		(5,825,105)
Net assets acquired	$	32,155,498

Goodwill and intangible exploration rights are not subject to amortization.

Table of Contents

The following pro forma condensed income statement for the fiscal years ended June 30, 2006 and 2005 is presented as if the Offer had been completed as of July 1, 2005 and July 1, 2004, respectively.

Pro Forma Condensed Consolidated Statements of Income

	For the Year Ended June 30, 2006		
	Historical	Pro Forma Adjustments to Reflect Exchange Offer	Pro Forma
Total revenues	$ 26,562,435	—	$ 26,562,435
Costs and expenses	23,635,299	1,072,388(1)	24,707,687
Operating income	2,927,136	(1,072,388)	1,854,748
Other income	1,268,641	—	1,268,641
Income before income taxes and minority interests	4,195,777	(1,072,388)	3,123,389
Income tax provision	(1,678,980)	321,716(2)	(1,357,264)
Income before minority interests	2,516,797	(750,672)	1,766,125
Minority interests	(1,768,023)	1,768,023(3)	—
Net income	$ 748,774	$ 1,017,351	$ 1,766,125
Average number of shares outstanding			
Basic	25,783,243(A)	15,716,895(4)	41,500,138
Diluted	25,783,243(A)	15,716,895(4)	41,500,138
Net income per share (basic and diluted)	$ 0.03		$ 0.04

	For the Year Ended June 30, 2005		
	Historical	Pro Forma Adjustments to Reflect Exchange Offer	Pro Forma
Total revenues	$ 21,870,786	—	$ 21,870,786
Costs and expenses	21,898,111	1,053,704(1)	22,951,815
Operating income	(27,325)	(1,053,704)	(1,081,029)
Other income	1,141,802	—	1,141,802
Income before income taxes and minority interests	1,114,477	(1,053,704)	60,773
Income tax provision	82,152	316,111(2)	398,263
Income before minority interests	1,196,629	(737,593)	459,036
Minority interests	(1,109,669)	1,109,669(3)	—
Net income	$ 86,960	$ 372,076	$ 459,036
Average number of shares outstanding			
Basic	25,783,243(A)	15,716,895(4)	41,500,138
Diluted	25,783,243(A)	15,716,895(4)	41,500,138
Net income per share (basic and diluted)	$ 0.00		$ 0.01

(A) Represents outstanding shares prior to the Offer.

Pro Forma Adjustments

1. Represents the depletion on the excess of the purchase price over the identifiable assets and liabilities acquired which has been allocated to oil and gas properties of $1,072,388 and $1,053,704 for the fiscal years ended June 30, 2006 and 2005, respectively.
2. Represents the income tax effect on the depletion and transaction costs calculated based on an Australian statutory rate of 30%.
3. Represents the reversal of the income allocated to the minority interest as 100% of MPAL subject to the Exchange Offer is assumed to be acquired by Magellan at the beginning of the period.
4. Represents the number of shares assumed to be issued by Magellan pursuant to the terms of the Exchange Offer calculated as follows:

Shares of MPAL not owned by Magellan	20,952,916
Exchange ratio	.75
Magellan shares issued pursuant to the Exchange Offer	15,716,895

3. Oil and Gas Properties

MPC had the following amounts recorded in oil and gas properties at June 30, 2006 and 2005.

Location	2006	2005
Mereenie and Palm Valley (Australia)	$ 78,878,810	$ 77,376,081
Nockatunga (Australia)(1)	5,716,444	2,487,986
Cooper Basin (Australia)(1)	3,127,678	779,871
Kotaneelee (Canada)	108,777	108,777
Other	—	13,196
	$ 87,831,709	$ 80,765,911

(1) Includes costs of $434,122 in Nockatunga and $1,602,575 in Cooper Basin which are currently capitalized as exploratory well costs pending the determination of proved reserve.

Accumulated Depletion, Depreciation and Amortization

Location	2006	2005
Mereenie and Palm Valley (Australia)	$ 57,850,806	$ 56,083,919
Nockatunga (Australia)	1,793,413	464,523
Cooper Basin (Australia)	1,141,757	728,506
Kotaneelee (Canada)	58,349	53,492
Other	—	—
	$ 60,844,325	$ 57,330,440

Depletion, Depreciation and Amortization

During the years ended June 30, 2006, 2005 and 2004, the depletion rate by field was as follows:

	2006	2005	2004
Mereenie and Palm Valley (Australia)	24.6	25.6	20.9
Nockatunga (Australia)	24.7	12.1	9.5
Cooper Basin (Australia)	42.2	78.1	70.2
Kotaneelee (Canada)	10.0	8.3	25.0

Exploratory and Dry Hole Costs

The 2006, 2005 and 2004 costs relate primarily to the geological and geophysical work and seismic acquisition on MPAL's exploration permits. The costs (in thousands) for MPAL were $3,265, $4,157 and $3,225 for 2006, 2005, and 2004, respectively.

See Note 12 commitments for a summary of MPAL's required and contingent commitments for exploration expenditures for the five year period beginning July 1, 2006.

4. Asset Retirement Obligations

A reconciliation of the Company's asset retirement obligations for the years ended June 30, 2006 and 2005, is as follows:

	2006	2005
Balance at beginning of year	$ 5,729,180	$ 4,852,416
Liabilities incurred	—	85,124
Liabilities settled	(442,469)	—
Accretion expense	425,254	406,960
Revisions to estimate	1,667,877	(40,000)
Exchange effect	(232,581)	424,680
Balance at end of year	$ 7,147,261	$ 5,729,180

During fiscal 2006, the Company plugged and restored 8 wells in the Mereenie field at a cost of $887,035 which resulted in a settlement loss of $444,566. In addition, based upon revised estimates for all fields, an increase of $1,667,877 was made to the total restoration liability.

During 2005, an $85,000 liability was incurred for two wells drilled in the Mereenie field. In addition, revised estimates were established for restoration costs for the Kotaneelee field in Canada.

5. Capital and Stock Options

MPC's certificate of incorporation provides that any matter to be voted upon must be approved not only by a majority of the shares voted, but also by a majority of the stockholders casting votes present in person or by proxy and entitled to vote thereon.

On December 8, 2000, MPC announced a stock repurchase plan to purchase up to one million shares of its common stock in the open market. Through June 30, 2006, MPC had purchased 680,850 of its shares at a cost of approximately $686,000, all of which were cancelled. No shares have been repurchased during 2006, 2005 or 2004.

The Company's Stock Option Plan provides for options to be granted at a price of not less than fair value on the date of grant and for a term of not greater than ten years. As of June 30, 2006, 395,000 options were available for future issuance under the Plan.

Table of Contents

The following is a summary of option transactions for the three years ended June 30, 2006:

Options Outstanding	Expiration Dates	Number of Shares	Exercise Prices($)	Fair Market Value at Grant Date
June 30, 2003		921,000	.85-1.57	
Expired		(126,000)	1.57	
Cancelled		(25,000)	.85	
Exercised		(175,000)	.85-1.28	
June 30, 2004		595,000	(1.28 weighted average price)	
Granted	Jul. 2014	30,000	1.45	$ 43,500
Expired		(595,000)	1.28	
June 30, 2005		30,000	1.45	
Granted	Nov. 2015	400,000	1.60	$ 640,000
June 30, 2006		430,000	(1.59 weighted average price)	

The weighted average remaining contractual term as of June 30, 2006 is 8.8 years.

Summary of Options Outstanding at June 30, 2006

	Expiration Dates	Total	Vested	Exercise Prices($)
Granted 2004	Jul. 2014	30,000	20,000	1.45
Granted 2006	Nov. 2015	400,000	400,000	1.60

All of the options have been granted at the fair value at the date of grant. Upon exercise of options, the excess of the proceeds over the par value of the shares issued is credited to capital in excess of par value. For the year ended June 30, 2006, the Company recorded stock-based compensation expense for the cost of stock options of $375,439 both pre-tax and post-tax (or $.01 per basic and diluted share), respectively. The grant date fair value of the 400,000 options granted on November 28, 2005 was $365,539. Vested options are exercisable during non black out periods. This expense has no effect on cash flow.

The Company determined the fair value of the options at the date of grant using the Black-Scholes option pricing model. Option valuation models require the input of highly subjective assumptions including the expected stock price volatility. The assumptions used to value the Company’s grants on July 1, 2004 and November 28, 2005, respectively were: risk free interest rate -4.95% and 4.58%, expected life - -10 years and 5 years, expected volatility -.518 and ..627 based on historical stock price expected dividend -0. The expected life of the options granted on November 28, 2005 was determined under the “simplified” method described in SEC Staff Accounting Bulletin (“SAB”) No. 107.

For the years ended June 30, 2005 and 2004, pro forma information regarding net income and earnings per share was required by SFAS 148, and was determined as if the Company had accounted for its stock options under the fair value method of SFAS 123. The fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model. The Company’s pro forma information follows:

As of June 30, 2006, there was $3,300 of total unrecognized compensation costs related to stock options, which is expected to be recognized in fiscal 2007.

On October 20, 2003, options to purchase 126,000 shares of the Company’s common stock expired without being exercised. On December 31, 2003, unvested options to purchase 25,000 shares of the Company’s common stock were cancelled when the terms of the grant were not satisfied. On March 8, 2004, 175,000 options to purchase shares of common stock were exercised in a cashless exercise that resulted in 55,867 shares being issued. The Company has a policy of repurchasing shares on the open market to satisfy options exercised. On February 23, 2005 options to purchase 595,000 shares of the Company's common stock expired without being exercised.

	Net Income	Earnings per Share Basic	Earnings per Share Diluted
Net income as reported — June 30, 2004	$ 350,000	$ .01	$ .01
Stock option expense (determined under fair value method)(1)	—	—	—
Pro forma net income — June 30, 2004	$ 350,000	$ .01	$ .01
Net income as reported — June 30, 2005	$ 87,000	$ —	$ —
Stock option expense (determined under fair value method)	(18,000)	—	—
Pro forma net income — June 30, 2005	$ 69,000	$ —	—

(1) There was no expense because there were no options issued or outstanding.

6. Income Taxes

Components of income before income taxes and minority interests by geographic area (in thousands) are as follows:

	Years Ended June 30, 2006	2005	2004
United States	$ (1,753)	$ (1,004)	$ (548)
Foreign	5,949	2,118	666
Total	$ 4,196	$ 1,114	$ 118

Reconciliation of the provision for income taxes (in thousands) computed at the Australian statutory rate to the reported provision for income taxes is as follows:

	Years Ended June 30, 2006	2005	2004
Tax provision computed at statutory rate (30%)	$ (1,259)	$ (334)	$ (35)
MPC's parent company (income) losses	(526)	(301)	165
Non-taxable revenue from Australian government sources	311	301	267
MPAL non-deductible foreign losses (New Zealand)	(88)	(513)	(337)
MPAL write off of foreign advances (New Zealand)	218	1,000	—
Increase in MPAL deferred tax assets(a)	(243)	—	—
Repatriation of foreign earnings(b)	(1,964)	—	—
Reversal of prior year reserve on MPAL deferred tax assets(c)	—	—	1,266
Reversal of prior year reserve on MPC deferred tax assets(d)	879	—	—
Benefit for previously taxed foreign earnings	1,085	—	—
MPC income tax provision(d)	(13)	(71)	(492)
Other	(79)	—	(56)
Consolidated income tax (provision) benefit	$ (1,679)	$ 82	$ 778
Current income tax provision	$ (1,841)	$ (1,375)	$ (667)
Deferred income tax benefit	162	1,457	1,445
Consolidated income tax (provision) benefit	$ (1,679)	$ 82	$ 778
Effective tax rate	40%	7%	—

Table of Contents

(a) Adjustment to deferred taxes due to MPAL's recognition of asset retirement obligations.

(b) The Corporation has indefinitely reinvested undistributed earnings from subsidiary companies outside the U.S. Unrecognized deferred taxes on remittance of these funds are not expected to be material.

(c) Tax benefits relate primarily to additional tax benefits taken in connection with financing prior year exploration activities in Australia. These benefits were reserved in prior years and as a result of the benefits becoming recoverable during the current year, such reserves were reversed.

(d) MPC's income tax provisions represent the 25% Canadian withholding tax on its Kotaneelee gas field carried interest net proceeds and a decrease in valuation allowance due to the expected utilization of net operating losses in future years.

Significant components of the Company's deferred tax assets and liabilities were as follows:

	June 30, 2006	June 30, 2005
Deferred tax liabilities		
Acquisition and development costs	$ (1,321,000)	$ (981,000)
Stepped up basis of oil and gas properties	(1,436,000)	—
Repatriated foreign earnings	(1,964,000)	—
Deferred tax assets		
Asset retirement obligations	2,453,000	1,996,000
Net operating losses	4,804,000	2,749,000
Previously taxed foreign earnings	1,085,000	—
Stock options	128,000	—
Foreign tax credits	109,000	223,000
Interest	422,000	214,000
Total deferred tax assets	9,001,000	5,182,000
Valuation allowance	(4,586,000)	(3,186,000)
Net deferred tax (liabilities)/asset	$ (306,000)	$ 1,015,000

Australia

The net deferred tax asset (liability) at June 30, 2006 and 2005, respectively, consist of deferred tax liabilities of $1,321,000 and $981,000, primarily relating to the deduction of acquisition and development costs which are capitalized for financial statement purposes, offset by deferred tax assets of $2,453,000 and $1,996,000, primarily relating to asset retirement obligations which will result in tax deductions when paid.

United States

At June 30, 2006, the Company had approximately $13,675,000 and $3,121,000 of net operating loss carry forwards for federal and state income tax purposes, respectively, which are scheduled to expire periodically between the years 2007 and 2025. Of this amount, MPC has federal loss carry forwards that expire as follows: $267,000 in 2007, $2,055,000 in 2008, $408,000 in 2020, $52,000 in 2021, $110,000 in 2023, $296,000 in 2025 and $1,381,000 in 2026. MPAL's U.S. subsidiary has federal loss carry forwards that expire as follows: $2,392,000 in 2006, $1,669,000 in 2010, $1,764,000 in 2011, $2,855,000 in 2012, $229,000 in 2013, and $197,000 between 2019 and 2025. MPC also has approximately $109,000 of foreign tax credit carryovers, which are scheduled to expire by the year 2007. MPC's state loss carry forwards expire periodically between the years 2007 and 2011. For financial reporting purposes, a valuation allowance has been recognized to partially offset the deferred tax assets related to those carry forwards and other deductible temporary differences. The deferred tax asset also includes a benefit of $1,085,000 recognized for previously taxed foreign earnings under Subpart F of the Internal Revenue Code.

7. Related Party and Other Transactions

G&O'D INC, a firm that provided accounting and administrative services, office facilities and support staff to MPC, was paid $65,700 and $24,723 in fees for fiscal years 2005 and 2004 respectively. In addition, MPC purchased $12,000 of office equipment from G&O'D INC. during 2005. James R. Joyce, the former President and Chief Financial Officer of MPC, is the owner of G&O'D INC. Mr. Joyce retired from his position effective June 30, 2004. Mr. Timothy L. Largay, a director of the Company is a member of the law firm of Murtha Cullina LLP, which firm was paid fees of $170,481, $144,596 and $120,563, in fiscal years 2006, 2005 and 2004, respectively.

8. Leases

At June 30, 2006, future minimum rental payments applicable to MPC's and MPAL's non-cancelable operating (office) lease were $184,000, $190,000, $181,000, $0 and $0 for the years 2007, 2008, 2009, 2010 and 2011, respectively.

Operating lease rental expenses for each of the years ended June 30, 2006, 2005 and 2004 were $303,536, $214,661 and $311,497 respectively.

9. Pension Plan

Prior to August 31, 2004, MPAL maintained a defined benefit pension plan and contributed to the plan at rates which (based on actuarial determination) were sufficient to meet the cost of employees' retirement benefits. No employee contributions were required. On August 31, 2004, the MPAL Board formally terminated the Plan. The termination was effective as of June 30, 2004 and a settlement and curtailment loss of $1,237,425 was recognized for the year ended June 30, 2004. Therefore, there were no pension costs during fiscal 2005 or 2006.

The following table sets forth the actuarial present value of benefit obligations and funded status for the MPAL pension plan at June 30, 2005:

	2005
Change in Benefit Obligation	
Benefit obligation at beginning of year	$ 2,145,394
Benefits paid	(2,145,394)
Benefit obligation at end of year	$ 0
Change in Plan Assets	
Fair value of plan assets at beginning of year	1,858,681
Actual return on plan assets	286,713
Benefits paid	(2,145,394)
Fair value of plan assets at end of year	0
Reconciliation of Funded Status	
Funded Status	0
(Accrued) Prepaid benefit costs	0

The net pension expense for the MPAL pension plan for 2004 was as follows:

	2004
Settlement and curtailment	$ 1,237,425
Service cost	148,075
Interest cost	94,212
Expected return on plan assets	(94,104)
Net amortization and deferred items	26,835
Net pension cost	$ 1,412,443
Plan contributions by MPAL	$ 228,958

Significant assumptions used in determining pension cost and the related obligations were as follows:

	2004
Assumed discount rate	5.0%
Rate of increase in future compensation levels	3.5%
Expected long term rate of return on plan assets	5.0%
Australian exchange rate	$ .70

At June 30, 2004, Plan assets were held 98% in equity mutual funds and 2% in cash. As a result of the Plan's termination, the Plan's assets were distributed during 2005 with no additional pension plan expenditures required.

10. Segment Information

The Company has two reportable segments, MPC and its wholly owned subsidiary, MPAL.

Segment information (in thousands) for the Company's two operating segments is as follows:

	Years Ended June 30,		
	2006	2005	2004
Revenues:			
MPC	$ 973	$ 1,256	$ 2,469
MPAL	26,530	21,590	17,866
Elimination of intersegment dividend	(941)	(975)	(911)
Total consolidated revenues	$ 26,562	$ 21,871	$19,424
Interest income:			
MPC	$ 100	$ 89	$ 160
MPAL	1,169	1,053	939
Total consolidated	$ 1,269	$ 1,142	$ 1,099
Net income:			
MPC	$ (826)	$ (101)	$ 969
Equity in earnings of MPAL, net of related costs(1)	2,516	1,163	292
Elimination of intersegment dividend	(941)	(975)	(911)
Consolidated net income	$ 749	$ 87	$ 350

	Years Ended June 30,		
	2006	2005	2004
Assets:			
MPC(2)	$ 62,248	$ 25,523	
MPAL	61,811	50,659	
Equity elimination	(55,479)	(19,758)	
Total consolidated assets	$ 68,580	$ 56,424	
Other significant items:			
Depletion, depreciation and amortization:			
MPC	$ 10	$ 27	$ 30
MPAL	6,304	6,967	6,312
Total consolidated	$ 6,314	$ 6,994	$ 6,342
Exploratory and dry hole costs:			
MPC	$ —	$ —	$ —
MPAL	3,265	4,157	3,225
Total consolidated	$ 3,265	$ 4,157	$ 3,225
Income tax expense (benefit):			
MPC	$ 13	$ 71	$ 492
MPAL	1,666	(153)	(1,270)
Total consolidated	$ 1,679	$ (82)	$ (778)

(1) Equity in earnings of MPAL for 2006 and 2005 of $2,665,000 and $1,358,000, respectively is reported net of $149,000 and $195,000 for 2006 and 2005, respectively of oil and gas property depletion related to MPC book value of oil and gas property and resulting from its step acquisition reporting of MPC's investment in MPAL. As of June 30, 2006, MPC owned 100% of MPAL as a result of the Offer. See Note 2 to the Consolidated Financial Statements.

(2) Goodwill of $5,646,000 is attributable to MPC.

Table of Contents

11. Geographic Information

As of each of the stated dates, the Company's revenue, operating income, net income or loss and identifiable assets (in thousands) were geographically attributable as follows:

	Years Ended June 30,		
	2006	2005	2004
Revenue:			
Australia	$ 26,530	$ 21,590	$17,866
United States	—	—	—
Canada	32	281	1,558
	$ 26,562	$ 21,871	$19,424
Operating income (loss):			
Australia	$ 5,291	$ 2,912	$ (103)
New Zealand	(211)	(1,441)	(909)
United States-Canada	27	258	1,525
	5,107	1,729	513
Corporate overhead and interest, net of other income (expense)	(911)	(615)	(395)
Consolidated operating income before income taxes and minority interests	$ 4,196	$ 1,114	$ 118
Net income (loss):			
Australia	$ 2,809	$ 1,831	$ 718
New Zealand	(293)	(668)	(425)
United States	(1,767)	(1,076)	57
	$ 749	$ 87	$ 350
Identifiable assets:			
Australia	$ 61,811	$ 52,264	
Corporate assets	6,769	4,160	
	$ 68,580	$ 56,424	

Substantially all of MPAL's gas sales were to the Power and Water Corporation (PAWC) of the Northern Territory of Australia (NTA). All of MPAL's crude oil production was sold to the Mobil Port Stanvac Refinery near Adelaide during the three years ended June 30, 2006. Oil sales during 2006 were 53.3% to the Santos group of companies, 16.2% to Delhi Petroleum, 10.5% to Origin Energy Resources and 20.0% to IOR Energy.

12. Commitments

The Company does not use off-balance sheet arrangements such as securitization of receivables with any unconsolidated entities or other parties. The Company does not engage in trading or risk management activities and does not have material transactions involving related parties.

The following is a summary of our consolidated contractual obligations as of June 30, 2006:

	Payments Due by Period				
Contractual Obligations	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Long-Term Debt Obligations	$ —	$ —	$ —	$ —	$ —
Capital Lease Obligations	—	—	—	—	—
Operating Lease Obligations	555,000	184,000	371,000	—	—
Purchase Obligations(1)	3,380,000	3,380,000	—	—	—
Asset Retirement Obligations	7,147,000	169,000	4,677,000	—	2,301,000
Total	$11,082,000	$3,733,000	$ 5,048,000	$ —	$2,301,000

(1) Represents firm commitments for exploration and capital expenditures. The Company is committed to these expenditures, however some may be farmed out to third parties. Exploration contingent expenditures of $15,284,000 which are not legally binding have been excluded from the table above and based on exploration decisions would be due as follows: $1,158,000 (less than 1 year), $14,126,000 (1-3 years), $0 (3-5 years).

Gas Supply Contracts

In 1983, the Palm Valley Producers (MPAL and Santos) commenced the sale of gas to Alice Springs under a 1981 agreement. In 1985, the Palm Valley Producers and Mereenie Producers signed agreements for the sale of gas to PAWC for use in PAWC's Darwin generating station and at a number of other generating stations in the Northern Territory. The gas is being delivered via the 922-mile Amadeus Basin to Darwin gas pipeline which was built by an Australian consortium. Since 1985, there have been several additional contracts for the sale of Mereenie gas. The Palm Valley Darwin contract expires in the year 2012 and Mereenie contracts expire in the year 2009. Under the 1985 contracts, there is a difference in price between Palm Valley gas and most of the Mereenie gas for the first 20 years of the 25 year contracts which takes into account the additional cost to the pipeline consortium to build a spur line to the Mereenie field and increase the size of the pipeline from Palm Valley to Mataranka. The price of gas under the Palm Valley and Mereenie gas contracts is adjusted quarterly to reflect changes in the Australian Consumer Price Index.

The Palm Valley Producers are actively pursuing gas sales contracts for the remaining uncontracted reserves at both the Mereenie and Palm Valley gas fields in the Amadeus Basin. Gas production from both fields is fully contracted through to 2009 and 2012, respectively. While opportunities exist to contract additional gas sales in the Northern Territory market after these dates, there is strong competition within the market and there are no assurances that the Palm Valley Producers will be able to contract for the sale of the remaining uncontracted reserves.

At June 30, 2006, MPAL's commitment to supply gas under the above agreements was as follows:

Period	Bcf
Less than one year	7.64
Between 1-5 years	18.12
Greater than 5 years	0.98
Total	26.74

MPC owns a 2.67% carried interest in the Kotaneelee gas field in the Yukon Territory which has been in production since February 1991 with two producing wells. For financial statement purposes in fiscal 1987 and 1988, MPC wrote down its costs relating to the Kotaneelee field to a nominal value because of the uncertainty as to the date when sales of Kotaneelee gas might begin and the immateriality of the carrying value of the investment.

The Kotaneelee settlement agreement provides that the carried interest partners will share in the abandonment of the Kotaneelee field wells and facilities.

13. Selected Quarterly Financial Data (Unaudited)

The following is a summary (in thousands, except for per share amounts) of the quarterly results of operations for the years ended June 30, 2006 and 2005:

	QTR 1	QTR 2	QTR 3	QTR 4
2006				
Total revenues	$ 6,095	$ 6,459	$ 7,358	$ 6,650
Costs and expenses	(6,020)	(6,020)	(5,354)	(6,241)
Interest income	340	321	290	317
Income tax provision	(190)	(425)	(717)	(347)
Minority interests	(253)	(561)	(877)	(76)
Net income (loss)	(28)	(226)	700	303
Per share (basic & diluted)	—	(.01)	.03	.01
Average number of shares outstanding	25,783	25,783	25,783	36,087
2005				
Total revenues	$ 4,577	$ 5,454	$ 5,996	$ 5,844
Costs and expenses	(5,137)	(5,500)	(5,599)	(5,662)
Interest income	356	377	104	305
Income tax (provision) benefit(a)	(5)	(153)	(102)	342
Minority interests	(86)	(254)	(294)	(476)
Net income (loss)	(295)	(76)	105	353
Per share (basic & diluted)	(.01)	—	—	.01
Average number of shares outstanding	25,783	25,783	25,783	25,783

(a) During the fourth quarter of 2005, MPAL's financing subsidiary determined that its loans to the New Zealand subsidiary were no longer collectible and this resulted in a permanent benefit in Australia of $1,000. This amount was offset by tax benefits from New Zealand losses that are not deductible in Australia of $513.

14. Supplementary Oil and Gas Disclosure (Unaudited)

The consolidated data presented herein include estimates which should not be construed as being exact and verifiable quantities. The reserves may or may not be recovered, and if recovered, the cash flows therefrom, and the costs related thereto, could be more or less than the amounts used in estimating future net cash flows. Moreover, estimates of proved reserves may increase or decrease as a result of future operations and economic conditions, and any production from these properties may commence earlier or later than anticipated.

Table of Contents

Estimated Net Quantities of Proved and Proved Developed Oil and Gas Reserves:

	Natural Gas (Bcf)		Oil (1,000 Bbls)
Proved Reserves:	**Australia***	**Canada**	**Australia**
June 30, 2003	37.384	.427	554
Extensions and discoveries	—	—	—
Revision of previous estimates	(.631)	(.180)	(110)
Purchase of reserves	—	—	322
Production	(5.728)	(.077)	(150)
June 30, 2004	31.025	.170	616
Extensions and discoveries	—	.012	—
Revision of previous estimates	(.024)	—	22
Purchase of reserves	—	—	—
Production	(5.717)	(.061)	(151)
June 30, 2005	25.284	.121	487
Extensions and discoveries	—	.035	71
Revision of previous estimates	(.142)	—	406
Purchase of reserves	—	—	—
Production	(5.706)	(.070)	(154)
June 30, 2006	19.436	.086	810
Proved Developed Reserves:			
June 30, 2003	28.855	.427	554
June 30, 2004	22.346	.170	616
June 30, 2005	25,284	.121	487
June 30, 2006	19.436	.086	327

* The amount of proved reserves applicable to the Palm Valley and Mereenie fields only reflects the amount of gas committed to specific contracts and are net of royalties. There are no minority interests at June 30, 2006. Approximately 44.9% of reserves are attributable to minority interests at June 30,2005 and June 30, 2004.

Costs of Oil and Gas Activities (In thousands):

	Australia/New Zealand		
Fiscal Year	**Exploration Costs**	**Development Costs**	**Acquisition Costs**
2006	3,284	(2,842)(1)	—
2005	4,028	9,292	—
2004	3,741	3,926	2,086

(1) Development costs include the net increase or decrease in development related assets. The decrease in the Australian exchange rate discussed in Note 1 caused a foreign translation loss in excess of costs incurred.

Capitalized Costs Subject to Depletion, Depreciation and Amortization (DD&A) (In thousands):

	June 30,	
Australia/New Zealand	**2006**	**2005**
Costs subject to DD&A	$ 85,795	$ 80,766
Costs not subject to DD&A	2,037	—
Less accumulated DD&A	(60,844)	(57,330)
Net capitalized costs	$ 26,988	$ 23,436

Discounted Future Net Cash Flows:

The following is the standardized measure of discounted (at 10%) future net cash flows (in thousands) relating to proved oil and gas reserves during the three years ended June 30, 2006. There were no minority interests at June 30, 2006. Approximately 44.9% of the reserves and the respective discounted future net cash flows are attributable to minority interests at June 30, 2005 and June 30, 2004.

	Australia		
	2006	**2005**	**2004**
Future cash inflows	$ 161,788	$ 81,688	$ 82,449
Future production costs	(33,814)	(18,443)	(19,361)
Future development costs	(16,196)	(13,434)	(16,599)
Future income tax expense	(28,900)	(10,342)	(9,369)
Future net cash flows	82,878	39,469	37,120
10% annual discount for estimating timing of cash flows	(12,680)	(8,157)	(7,639)
Standardized measures of discounted future net cash flows	$ 70,198	$ 31,312	$ 29,481

	Canada		
	2006	**2005**	**2004**
Future cash inflows	$ 332	$ 606	$ 754
Future production costs	(74)	(60)	(125)
Future development costs	—	—	—
Future income tax expense	(65)	(136)	(157)
Future net cash flows	193	410	472
10% annual discount for estimating timing of cash flows	(4)	(89)	(72)
Standardized measures of discounted future net cash flows	$ 189	$ 321	$ 400

	Total		
	2006	**2005**	**2004**
Future cash inflows	$ 162,120	$ 82,294	$ 83,203
Future production costs	(33,888)	(18,503)	(19,486)
Future development costs	(16,196)	(13,434)	(16,599)
Future income tax expense	(28,965)	(10,478)	(9,526)
Future net cash flows	83,071	39,879	37,592
10% annual discount for estimating timing of cash flows	(12,684)	(8,246)	(7,711)
Standardized measures of discounted future net cash flows	$ 70,387	$ 31,633	$ 29,881

The following are the principal sources of changes in the above standardized measure of discounted future net cash flows (in thousands):

	2006	2005	2004
Net change in prices and production costs	$ 69,970	$ 5,567	$ 7,597
Extensions and discoveries	2,714	—	—
Revision of previous quantity estimates	1,037	281	981
Changes in estimated future development costs	(4,999)	443	(2,156)
Sales and transfers of oil and gas produced	(16,462)	(13,725)	(10,314)
Previously estimated development cost incurred during the period	(438)	3,827	3,110
Accretion of discount	7,017	2,337	2,344
Acquisitions	—	—	3,213
Net change in income taxes	(17,025)	410	(2,345)
Net change in exchange rate	(3,060)	2,612	965
	$ 38,754	$ 1,752	$ 3,395

Additional Information Regarding Discounted Future Net Cash Flows:

Australia

Reserves — Natural Gas

Future net cash flows from net proved gas reserves in Australia were based on MPAL's share of reserves in the Palm Valley and Mereenie fields which has been limited to the quantities of gas committed to specific contracts and the ability of the fields to deliver the gas in the contract years. Gas prices are computed on the prices set forth in the respective gas sales contracts at June 30, 2006.

Reserves and Costs — Oil

At June 30, 2006, future net cash flows from the net proved oil reserves in Australia were calculated by the Company. Estimated future production and development costs were based on current costs and rates for each of the three years ended at June 30, 2006. All of the crude oil reserves are developed reserves. Undeveloped proved reserves have not been estimated since there are only tentative plans to drill additional wells.

Income Taxes

Future Australian income tax expense applicable to the future net cash flows has been reduced by the tax effect of approximately A.$23,976,000, and A.$23,203,000 and A.$22,005,000 in unrecouped capital expenditures at June 30, 2006, 2005 and 2004, respectively. The tax rate in computing Australian future income tax expense was 30%.

Canada

Reserves and Costs

Future net cash flows from net proved gas reserves in Canada were based on the Company's share of reserves in the Kotaneelee gas field which was prepared by independent petroleum consultants, Paddock Lindstrom & Associates Ltd., Calgary, Canada. The estimates were based on the selling price of gas Can. $4.55 at June 30, 2006 (Can. $6.14 — 2005) and estimated future production and development costs at June 30, 2006.

Table of Contents

Results of Operations

The following are the Company's results of operations (in thousands) for the oil and gas producing activities during the three years ended June 30, 2006:

	Americas			Australia/New Zealand/United Kingdom		
	2006	2005	2004	2006	2005	2004
Revenues:						
Oil sales	$ —	$ —	$ —	$ 10,616	$ 7,574	$ 4,923
Gas sales	32	282	1,557	14,028	12,196	11,312
Other production income	—	—	—	1,886	1,819	1,632
Total revenues	32	282	1,557	26,530	21,589	17,867
Costs:						
Production costs	—	—	—	8,220	6,144	5,416
Depletion, exploratory and dry hole costs	5	23	30	9,391	10,727	9,009
Total costs	5	23	30	17,611	16,871	14,425
Income before taxes and minority interest	27	259	1,527	8,919	4,718	3,442
Income tax provision*	(7)	(65)	(382)	(2,676)	(1,415)	(1,027)
Income before minority interests	20	194	1,145	6,243	3,303	2,415
Minority interests**	—	—	—	(2,491)	(1,737)	(1,085)
Net income from operations	$ 20	$194	$1,145	$ 3,752	$ 1,566	$ 1,330
Depletion per unit of production	$ —	$ —	—	A.$ 6.71	A.$ 7.40	A.$ 7.25

* Income tax provision used for Australia is based on a rate of 30%. Americas 25% is due to a 25% Canadian withholding tax on Kotaneelee gas sales.

** Effective minority interest for 2006 was 39.9%. Minority interests were 44.9% in 2005 and 44.9% in 2004.

Item 9. — Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. *Controls and Procedures*

Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including Daniel J. Samela, the Company's President, Chief Executive Officer and Chief Financial and Accounting Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities and Exchange Act of 1934) as of June 30, 2006. Based on this evaluation, the Company's President concluded that the Company's disclosure controls and procedures were effective such that the material information required to be included in the Company's Securities and Exchange Commission reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms relating to the Company, including its consolidated subsidiaries, and the information required to be disclosed was accumulated and communicated to management as appropriate to allow timely decisions for disclosure.

Internal Control Over Financial Reporting.

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth fiscal quarter of the Company's fiscal year ended June 30, 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. *Other Information*

None

PART III

Item 10. *Directors and Executive Officers of the Registrant*

Following is information concerning each Director and executive officer of the Company including name, age, position with the Company, and business experience during the last five years:

Directors

Name	Director Since	Position Held with Company	Age and Business Experience
Timothy L. Largay	1996	Director; member of Nominating Committee Chairman, Compensation Committee, Assistant Secretary	Mr. Timothy L. Largay has been a partner in the law firm of Murtha Cullina LLP, Hartford, Connecticut since 1974. Mr. Largay has been a director of MPAL since August 2001. He is also Assistant Secretary of Canada Southern Petroleum Ltd., Calgary, Alberta, Canada. Murtha Cullina has been retained by the Company for more than five years and is being retained during the current year. Age 63.
Walter McCann	1983	Director, Chairman of the Board, Chairman of Compensation Committee, member of Audit Committee and Nominating Committee	Mr. Walter McCann, a former business school dean, was the President of Richmond, The American International University, located in London, England, from January 1993 until September 2002. From 1985 to 1992, he was President of Athens College in Athens, Greece. Mr. McCann has been a director of MPAL since 1997. He is a retired member of the Bar in Massachusetts. Age 69.
Ronald P. Pettirossi	1997	Director; Chairman of the Audit Committee, member of Nominating Committee and Compensation Committee	Mr. Ronald P. Pettirossi has been President of ER Ltd., a consulting company since 1995. Mr. Pettirossi is a former audit partner of Ernst & Young LLP, who worked with public and privately held companies for 31 years. Age 63.
Donald V. Basso	2000	Director; member of Audit Committee	Mr. Donald V. Basso was elected a director of the Company in 2000. Mr. Basso served as a consultant and Exploration Manager for Canada Southern Petroleum Ltd. from October 1997 to May 2000. He also served as a consultant to Ranger Oil & Gas Ltd. during 1997. From 1995 to 1997, Mr. Basso served as Exploration Manager for Guard Resources Ltd. Mr. Basso has over 40 years experience in the oil and gas business in the United States, Canada and the Middle East. Age 68.

Name	Director Since	Position Held with Company	Age and Business Experience
Robert Mollah	2006	Director	Mr. Robert Mollah was elected a director of the Company on September 5, 2006. Mr. Mollah has been a director of MPAL since 2003 and was recently elected to serve as Chairman of the MPAL Board of Directors. Mr. Mollah is a geophysicist with broad petroleum exploration experience, both within Australia and internationally. From 1995 until 2003, Mr. Mollah was the Australian Executive Director of the Timor Gap Joint Authority which covered the administration of petroleum exploration and production activities in the Timor Sea Joint Development Zone between Australia and Indonesia/East Timor. Prior to 1995, he served as a Petroleum Explorationist and Manager with broad experience in the oil and gas business in Australia and Asia. Age 64.

Executive Officers

Name	Age	Office Held	Length of Service as an Officer	Other Positions Held with Company
Daniel J. Samela	58	President and Chief Financial Officer	Since 2004	None
T. Gwynn Davies.	60	General Manager — MPAL	Since 2001	None

* All of the named companies are engaged in oil, gas or mineral exploration and/or development, except where noted.

All officers are elected annually and serve at the pleasure of the Board of Directors. No family relationships exist between any of the directors or officers.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's executive officers, directors and persons who beneficially own more than 10% of the Company's Common Stock to file initial reports of beneficial ownership and reports of changes in beneficial ownership with the Securities and Exchange Commission. Such persons are required by the SEC regulations to furnish the Company with copies of all Section 16(a) forms filed by such persons. Based solely on copies of forms received by it, or written representations from certain reporting persons that no Form 5's were required for those persons, the Company believes that during the fiscal year ended June 30, 2006, its executive officers, directors, and greater than 10% beneficial owners complied with all applicable filing requirements.

Board Independence

The Company's Board of Directors has determined that Messrs. Basso, Largay, Pettirossi, Mollah and McCann are independent directors under the listing standards of the Nasdaq Stock Market, Inc. and rules adopted by the Securities and Exchange Commission ("SEC").

Audit Committee Financial Expert(s)

The Company's Board of Directors maintains an Audit Committee which is currently composed of the following directors: Messrs. Basso, McCann and Pettirossi (Chairman). The Board of Directors has determined that each of the members of the Audit Committee is financially literate and that Mr. Pettirossi is an audit committee financial expert, as such term is defined under SEC regulations, by virtue of having the following attributes through relevant education and/or experience:

(1) an understanding of generally accepted accounting principles and financial statements;

(2) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;

(3) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company's financial statements, or experience actively supervising one or more persons engaged in such activities;

(4) an understanding of internal controls and procedures for financial reporting; and

(5) an understanding of audit committee functions.

Standards Of Conduct And Business Ethics

The Company has previously adopted Standards of Conduct for the Company (the "Standards"). The Board amended the Standards in August 2004. A copy of the Standards is filed herewith as Exhibit 14. Under the Standards, all directors, officers and employees ("Employees") must demonstrate a commitment to ethical business practices and behavior in all business relationships, both within and outside of the Company. All Employees who have access to confidential information are not permitted to use or share that information for stock trading purposes or for any other purpose except the conduct of the Company's business. Any waivers of or changes to the Standards must be approved by the Board and appropriately disclosed under applicable law and regulation.

The Company's Standards will be made available on the Company's website at www.magpet.com and it is our intention to provide disclosure regarding waivers of or amendments to the policy by posting such waivers or amendments to the website in the manner provided by applicable law.

Item 11 —*Executive Compensation*

The following table sets forth certain summary information concerning the compensation of Mr. Daniel J. Samela, who is President, Chief Executive Officer and Chief Financial Officer of the Company, and each of the most highly compensated executive officers of the Company who earned in excess of $100,000 during fiscal year 2006 (collectively, the "Named Executive Officers").

Summary Compensation Table

	Annual Compensation		Long Term Compensation Awards	
Name and Principal Position	**Fiscal Year**	**Salary ($)**	**Securities Underlying Options/SARs (#)**	**All Other Compensation ($)**
Daniel J. Samela	2006	175,000	—	26,250(1)
President, Chief Financial and	2005	175,000	—	26,250(1)
Accounting Officer	2004	41,667	30,000	6,250(1)
T. Gwynn Davies	2006	190,663	—	92,417(2)
General Manager — MPAL	2005	188,857	—	72,301(2)
(Effective Oct. 30, 2001)	2004	177,144	—	65,436(2)

(1) Payment to a SEP-IRA pension plan.

(2) Payment to pension plan similar to an individual retirement plan.

Stock Options

The following tables provide information about stock options granted and exercised during fiscal 2006 and unexercised stock options held by the Named Executive Officers at the end of fiscal year 2006.

Options/ SAR Grants in Fiscal Year 2006

	Individual Grants				Potential Realized Value at Assumed Annual Rates of Stock Price Appreciation for Option Terms	
Name	Options/ SARs Granted (#)	% of Total Options/SARs Granted to Employees in Fiscal Year	Exercise or Base Price ($/Sh)	Expiration Date	5% ($)	10% ($)
Daniel J. Samela	0	0	0	—	0	0
T. Gwynn Davies	0	0	0	—	0	0

Aggregated Option/ SAR Exercises in Fiscal 2006 and June 30, 2006 Option/ SAR Values Table

			Number of Unexercised Options/SARs at 2006 Year-End (#)		Value of Unexercised In-the-Money Options/SARs at 2006 Year-End ($)	
Name	Shares Acquired on Exercise (#)	Value Realized ($)	Exercisable	Unexercisable	Exercisable	Unexercisable
Daniel J. Samela	—	—	20,000	10,000	31,400	15,700
T. Gwynn Davies	—	—	—	—	—	—

Employment Agreement

On March 1, 2004, the Company entered into a thirty-six month employment agreement with Mr. Daniel J. Samela. The thirty-six month term automatically renews each 30-day period during Mr. Samela's term of employment, unless he elects to retire or the agreement is terminated according to its terms. The agreement provides for him to be employed as the President and Chief Executive Officer of the Company, effective as of July 1, 2004, at a salary of $175,000 per annum, and an annual contribution of 15% of the salary to a SEP/ IRA pension plan for Mr. Samela's benefit. The employment agreement may be terminated for cause (as defined in the agreement), on written notice by the Company without cause, by Mr. Samela's resignation or upon a change in control of the Company (as defined in the agreement). Upon a termination without cause, Mr. Samela will be entitled to payment of the balance of salary and average bonus payments due for the term of the agreement. If, during the two-year period following a change in control, Mr. Samela terminates his employment for good reason (as defined in the agreement) or the Company terminates his employment other than for cause of disability (as defined in the agreement), then Mr. Samela will be paid an amount equal to three times his annual base salary and three-year average bonus payment, plus any previously deferred compensation, accrued vacation pay, and three years of reimbursements for medical coverage and insurance benefits. In addition, any then-unvested options will be accelerated so as to become fully exercisable. If, at any time after the two-year period following a change in control, Mr. Samela terminates his employment for good reason or the Company terminates his employment other than for cause of disability, then he will be paid an amount equal to his then current annual salary and a three-year average bonus payment. In addition, any then-unvested options will be accelerated so as to become fully exercisable.

Compensation of Directors

Messrs. Donald V. Basso, Timothy L. Largay, and Ronald P. Pettirossi were each paid director's fees of $40,000 during fiscal year 2006. Mr. Walter McCann was paid $65,000 as Chairman of the Board. In addition, Mr. Pettirossi was paid $7,500 as Chairman of the Audit Committee.

Under the Company's medical reimbursement plan for all outside directors, the Company reimburses certain directors the cost of their medical premiums, up to $500 per month. During fiscal 2006, the cost of this plan was approximately $18,000.

Table of Contents

Compensation Committee Interlocks and Insider Participation

The only officers or employees of the Company or any of its subsidiaries, or former officers or employees of the Company or any of its subsidiaries, who participated in the deliberations of the Board concerning executive officer compensation during the fiscal year ended June 30, 2006 were Messrs. Daniel T. Samela and Timothy L. Largay. At the time of such deliberations, Mr. Largay was a director of the Company. Because he does not serve on the Board, Mr. Samela did not participate in any discussions or deliberations regarding his own compensation. Mr. Largay does not receive any compensation for his services as Assistant Secretary.

Item 12 —*Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The following table sets forth information as to the number of shares of the Company's Common Stock owned beneficially as of September 22, 2006 (except as otherwise indicated) by each director of the Company and each Named Executive Officer listed in the Summary Compensation Table and by all directors and executive officers of the Company as a group:

	Amount and Nature of Beneficial Ownership*		
Name of Individual or Group	Shares	Options	Percent of Class
Donald Basso	11,000	100,000	**
T. Gwynn Davies	—	—	**
Timothy L. Largay	6,000	100,000	**
Walter McCann	59,368	100,000	**
Robert Mollah	—	—	**
Ronald P. Pettirossi	6,500	100,000	**
Daniel J. Samela	—	20,000	**
Directors and Executive Officers as a Group (a total of 7)	82,868	420,000	**

* Unless otherwise indicated, each person listed has the sole power to vote and dispose of the shares listed.

** The percent of class owned is less than 1%.

Equity Compensation Plan Information

The following table provides information about the Company's common stock that may be issued upon the exercise of options and rights under the Company's existing equity compensation plan as of June 30, 2006.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a) (#)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b)($)	Number of Securities Remaining Available for Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c) (#)
Equity compensation plans approved by security holders	430,000	$ 1.59	395,000

Item 13 —*Certain Business Relationships and Transactions*

None.

Item 14 —*Principal Accountant Fees and Services*

During the fiscal years ended June 30, 2006 and June 30, 2005, the Company retained its current principal auditor, Deloitte & Touche LLP, to provide services in the following categories and amounts.

Audit Fees

The aggregate fees paid or to be paid to Deloitte & Touche, LLP for the review of the financial statements included in the Company's Quarterly Reports on Form 10-Q and the audit of financial statements included in the Annual Report on Form 10-K for the fiscal years ended June 30, 2006 and June 30, 2005 were $295,096 and $195,702, respectively.

Audit-Related Fees

The aggregate fees paid or to be paid to Deloitte & Touche, LLP in connection with the Company's filing of a registration statement on Form S-4 for the fiscal year ended June 30, 2006 and June 30, 2005 were $131,500 and $0, respectively.

Tax Fees

The aggregate fees paid or to be paid to Deloitte & Touche, LLP for tax services was $0 for both the fiscal years ended June 30, 2006 and June 30, 2005.

All Other Fees

The aggregate fees paid or to be paid to Deloitte & Touche, LLP for other services for the fiscal years ended June 30, 2006 and June 30, 2005 were $3,701 and $0, respectively

Pre-Approval Policies

Under the terms of its Charter, the Audit Committee is required to pre-approve all the services provided by, and fees and compensation paid to, the independent auditors for both audit and permitted non-audit services. When it is proposed that the independent auditors provide additional services for which advance approval is required, the Audit Committee may form and delegate authority to a subcommittee consisting of one or more members, when appropriate, with the authority to grant pre-approvals of audit and permitted non-audit services, provided that decisions of such subcommittee to grant pre-approvals are to be presented to the Committee at its next scheduled meeting.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules***

(a) (1) *Financial Statements.*

The financial statements listed below and included under Item 8 are filed as part of this report.

(2) *Financial Statement Schedules.*

All schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and the notes thereto.

(c) *Exhibits.*

The following exhibits are filed as part of this report:

Item Number

2. *Plan of acquisition, reorganization, arrangement, liquidation or succession.*

None.

3. *Articles of Incorporation and By-Laws.*

(a) Restated Certificate of Incorporation as filed on May 4, 1987 with the State of Delaware and Amendment of Article Twelfth as filed on February 12, 1988 with the State of Delaware filed as exhibit 4(b) to Form S-8 Registration Statement, filed on January 14, 1999, are incorporated herein by reference. Certificate of Amendment to Certificate of Incorporation as filed on December 26, 2000 with the State of Delaware, filed as Exhibit 3(a) to the Company's quarterly report on Form 10-Q filed on February 13, 2001 and incorporated herein by reference.

(b) By-Laws, as amended on September 5, 2006, as filed as Exhibit 3.1 to current Report on Form 8-K filed on September 8, 2006 are incorporated by reference.

4. *Instruments defining the rights of security holders, including indentures.*

None.

9. *Voting Trust Agreement.*

None.

10. *Material contracts.*

(a) Petroleum Lease No. 4 dated November 18, 1981 granted by the Northern Territory of Australia to United Canso Oil & Gas Co. (N.T.) Pty Ltd. filed as Exhibit 10(a) to Annual Report on Form 10-K for the year ended June 30, 1999 (File No. 001-5507) is incorporated herein by reference.

(b) Petroleum Lease No. 5 dated November 18, 1981 granted by the Northern Territory of Australia to Magellan Petroleum (N.T.) Pty. Ltd. filed as Exhibit 10(b) to Annual Report on Form 10-K for the year ended June 30, 1999 (File No. 001-5507) is incorporated herein by reference.

(c) Gas Sales Agreement between The Palm Valley Producers and The Northern Territory Electricity Commission dated November 11, 1981 filed as Exhibit 10(c) to Annual Report on Form 10-K for the year ended June 30, 1999 (File No. 001-5507) is incorporated herein by reference.

(d) Palm Valley Petroleum Lease (OL3) dated November 9, 1982 filed as Exhibit 10(d) to Annual Report on Form 10-K for the year ended June 30, 1999 (File No. 001-5507) is incorporated herein by reference.

(e) Agreements relating to Kotaneelee.

(1) Copy of Agreement dated May 28, 1959 between the Company et al and Home Oil Company Limited et al and Signal Oil and Gas Company filed as Exhibit 10(e) to Annual Report on Form 10-K for the year ended June 30, 1999 (File No. 001-5507) is incorporated herein by reference.

(2) Copies of Supplementary Documents to May 28, 1959 Agreement (see (e)(1) above), dated June 24, 1959, consisting of Guarantee by Home Oil Company Limited and Pipeline Promotion Agreement filed as Exhibit 10(e) to Annual Report on Form 10-K for the year ended June 30, 1999 (File No. 001-5507) is incorporated herein by reference.

(3) Copy of Modification to Agreement dated May 28, 1959 (see (e)(1) above), made as of January 31, 1961. Filed as Exhibit 10(e) to Annual Report on Form 10-K for the year ended June 30, 1999 (File No. 001-5507) is incorporated herein by reference.

(4) Copy of Letter Agreement dated February 1, 1977 between the Company and Columbia Gas Development of Canada, Ltd. for operation of the Kotaneelee gas field filed as Exhibit 10(e) to Annual Report on Form 10-K for the year ended June 30, 1999 (File No. 001-5507) is incorporated herein by reference.

(f) Palm Valley Operating Agreement dated April 2, 1985 between Magellan Petroleum (N.T.) Pty. Ltd., C. D. Resources Pty. Ltd., Farmout Drillers N.L., Canso Resources Limited, International Oil Proprietary, Pancontinental Petroleum Limited, I.E.D.C. Australia Pty. Ltd., Southern Alloys Ventures Pty. Limited and Amadeus Oil N.L. filed as Exhibit 10(f) to Annual Report on Form 10-K for the year ended June 30, 1999 (File No. 001-5507) is incorporated herein by reference.

(g) Mereenie Operating Agreement dated April 27, 1984 between Magellan Petroleum (N.T.) Pty., United Oil & Gas Co. (N.T.) Pty. Ltd., Canso Resources Limited, Oilmin (N.T.) Pty. Ltd., Krewliff Investments Pty. Ltd., Transoil (N.T.) Pty. Ltd. and Farmout Drillers NL and Amendment of October 3, 1984 to the above agreement filed as Exhibit 10(g) to Annual Report on Form 10-K for the year ended June 30, 1999 (File No. 001-5507) is incorporated herein by reference.

(h) Palm Valley Gas Purchase Agreement dated June 28, 1985 between Magellan Petroleum (N.T.) Pty. Ltd., C. D. Resources Pty. Ltd., Farmout Drillers N.L., Canso Resources Limited, International Oil Proprietary, Pancontinental Petroleum Limited, IEDC Australia Pty Limited, Amadeus Oil N.L., Southern Alloy Venture Pty. Limited and Gasgo Pty. Limited. Also included are the Guarantee of the Northern Territory of Australia dated June 28, 1985 and Certification letter dated June 28, 1985 that the Guarantee is binding. All of the above were filed as Exhibit 10(h) to Annual Report on Form 10-K for the year ended June 30, 1999 (File No. 001-5507) and are incorporated herein by reference.

(i) Mereenie Gas Purchase Agreement dated June 28, 1985 between Magellan Petroleum (N.T.) Pty. Ltd., United Oil & Gas Co. (N.T.) Pty. Ltd., Canso Resources Limited, Moonie Oil N.L., Petromin No Liability, Transoil No Liability, Farmout Drillers N.L., Gasgo Pty. Limited, The Moonie Oil Company

Limited, Magellan Petroleum Australia Limited and Flinders Petroleum N.L. Also included is the Guarantee of the Northern Territory of Australia dated June 28, 1985. All of the above were filed as Exhibit 10(i) to Annual Report on Form 10-K for the year ended June 30, 1999 (File No. 001-5507) and are incorporated herein by reference.

(j) Agreements dated June 28, 1985 relating to Amadeus Basin -Darwin Pipeline which include Deed of Trust Amadeus Gas Trust, Undertaking by the Northern Territory Electric Commission and Undertaking from the Northern Territory Gas Pty Ltd. filed as Exhibit 10(j) to Annual Report on Form 10-K for the year ended June 30, 1999 (File No. 001-5507) is incorporated herein by reference.

(k) Agreement between the Mereenie Producers and the Palm Valley Producers dated June 28, 1985 filed as Exhibit 10(k) to Annual Report on Form 10-K for the year ended June 30, 1999 (File No. 001-5507) is incorporated herein by reference.

(l) Form of Agreement pursuant to Article SIXTEENTH of the Company's Certificate of Incorporation and the applicable By-Law to indemnify the Company's directors and officers filed as Exhibit 10(l) to Annual Report on Form 10-K for the year ended June 30, 1999 (File No. 001-5507) is incorporated herein by reference.

(m) 1998 Stock Option Plan, filed as Exhibit 4(a) to Form S-8 Registration Statement on January 14, 1999, filed as Exhibit 10(m) to Annual Report on Form 10-K for the year ended June 30, 1999 (File No. 001-5507) is incorporated herein by reference.

(n) 1989 Stock Option Plan filed as Exhibit O to Annual Report on Form 10-K for the year ended June 30, 2002 (File No. 001-5507) is incorporated herein by reference.

(o) Palm Valley Gas Purchase Agreement Deed of Amendment dated January 17, 2003 filed as Exhibit 10(p) to Annual Report on Form 10-K for the year ended June 30, 2003 (file No. 001-5507) is incorporated herein by reference.

(p) Share sale agreement dated July 10, 2003 between Sagasco Amadeus Pty. Limited and Magellan Petroleum Corporation filed as Exhibit 10(p) to Annual Report on Form 10-K for the year ended June 30, 2003 (File No. 001-5507) is incorporated herein by reference.

(q) Registration Rights Agreement date September 2, 2003 between 2003 between Sagasco Amadeus Pty. Limited and Magellan Petroleum Corporation filed as Exhibit 10(p) to Annual Report on Form 10-K for the year ended June 30, 2003 (File No. 001-5507) is incorporated herein by reference.

(r) Employment Agreement between Daniel J. Samela and Magellan Petroleum Corporation effective March 1, 2004, filed as Exhibit 10(1) to Quarterly Report on Form 10-Q for the quarter ended March 31, 2004 (File No. 001-5507) is incorporated herein by reference.

(s) Palm Valley Renewal of Petroleum Lease dated November 6, 2003, is filed as Exhibit 10 (s) to Annual Report on Form 10K for the year ended June 30, 2005, is incorporated herein by reference.

(t) Loan Agreement between Magellan Petroleum Corporation and Magellan Petroleum Australia Limited, dated as of July 31, 2006, is filed herein.

11. Statement re computation of per share earnings.

Not applicable.

12. Statement re computation of ratios.

None.

13. Annual report to security holders, Form 10-Q or quarterly report to security holders.

Not applicable.

14. Code of Ethics

Magellan Petroleum Corporation Standards of Conduct is filed herein.

16. Letter re change in certifying accountant.

None

18. Letter re change in accounting principles.

None.

21. Subsidiaries of the registrant.

Filed herein.

22. Published report regarding matters submitted to vote of security holders.

Not applicable.

23. Consent of experts and counsel.

1. Consent of Deloitte & Touche LLP is filed herein.

2. Consent of Paddock Lindstrom & Associates, Ltd. is filed herein.

24. Power of attorney.

None.

31. Rule 13a-14(a) Certifications.

Certification of Daniel J. Samela, Chief Executive Officer and Chief Financial and Accounting Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, is filed herein.

32. Section 1350 Certifications.

Certification of Daniel J. Samela, President, Chief Executive Officer and Chief Financial and Accounting Officer, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, is filed herein.

(d) Financial Statement Schedules.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MAGELLAN PETROLEUM CORPORATION
(Registrant)

/s/ Daniel J. Samela

Daniel J. Samela
President, Chief Executive Officer, Chief Financial and Accounting Officer

Dated: September 27, 2006

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

/s/ Daniel J. Samela Daniel J. Samela	President, Chief Executive Officer, Chief Financial and Accounting Officer	Dated: September 27, 2006
/s/ Donald V. Basso Donald V. Basso	Director	Dated: September 27, 2006
/s/ Timothy L. Largay Timothy L. Largay	Director	Dated: September 27, 2006
/s/ Robert Mollah Robert Mollah	Director	Dated: September 27, 2006
/s/ Walter Mccann Walter Mccann	Director	Dated: September 27, 2006
/s/ Ronald P. Pettirossi Ronald P. Pettirossi	Director	Dated: September 27, 2006

INDEX TO EXHIBITS

10(t)	Loan Agreement between Magellan Petroleum Corporation and Magellan Petroleum Australia Limited, dated as of July 31, 2006.
14.	Magellan Petroleum Corporation Standards of Conduct.
21.	Subsidiaries of the Registrant.
23.	1. Consent of Deloitte & Touche LLP
	2. Consent of Paddock Lindstrom & Associates, Ltd.
31.	Rule 13a-14(a) Certifications.
32.	Section 1350 Certifications.

Exhibit 14

MAGELLAN PETROLEUM CORPORATION

STANDARDS OF CONDUCT

GENERAL PRINCIPLES

These Standards of Conduct (“Standards”) for Magellan Petroleum Corporation (the “Company”) are designed to provide employees with “Company” guidelines for dealing with fellow employees, customers, vendors, shareholders, competitors, the communities where we work, conflicts of interest and trading in the Company’s securities.

Business Ethics

It is the policy of the Company that all employees and agents of the Company maintain the highest ethical standards and comply with all applicable legal requirements when conducting business in United States and any other country.

Employees

We are committed to maintaining employment practices based on equal opportunity for all employees. We will respect each other’s privacy and treat each other with dignity and respect. We are committed to providing a safe working environment and an atmosphere of open communication for all employees. Contract personnel temporarily employed by the Company to (i) address increases in workload in a given area and/or (ii) works on a particular project are not full time Company employees. However, unless otherwise indicated, for purpose of these Standards of Conduct, the term “employees” or “representatives” shall include both Company employees and contract personnel.

Shareholders

We are committed to provide an excellent return on the investment of our shareholders in the Company and to protect and improve the value of their investment through the prudent utilization of Company resources.

Competitors

We are committed to competing vigorously and honestly in the oil and gas exploration and production industry. Our efforts will be based on the merits of our competitive ability.

Communities

We are committed to being a responsible corporate citizen of the communities in which we reside. We will abide by all national and local laws, and will endeavor to improve the well being of our communities.

STANDARDS OF CONDUCT

Introduction

Our Standards of Conduct govern our business decisions and actions. The integrity, reputation, and profitability of the Company ultimately depend upon the individual actions of our employees and representatives. Each employee is personally responsible and accountable for compliance with our Standards. In addition, any representative, consultant or agent utilized by the Company shall be prohibited from acting on our behalf in any manner, which is inconsistent with our Standards of Conduct.

These Standards of Conduct serve to assist in defining our ethical principles, and are not all encompassing. The Standards must be interpreted within the framework of the laws and customs of the jurisdictions in which we operate, as well as in light of specific company policies and common sense. Reasons such as “everyone does it,” or “the competition is doing it,” or “it’s not illegal” are unacceptable as excuses for violating our Standards. We must seek to avoid circumstances and actions that give the appearance of impropriety. These Standards of Conduct will be enforced equitably.

Business Ethics

It is the policy of the Company and its subsidiaries that all employees and agents of the Company maintain the highest ethical standards and comply with all applicable legal requirements when conducting business in the United States and any other country.

Business and Accounting Practices

Compliance with generally accepted accounting rules and established internal controls are required at all times.

The use of assets of the Company for any unlawful or improper purpose is strictly prohibited.

Purchasers, vendors, royalty owners, joint interest owners and other third party entities shall be honestly and fairly dealt with, and employees shall conduct business with such parties in a manner that will not impugn or jeopardize the Company's integrity or reputation.

No payment on behalf of the Company shall be approved without adequate supporting documentation. Also, no payment shall be made with the intention or understanding that any part of such payment is to be used for any purpose other than that described by the documents supporting the payment.

Political Contributions

Federal, State, and Local Contributions

No funds or assets of the Company shall be used for federal political campaign contributions. No such funds or assets shall be used for state or local political contributions, even where permitted by applicable State or local laws.

These prohibitions cover not only direct contributions but also indirect assistance or support of candidates or political parties through the purchase of tickets to special dinners or other fund raising events. Also prohibited is the furnishing of any goods, services or equipment to political parties or committees.

Foreign Contributions

No funds or assets of the Company shall be used, directly or indirectly, for political contributions outside of the United States, even where permitted by local laws.

Payments and Gifts to Government Officials or Employees

No funds or assets of the Company shall be paid, loaned, given or otherwise transferred, directly or indirectly, to any federal, state, local or foreign government official, employee or to any entity in which the government official or employee is known to have a material interest, except in accordance with the following practices and procedures.

Legitimate Business Transactions

The Company shall enter into no transaction with any official, employee or entity except for a legitimate business purpose and upon terms and conditions which are fair and reasonable under the circumstances.

Retention as Attorneys or Consultants

No government official or employee shall be retained by the Company to perform legal, consulting or other services related to a matter within the scope of his or her official duties or the duties and responsibilities of the governmental body of which he or she is an official or employee.

Social Amenities, Gifts and Entertainment

Under no circumstance shall the Company's relations with government officials and employees be conducted in any manner which would subject the Company to embarrassment or reproach if publicly disclosed.

No gifts of substantial value shall be offered or made and no lavish entertainment shall be offered or furnished to any government official or employee. Social amenities, reasonable entertainment and other courtesies may be extended to government officials or employees only to the extent clearly appropriate under applicable customs and practices.

Any expenses incurred by a Company employee in connection therewith shall be specifically designated as such on the employee's related expense account and specifically reviewed and approved by the employee's immediate supervisor.

Foreign Transactions and Payments

Having due regard for and recognition of the responsibilities arising from and attendant to international operations, it is the Company's policy that all of its employees and agents shall comply with the ethical standards and applicable legal requirements of each foreign country in which Company business is conducted.

Foreign Deposits and Accounts

All accounts established and maintained abroad by the Company shall be clearly identified on the Company's books and records in the name of the Company.

All cash payments received abroad by the Company shall be promptly recorded on the Company's books of account and deposited in an account maintained with a bank or other institution approved by the Company's principal financial officer. No funds shall be maintained abroad by the Company in the form of negotiable currency except to the extent reasonably required for normal business operations.

Sales and Purchases of Goods or Services Abroad

All payments and billings for goods or services abroad shall be made in such a manner that public disclosure of the full details thereof will not impugn or jeopardize the Company's integrity or reputation.

Foreign sales of goods or services by the Company shall be billed to the purchaser by written invoice setting forth, in reasonable detail, the goods or services involved and the correct amounts due the Company. Any amount billed subject to refund shall be separately identified on such invoice.

Each payment by the Company for goods or services purchased abroad shall be supported by documentation reflecting the purpose and nature of such payment. All payments of fees and commissions to attorneys, consultants, advisors, agents, dealers and representatives shall be made by check, draft or other documentary transfer drawn to the order of the party duly entitled thereto and shall be made under written contract except where services are routine in nature and arise out of the Company's ordinary course of business.

No payment shall be made directly to an account maintained by a party in a country other than that in which such party resides or maintains a place of business or has rendered the services for which the payment is made, except under circumstances giving no reasonable grounds for belief that the Company would thereby violate any local income tax or exchange control laws.

EMPLOYEES

Equal Employment Opportunity

It is our policy to afford equal employment opportunities to all qualified individuals in all aspects of the employment relationship.

Employee Development

The Company is dedicated to promoting the development and enhancement of work-related skills of full time employees. The Company expects each full time employee to play an important role in assessing his or her training and development needs and, if there is a concern such needs are not being met, to discuss the same with his or her manager/supervisor.

Workplace Environment

The Company is committed to providing its employees with a safe employment environment, free from discrimination or harassment and conducive to productive work.

Sexual and Other Unlawful Harassment

It is the policy of the Company to treat all employees with respect and dignity. The Company prohibits any form of harassment including harassment based on an employee's sex, race, national origin, religion, age, and disability.

Harassment is verbal or physical conduct that denigrates or shows hostility or aversion toward an individual because of his/her race, color, religion, gender, national origin, age, or disability, or that of his/her relatives, friends, or associates, and that: (1) has the purpose or effect of creating an intimidating, hostile, or offensive working environment; (2) has the purpose or effect of unreasonably interfering with an individual's work performance; or (3) otherwise adversely affects an individual's employment opportunities.

Unwelcome sexual advances and/or requests for sexual favors constitute sexual harassment when: submission to such conduct is made either explicitly or implicitly a term or condition of an individual's employment, or submission to, or rejection of, such conduct by an individual is used as a basis for employment decisions affecting such individual. Other sexually harassing conduct includes (1) unwelcome sexual flirtations, advances or propositions (2) verbal or written abuse of a sexual nature (3) graphic, verbal or written comments about an individual's body (4) sexually degrading words used to describe an individual; and (5) the display, in our workplace, of sexually suggestive objects or pictures.

Any person who believes he or she has been or is being subjected to harassment based on his or her sex, race, national origin, religion, age or disability, should bring the matter to the attention of his or her supervisor/manager, or, if that supervisor/manager is involved in the harassment, the President of the Company. Any person who believes that unlawful harassment has occurred or is occurring should promptly report such conduct to one of the above persons regardless of the position of the offending person. Reports should be made as soon as possible (usually within 24 hours) to enable the Company to facilitate prompt and thorough investigations and enable the Company to eradicate harassment. Employees should not wait for a situation to become worse or unbearable before making a report.

All complaints will be promptly investigated. It is intended that the privacy of the persons involved will be protected, except to the extent necessary to conduct a proper investigation.

If the investigation substantiates that the complaint is valid, immediate corrective action designed to stop the harassment and prevent its reoccurrence will be taken. Such corrective action may, in appropriate instances, include discipline (up to and including discharge) of the offending person.

Any person who believes she or he has been or is being subjected to harassment, or who believes she or he has observed harassment, and who reports the matter pursuant to this policy, shall not be retaliated against or adversely treated, with respect to terms and conditions of employment, because of the making of the report.

All supervisors and managers have the responsibility to eliminate all harassing behavior. This responsibility includes communicating the Company's anti-harassment policy, educating all employees under their supervision about the policy and how to use it, and enforcing the policy.

Drug and Alcohol Abuse

Drug abuse in the workplace is strictly prohibited. Furthermore, employees are required to report to work free from the presence of illegal or prohibited drugs in their body systems. Alcohol use by employees on the job is also prohibited.

Communication

The Company is committed to providing communication channels that encourage self-expression and open dialog relative to responsible opinions, attitudes and concerns. The Company is also committed to follow-up on those expressions and to ensure proper management response. Each employee is encouraged and expected to direct his or her questions or concerns regarding the Standards of Conduct and their application to the affairs of the Company to his or her supervisor/manager or to the President of the Company.

Conflicts of Interest

The term "conflict of interest" describes any circumstance that could cast doubt on our ability to act with total objectivity with regard to the Company's interests. All employees must deal with vendors, customers and others doing business with the Company in a manner that avoids even the appearance of conflict between personal interests and those of the Company.

Although it is impossible to list all potential conflict of interest situations, the following examples represent a few situations where a conflict of interest could arise:

- A direct or indirect financial interest in any business or organization which is a Company vendor or competitor, if the employee can influence decisions with respect to the Company's business with such organization.
- Serving on the Board of Directors or employment in any capacity with any vendor, competitor or customer of the Company.
- Use of any Company asset for the employee's personal advantage. Examples of such assets include not only equipment, tools and supplies, but also valuable ideas, technical data and other confidential information.

Relationships, including business, financial, personal, and those with relatives may give rise to situations causing conflicts of interest or the appearance of a conflict. Employees shall carefully evaluate their relationships as they relate to Company business to ensure that such conflicts do not exist or arise. To avoid conflicts of interest:

- Employees shall not have undisclosed financial interests in any businesses that compete or deal with the Company.
- Employees shall not perform services in competition with the Company.
- Employees shall not accept gifts of any form from individuals or business enterprises that deal with the Company. Gifts of nominal value (less than $100) and social invitations, if they do not place the recipients under any obligation, are acceptable.
- While employees are encouraged to participate in philanthropic, professional and community organizations, they must ensure that the manner of their participation in a particular organization does not imply the Company's endorsement or sponsorship.
- A full time employee shall obtain the approval of his or her supervisor/manager before serving as a trustee, regent, director, or officer of a philanthropic, professional, national, regional, or community organization or educational institution. This policy applies where significant time spent in support of these functions may interfere with time that should be devoted to the Company's business.
- Employees shall not sell or lease equipment, materials or property to the Company without appropriate corporate authority.

• Employees shall purchase Company equipment, materials or property only on terms available to the general public.

• Employees shall not use other Company employees to perform non-Company work.

The Company recognizes that the exercise of judgment is required in determining the applicability of the conflicts of interest policy to any given situation. Primary responsibility for conduct within the letter and spirit of this policy must rest with each employee.

Antitrust Compliance

The Company is committed to abiding by the antitrust laws of every jurisdiction in which the Company does business. Every employee is responsible for compliance with the applicable antitrust laws.

Employees should seek legal advice from the Company's Legal Counsel whenever any question arises as to the possible application of the antitrust laws, and be guided by the advice received.

Consultants, Representatives, Agents, Contractors and Subcontractors

Consultants, representatives, agents and subcontractors of the Company must not act on the Company's behalf in any manner, which is inconsistent with our Standards of Conduct.

Vendors

It is our policy to purchase all equipment and services on the basis of competitive pricing and/or merit. Company vendors will be treated with integrity and without discrimination.

Gift Giving and Receiving

Employees should not accept gifts, gratuities or entertainment from existing or potential vendors or clients or anyone in business with the Company if acceptance of such gift could be perceived as having influence over the employee's decisions regarding company business. Any gift valued in excess of $100 shall be the property of the Company and shall be reported to the employee's supervisor/manager.

Employees should not give or offer to give gifts, favors or entertainment to anyone at the Company's expense unless such gift is in accordance with accepted business practice and approved in advance by the employee's supervisor.

SHAREHOLDERS

Return on Investment

The Company's main objectives are to earn a profit, in an ethical manner, and to provide a consistent return on Shareholder investment, given the standards and general condition of the oil and gas industry in the Company's areas of operation.

Protection of Assets — Confidentiality

Every employee is responsible for the proper use, conservation and protection of the Company's assets.

Employees frequently have access to the intellectual property of the Company such as business, geological, geophysical and other technical information, including computer programs and oil and gas production data. Employees should avoid misuse or disclosure of "confidential information" pertaining to the business affairs of the Company. Confidential information is private information about the Company and its program participants or other entities that are subject to a confidentiality agreement with the Company. Examples include:

• Information pertaining to drilling programs or wells drilled by the Company.

• Information about acquisitions, mergers or other purchases or sales of oil and gas properties or technology.

- Financial information including historical, current and projected financial results, unless publicly announced.
- Information about future plans or changes in the Company's operations.
- Information about liquidity, borrowings, security offerings or changes in previously disclosed financial information.
- Changes in management.
- Information about significant litigation.

All employees should assume that any of the type of information listed above that is received from an outside company or individual has been disclosed on condition that it is kept confidential, whether or not there exists a written confidentiality agreement.

Employees should not disclose confidential information to anyone except those employees or authorized representatives who have a "need to know." Precautions should be taken to avoid inadvertent disclosure. Examples of precautions, which should be taken to avoid inadvertent disclosure, include:

- Avoiding discussion of confidential information in public places.
- Keeping sensitive documents in secure areas, in envelopes or folders marked "confidential" where appropriate.
- Ensuring that documents are not left in non-secure locations such as photocopy room or at the facsimile machine.
- Employees, who receive information about a company as a result of the Company's relations with the company, may not trade in the securities of that company until it is certain that this information is available to the public.

Accuracy of Company Records

Company supervisors/managers are responsible for maintaining an effective system of administrative and accounting controls in their areas of responsibility.

Internal controls provide the Company with a system of "checks and balances" to help insure that administrative and accounting policies are complied with throughout the organization. In addition to being necessary and good business practice, this policy promotes compliance with the applicable securities laws.

Administrative controls promote organizational effectiveness and help establish a uniform direction for employee efforts by ensuring adherence to Company policies. Accounting controls safeguard Company assets and ensure the reliability of Company records.

In administering the system of internal control, supervisors should communicate to their subordinates all Company policies that apply to their job; the supervisors should also show leadership in adhering to the policies and enforcing them. Reasonable procedures for carrying out Company policies and preventing deviations should be established. In keeping with the Company's management style, supervisors have considerable discretion in developing these procedures, which should be kept to a minimum within the spirit of the requirements of this policy. If deviations from policy do occur, appropriate (i.e., fair, but firm) disciplinary action may be necessary.

In carrying out their responsibility for administering accounting controls, supervisors must assure that:

- Business transactions of all kinds are executed by employees authorized to do so.
- Access to assets of all kinds (e.g., cash, inventory, property, etc.) is permitted only with authorization by appropriate management levels.
- Business transactions are reported as necessary to (a) permit preparation of accurate financial and other records and (b) clearly reflect the responsibility for assets.

- Records identifying the responsibility for assets are compared with actual assets at reasonable intervals. Appropriate action must be taken if there are discrepancies.

Supervisors should ensure that records are timely made and accurately and fairly represent all business transactions. This means that:

- All assets and transactions must be recorded in normal books and records.
- No unrecorded funds shall be established or maintained for any purpose.
- Records shall not be falsified in any manner.
- Anyone with knowledge of inaccurate or false records must promptly report them to the principal financial officer.

Oral and written descriptions of transactions, whether completed or contemplated, must be full and accurate. Special care must be exercised in describing transactions to those responsible for the preparation or verification of financial records to avoid any misleading inferences.

The retention or disposal of Company records shall be in accordance with established policies and/or legal requirements.

Insider Trading

All employees and directors of the Company must adhere to the Company's "INSIDER TRADING AND DISCLOSURE POLICY" and applicable laws and regulations.

Public Reporting

The Company's principal executive, financial and accounting officers are responsible for the full, fair, accurate, timely, and understandable disclosure of all information required by applicable law to be so disclosed in reports and documents filed with, or submitted to, the Securities and Exchange Commission and other regulators, and in other public communications made by the Company. All such reports and documents shall be filed in a timely, accurate and complete manner in compliance with applicable laws.

Shareholder Communications

Our shareholders are the owners of the Company. All Shareholder inquiries pertaining to the Company shall receive prompt response from the Company. Subject to applicable securities laws and the confidentiality requirements of our business, shareholders shall be advised of all significant and material Company events in a timely manner. All employees and directors of the Company must adhere to the Company's "DISCLOSURE POLICY".

COMMUNITIES

Health, Safety and Environmental Matters

The Company will conduct its operations in a manner that safeguards the environment. The Company believes the promotion of health, safety and sound environmental practice to be of fundamental importance to the welfare of the Company, its shareholders and employees. In this regard, the Company has established policies, procedures and plans for the conduct of its operations in compliance with applicable environmental and occupational health and safety laws and regulations which must be complied with by all employees. Communication from employees on health, safety and environmental matters is invited by management and is seen as being a key factor in achieving the Company's goals.

COMPLIANCE PROCEDURES

Reporting any Illegal or Unethical Behavior

Employees are encouraged to talk to supervisors or to the Chief Financial Officer about observed illegal or unethical behavior, or when in doubt about the best course of action in a particular situation. It is the policy of the Company not to allow retaliation for reports of misconduct by others made in good faith by employees. Employees are expected to cooperate in internal investigations of misconduct.

Compliance Procedures

We must all work to ensure prompt and consistent action against violations of these Standards. However, in some situations it is difficult to know right from wrong. Since we cannot anticipate every situation that will arise, it is important that we have a way to approach a new question or problem. These are the steps to keep in mind:

- *Make sure you have all the facts*. In order to reach the right solutions, we must be as fully informed as possible.
- *Ask yourself: What specifically am I being asked to do?* Does it seem unethical or improper? This will enable you to focus on the specific question you are faced with, and the alternatives you have. Use your judgment and common sense. If something seems unethical or improper, it probably is.
- *Clarify your responsibility and role*. In most situations, there is shared responsibility. Are your colleagues informed? It may help to get others involved and discuss the problem.
- *Discuss the problem with your supervisor or the Chief Financial Officer*. This is the basic guidance for all situations. In many cases, your supervisor or the Chief Financial Officer will be more knowledgeable about the question and will appreciate being brought into the decision-making process. Remember that it is your supervisor's — or the Chief Financial Officer's — responsibility to help solve problems.
- *Seek help from Company resources*. In the rare case where it may not be appropriate to discuss an issue with your supervisor or the Chief Financial Officer, or where you do not feel comfortable approaching your supervisor or the Chief Financial Officer with your question, you should discuss it with the Chairman of the Audit Committee. If that also is not appropriate, contact the Chairman of the Board of Directors at (860) 293-2006 and, if appropriate, you will be put in direct contact with the appropriate assistance. If you prefer to write, address your concerns to: Chairman of the Board of Directors, c/o Magellan Petroleum Corporation, Hartford Square North, 10 Columbus Boulevard, 10th Floor, Hartford, CT 06106.
- *You may report ethical violations in confidence and without fear of retaliation*. If your situation requires that your identity be kept secret, your anonymity will be protected to the fullest extent practicable. The Company does not permit retaliation of any kind against employees for good faith reports of ethical violations.
- *Always ask first, act later:* If you are unsure of what to do in any situation, seek guidance before you act.

Disciplinary Action

The matters covered in these Standards are of the utmost importance to the Company, its employees, shareholders and business partners. Compliance with these Standards is essential to the Company's ability to conduct its business in accordance with its stated values. We expect all employees to adhere to these rules in carrying out their duties for the Company.

The Company will take appropriate action against any employee, officer or director whose actions are found to violate these policies or any other policies of the Company. Disciplinary actions may include suspensions and/or immediate termination of employment at the Company's sole discretion. Where the Company has suffered a loss, it may pursue its remedies against the individuals or entities responsible. Where laws have been violated, the Company will cooperate fully with the appropriate authorities.

Waivers of these Standards

Any waiver of these Standards for officers, directors or employees may be made only by the Board of Directors. Any waivers granted will promptly be publicly disclosed as required by applicable laws or stock exchange regulations.

MAGELLAN PETROLEUM CORPORATION

STANDARDS OF CONDUCT

ISSUED TO: ______________________________

(employee's name)

DATE: ______________________________

ACKNOWLEDGMENT:

My signature indicates that I have read, understood and accept the Standards of Conduct for the Company and its subsidiaries and agree to comply with these during my employment with the Company.

Full Name: ______________________________

Signature: ______________________________

Date: ______________________________

Exhibit 21

SUBSIDIARIES OF THE REGISTRANT

Subsidiary	State of Incorporation	Ownership
Magellan Petroleum Australia Limited	Queensland, Australia	100%
Magellan Petroleum Australia Limited owns the following subsidiaries directly or indirectly:		
Magellan Petroleum (N.T.) Pty. Ltd.	Queensland, Australia	100%
Paroo Petroleum Pty. Ltd.	Queensland, Australia	100%
Paroo Petroleum (Holdings), Inc.	Delaware, U.S.A.	100%
Paroo Petroleum (USA), Inc.	Delaware, U.S.A.	100%
Magellan Petroleum (W.A.) Pty. Ltd.	Queensland, Australia	100%
Magellan Petroleum (Belize) Limited	Belize, C.A	100%
Magellan Petroleum (Eastern) Pty. Ltd.	Queensland, Australia	100%
Magellan Petroleum (Southern) Pty. Ltd.	Queensland, Australia	100%
Magellan Petroleum (NZ) Limited	New Zealand	100%
Magellan Petroleum (Ventures) Pty Ltd.	Queensland, Australia	100%
Jarl Pty. Ltd.	Queensland, Australia	100%

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-70567 on Form S-8 of our report dated September 27, 2006 relating to the financial statements of Magellan Petroleum Corporation, appearing in this Annual Report on Form 10-K of Magellan Petroleum Corporation for the year ended June 30, 2006.

/s/ Deloitte & Touche LLP

Hartford, Connecticut
September 27, 2006

Exhibit 23.2

CONSENT OF INDEPENDENT PETROLEUM ENGINEERS

The undersigned firm of Independent Petroleum Engineers, of Calgary, Alberta, Canada, knows that it is named as having prepared a constant dollar evaluation dated September 25, 2006 of the Kotaneelee interests of Magellan Petroleum Corporation, and hereby gives its consent to the use of its name and to the use of the said estimates.

Paddock Lindstrom & Associates Ltd.

/s/ L. K. Lindstrom

L. K. Lindstrom, P. Eng.
President

September 27, 2006

Exhibit 31

RULE 13A-14(a) CERTIFICATIONS

I, Daniel J. Samela, certify that:

1. I have reviewed this annual report (report) on Form 10-K of Magellan Petroleum Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) [Intentionally omitted]

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Daniel J. Samela

Daniel J. Samela
President and Chief Executive Officer,
Chief Accounting and Financial Officer

Dated: September 27, 2006

Exhibit 32

SECTION 1350 CERTIFICATIONS

In connection with the Annual Report of Magellan Petroleum Corporation (the "Company") on Form 10-K for the period ending June 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Daniel J. Samela, President, Chief Executive Officer and Chief Financial and Accounting Officer of the Company, does hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

By: /s/ Daniel J. Samela

Daniel J. Samela
President, Chief Executive Officer and
Chief Accounting and Financial Officer

September 27, 2006

Exhibit 10 (t)

Magellan Petroleum Australia Limited

Magellan Petroleum Corporation

LOAN AGREEMENT

Ref: GTS 9032395

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Contents

<TABLE>
<S> <C>

</TABLE>

DATE

Parties

MAGELLAN PETROLEUM AUSTRALIA LIMITED ACN 009 728 581 of Level 10, 145 Eagle Street, Brisbane, Queensland (COMPANY)

MAGELLAN PETROLEUM CORPORATION a company incorporated in the State of Delaware, United States of America, of 10 Columbus Boulevard, Hartford, Connecticut, United States of America (FINANCIER)

Agreed terms

1 Interpretation

1.1 DEFINITIONS

In this document:

BASE RATE means, in relation to an Interest Period:

(a) the rate (expressed as a rate per centum per annum) being the arithmetic average of the rates rounded to the nearest two decimal places quoted to the Company on the First Business Day of the Interest Period by each of National Australia Bank, Australia and New Zealand Banking Group Limited and Suncorp-Metway Limited as the rate which they would be prepared to pay in respect of 30 day term deposits of an amount similar to the amount of the Principal;

(b) if one or more but not all of the banks referred to in paragraph (a) do not quote those rates, the rate will be determined on the basis of the quotations of the quoting banks; or

(c) if:

(i) all of the banks referred to in paragraph (a) do not quote those rates,

the Base Rate will be the rate per centum per annum reasonably determined by the Financier having regard to other bases and rates quoted by other Australian banks which the Financier determines to be as near as practicable to the bases used to determine the rate in paragraph (a).

BUSINESS DAY means a day which is not a Saturday, Sunday or bank or public holiday in Brisbane.

DRAWDOWN DATE means the date agreed to between the Company and the Financier and on which the Principal is advanced by the Financier to the Company.

EVENT OF DEFAULT means any event or circumstance described in CLAUSE 8.1.

INTEREST PAYMENT DATE means the last day of each period of 1 year which ends during the period from the Drawdown Date until the Repayment Date and with the final Interest Payment Date being the Repayment Date.

INTEREST PERIOD means each successive period of 1 year from the Drawdown Date.

INTEREST RATE means the Base Rate less 0.25% per annum.

MATERIAL ADVERSE EFFECT means a material adverse effect on either:

(a) the ability of the Company to comply with its obligations under this document; or

(b) the effectiveness or enforceability of this document.

OUTSTANDING PRINCIPAL means so much of the Principal as remains unrepaid from time to time.

PRINCIPAL means $5,365,000.00.

REPAYMENT DATE means the date being 5 years from the Drawdown Date.

SECURITY INTEREST means any interest or right which secures the payment of a debt or other monetary obligation or the compliance with any other obligation.

TAX means a tax (including any tax in the nature of a goods and services tax), rate, levy, impost or duty (other than a tax on the net overall income of the Financier) and any interest, penalty, fine or expense relating to any of them.

1.2 CONSTRUCTION

Unless expressed to the contrary, in this document:

(a) words in the singular include the plural and vice versa;

(b) any gender includes the other genders;

(c) if a word or phrase is defined its other grammatical forms have corresponding meanings;

(d) a reference to:

(i) a person includes a partnership, joint venture, unincorporated association, corporation and a government or statutory body or authority; and

(ii) a person includes the person's legal personal representatives, successors, assigns and persons substituted by novation; and

(e) "$" or "dollars" is a reference to Australian currency.

2 Conditions precedent

2.1 CONDITIONS PRECEDENT

The obligation of the Financier to lend the Principal is subject to the conditions precedent that:

(a) the representations and warranties set out in CLAUSE 7.1 are correct and not misleading as at the Drawdown Date; and

(b) no Event of Default or potential Event of Default subsists as at the Drawdown Date.

2.2 SATISFACTION OF CONDITIONS PRECEDENT

The Company must use its best endeavours to satisfy the conditions precedent.

3 Loan

(a) Subject to CLAUSE 2, the Financier must lend the Principal to the Company on the Drawdown Date.

(b) The Company must only use the Principal for purposes of its working capital, investment on the short term money market or such other purposes agreed to in writing by the Financier.

4 Interest

4.1 PAYMENT AND RATE

The Company must pay interest on the Outstanding Principal and any interest capitalised under clause 4.3(a) and such interest must be paid on each Interest Payment Date. Interest is payable at the Interest Rate.

4.2 COMPUTATION

Interest will:

(a) accrue from day to day;

(b) be computed from and including the day when the money on which interest is payable becomes owing to the Financier by the Company until but excluding the day of payment of that money; and

(c) be calculated on the actual number of days elapsed on the basis of a 365 day year.

4.3 CAPITALISATION

(a) The Financier may capitalise, on a monthly or such other periodical basis as the Financier determines, any part of any interest which becomes due and payable and is not paid on its due date.

(b) Interest is payable in accordance with this document on capitalised interest.

4.4 MERGER

If the liability of the Company to pay to the Financier any money payable under this document becomes merged in any deed, judgment, order or other thing, the Company must pay interest on the amount owing from time to time under that deed, judgment, order or other thing at the higher of the rate payable under this document and that fixed by or payable under that deed, judgment, order or other thing.

5 Repayment and prepayment

5.1 REPAYMENT

The Company must, subject to CLAUSE 8.2, repay the Outstanding Principal to the Financier on the Repayment Date.

5.2 PREPAYMENT

The Company must not prepay the Principal or any part of it except with the prior written consent of the Financier, which consent may be given on terms.

6 Payments

6.1 PLACE, MANNER AND TIME OF PAYMENT

The Company must make payments to the Financier under this document:

(a) at a place and in a manner reasonably required by the Financier;

(b) by 11.00 am local time in the place where payment is required to be made; and

(c) in immediately available funds and without set-off, counter claim, condition or, unless required by law, deduction or withholding.

6.2 WITHHOLDING AND OTHER TAXES

If the Company is required by law to deduct or withhold Taxes from any payment it must:

(a) make the required deduction and withholding;

(b) pay the full amount deducted or withheld in accordance with the relevant law;

(c) deliver to the Financier the original receipt for each payment; and

(d) make the payment to the Financier net of any deduction or withholding under clause 6.2(a).

6.3 APPROPRIATION

The Financier may appropriate any payment towards the satisfaction of any money due for payment by the Company in relation to this document in any way that the Financier thinks fit and despite any purported appropriation by the Company.

7 Representations and warranties

7.1 NATURE

The Company represents and warrants that:

(a) DULY INCORPORATED: it is duly incorporated in accordance with the laws of its place of incorporation, validly exists under those laws and has the capacity to sue or be sued in its own name and to own its property and conduct its business as it is being conducted;

(b) CAPACITY: it has capacity unconditionally to execute and deliver and comply with its obligations under this document;

(c) BINDING OBLIGATIONS: this document constitutes the valid and legally binding obligations of the Company and is enforceable against it by the Financier in accordance with its terms;

(d) NO CONTRAVENTION: the unconditional execution and delivery of, and compliance with its obligations by the Company under, this document do not contravene:

(i) any law or directive from a government body;

(ii) its constituent documents;

(iii) any agreement or instrument to which it is a party; or

(iv) any obligation of the Company to any other person;

(e) NO PROCEEDING: except as notified to the Financier in writing before the date of this document, no litigation or arbitration is current, pending or, to the knowledge of the Company, threatened, which has or the adverse determination of which would be likely to have a Material Adverse Effect;

(f) NO TRUST: except as notified to the Financier in writing before the date of this document, it does not enter into this document as trustee of any trust; and

(g) NO DEFAULT: no Event of Default or potential Event of Default subsists.

7.2 GENERAL

(a) The Company acknowledges that the Financier enters into this document in reliance on the representations and warranties.

(b) Each representation and warranty survives the execution of this document and is deemed repeated with reference to the facts and circumstances on each day that money is owing (actually or contingently) by the Company to the Financier under this document.

8 Events of Default

8.1 NATURE

Each of the following is an Event of Default (whether or not caused by anything outside the control of the Company):

(a) NON-PAYMENT: the Company does not pay any money due for payment by it under this document in accordance with this document;

(b) VOID DOCUMENT this document is void, voidable or otherwise unenforceable by the Financier or is claimed to be so by the Company;

(c) CESSATION OF BUSINESS: the Company ceases or threatens to cease to carry on its business or a substantial part of its business;

(d) ENFORCEMENT OF OTHER SECURITY: a person who holds a Security Interest over property of the Company becomes entitled to exercise a right under that Security Interest against the property to recover any money the payment of which is secured by that Security Interest or enforce any other obligation the compliance with which is secured by it;

(e) INSOLVENCY:

(i) the Company is or states that it is unable to pay from its own money all its debts as and when they become due and payable;

(ii) the Company is taken or must be presumed to be insolvent or unable to pay its debts under any applicable legislation;

(iii) an application or order is made for the winding up or dissolution of the Company or a resolution is passed or any steps are taken to pass a resolution for its winding up or dissolution;

(iv) an administrator, provisional liquidator, liquidator or person having a similar or analogous function under the laws of any relevant jurisdiction is appointed in respect of the Company or any action is taken to appoint any such person and the action is not stayed, withdrawn or dismissed within seven days;

(v) a controller is appointed in respect of any property of the Company;

(vi) the Company is deregistered under the Corporations Act 2001 or notice of its proposed deregistration is given to the Company;

(vii) the Company enters into or takes any action to enter into an arrangement (including a scheme of arrangement or deed of company arrangement), composition or compromise with, or assignment for the benefit of, all or any class of its creditors or members or a moratorium involving any of them;

8.2 ACCELERATION

If an Event of Default subsists the Financier may at any time by notice to the Company do either or both of the following:

(a) not lend the Principal if it has not already been lent;

(b) make the Outstanding Principal, any unpaid accrued interest or fees and any other money owing by the Company to the Financier in relation to this document immediately due for payment.

9 Costs and expenses

9.1 REIMBURSEMENT OF COSTS AND EXPENSES

The Company must on demand pay and if paid by the Financier reimburse to the Financier:

(a) the Financier's costs and expenses (including legal costs and expenses on a full indemnity basis) in relation to the exercise or attempted exercise or the preservation of any rights of the Financier under this document; and

(b) any Taxes (but not including any Taxes paid or deducted or required to be paid or deducted under clause 6.2) and registration or other fees (including fines and penalties relating to the Taxes and fees) which are payable in relation to this document or any transaction contemplated by it.

9.2 TAXABLE SUPPLY

(a) If GST is payable by the Financier on any supply made under this document the Company must pay to the Financier an amount equal to the GST payable on the supply.

(b) That amount must be paid at the same time that the consideration for the supply is to be provided under this document and must be paid in addition to the consideration expressed elsewhere in this document.

(c) On receiving that amount from the Company, the Financier must provide the Company with a tax invoice for the supply.

9.3 ADJUSTMENT EVENTS

If an adjustment event arises in respect of any supply made by the Financier under this document, a corresponding adjustment must be made between the Financier and the Company in respect of any amount paid to the Financier by the Company under CLAUSE 9.2 and payments to give effect to the adjustment must be made.

9.4 PAYMENTS

If the Company is required under this document to pay for or reimburse an expense or outgoing of the Financier or is required to make a payment under

an indemnity in respect of an expense or outgoing of the Financier, the amount to be paid by the Company is the sum of:

(a) the amount of the expense or outgoing less any input tax credit in respect of that expense or outgoing that the Financier is entitled to; and

(b) if the Financier's recovery from the Company is in respect of a taxable supply, an amount equal to the GST payable by the Financier in respect of that recovery.

9.5 GST TERMINOLOGY

The terms "adjustment event", "consideration", "GST", "input tax credit", "supply", "taxable supply" and "tax invoice" each has the meaning which it is defined to have in the A New Tax System (Goods and Services Tax) Act 1999.

10 General

10.1 FINANCIER'S DETERMINATION AND CERTIFICATE

(a) A certificate by the Financier relating to this document is, in the absence of manifest error, conclusive evidence against the Company of the matters certified.

(b) The Financier is not obliged to give the reasons for its determination or opinion in relation to any matter under this document.

10.2 SUPERVENING LEGISLATION

Any present or future legislation which operates to lessen or vary in favour of the Company any of its obligations in connection with this document or to postpone, stay, suspend or curtail any rights of the Financier under this document is excluded except to the extent that its exclusion is prohibited or rendered ineffective by law.

10.3 BUSINESS DAYS

If the day on which anything, excluding a payment, is to be done by the Company under this document is not a business day, that thing must be done on the preceding business day.

10.4 AMENDMENT

This document may only be varied or replaced by a document executed by the parties.

10.5 WAIVER AND EXERCISE OF RIGHTS

(a) A right in favour of the Financier under this document, a breach of an obligation of the Company under this document or the occurrence of an Event of Default can only be waived by an instrument duly executed by the Financier. No other act, omission or delay of the Financier will constitute a waiver, binding, or estoppel against, the Financier.

(b) A single or partial exercise or waiver by the Financier of a right relating to this document will not prevent any other exercise of that right or the exercise of any other right.

10.6 APPROVAL AND CONSENT

The Financier may conditionally or unconditionally give or withhold any consent to be given under this document and is not obliged to give its reasons for doing so.

10.7 ASSIGNMENT

(a) The Company must not assign or otherwise dispose of any right under this document without the written consent of the Financier.

(b) The Financier's rights under this document are assignable.

10.8 COUNTERPARTS

This document may consist of a number of counterparts and, if so, the counterparts taken together constitute one document.

10.9 GOVERNING LAW AND JURISDICTION

This document is governed by and will be construed in accordance with the laws applicable in Queensland and the parties irrevocably and unconditionally submit to the non-exclusive jurisdiction of those courts.

10.10 JOINT AND SEVERAL LIABILITY

Where two or more parties comprise the Company:

(a) a reference to the Company includes each and any two or more of them; and

(b) the obligations on the part of the Company bind them jointly and severally.

10.11 NOTICES

(a) In addition to any other lawful means, a notice, demand, certification or other communication relating to this document may be given by:

(i) being personally served on a party; or

(ii) being left at, or sent by pre-paid ordinary mail to, the party's address as specified in this document,

and it will be deemed received, if posted, three business days after posting.

(b) The particulars for delivery of notices are initially:

COMPANY:

Address: Level 10, 145 Eagle Street, Brisbane, Queensland, 4000

Fax: (07) 3832 6411

Attention: Joe Morfea (Finance Manager)

FINANCIER:

Address: 10 Columbus Boulevard, Hartford, Connecticut, 06106
United States of America

Fax: +1 860 293 2349

Attention: Dan Samela (President)

(c) Each party may change its particulars for delivery of notices by notice to each other party.

EXECUTED as an agreement

EXECUTED by MAGELLAN PETROLEUM)
AUSTRALIA LIMITED ACN 009 728 581)

/s/ A.E. de Norbury Rogers
- ------------------------------
A.E. de Norbury Rogers, Director

/s/ Bruce McInnes
- --------------------------------
Bruce McInnes, Secretary/Director

EXECUTED by MAGELLAN PETROLEUM)
CORPORATION)

/s/ DANIEL J. SAMELA
- ---------------------------------------
Daniel J. Samela, President