
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **DECEMBER 31, 2006**

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

(State or other jurisdiction of incorporation or organization)

06-0842255

(I.R.S. Employer Identification No.)

10 Columbus Boulevard, Hartford, Connecticut
(Address of principal executive offices)

06106
(Zip Code)

(860) 293-2006

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

The number of shares outstanding of the issuer's single class of common stock as of February 6, 2007 was 41,500,325.

MAGELLAN PETROLEUM CORPORATION

FORM 10-Q

DECEMBER 31, 2006

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS

| | DECEMBER 31, 2006 <u>(UNAUDITED)</u> | JUNE 30, 2006 <u>(NOTE)</u> |
|---|--|-----------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 29,052,509 | \$ 21,882,882 |
| Accounts receivable-trade | 6,434,113 | 4,809,051 |
| Accounts receivable-working interest partners | — | 413,786 |
| Marketable securities | 385,348 | 539,675 |
| Inventories | 766,904 | 734,887 |
| Income tax receivable | 385,622 | — |
| Other assets | 255,749 | 317,496 |
| Total current assets | <u>37,280,245</u> | <u>28,697,777</u> |
| Deferred income taxes | 240,874 | 1,129,719 |
| Property and equipment: | | |
| Oil and gas properties (successful efforts method) | 96,834,561 | 87,831,709 |
| Land, buildings and equipment | 2,695,925 | 2,448,790 |
| Field equipment | 851,699 | 789,921 |
| | <u>100,382,185</u> | <u>91,070,420</u> |
| Less accumulated depletion, depreciation and amortization | <u>(73,057,672)</u> | <u>(63,287,726)</u> |
| Net property and equipment | <u>27,324,513</u> | <u>27,782,694</u> |
| Intangible exploration rights | 5,323,347 | 5,323,347 |
| Goodwill | 5,219,167 | 5,646,747 |
| Total assets | <u>\$ 75,388,146</u> | <u>\$ 68,580,284</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 2,614,326 | \$ 1,856,515 |
| Accounts payable-working interest partners | 690,629 | — |
| Accrued liabilities | 1,534,866 | 1,919,739 |
| Income taxes payable | — | 101,746 |
| Total current liabilities | <u>4,839,821</u> | <u>3,878,000</u> |
| Long term liabilities: | | |
| Deferred income taxes | 1,638,213 | 1,435,583 |
| Asset retirement obligations | 7,976,905 | 7,147,261 |
| Total long term liabilities | <u>9,615,118</u> | <u>8,582,844</u> |
| Contingencies (Note 9) | — | — |
| Stockholders' equity: | | |
| Common stock, par value \$.01 per share: | | |
| Authorized 200,000,000 shares: Outstanding 41,500,325 and 41,500,138 shares | 415,001 | 415,001 |
| Capital in excess of par value | 73,150,527 | 73,145,577 |
| Accumulated deficit | (13,390,459) | (14,412,688) |
| Accumulated other comprehensive income (loss) | 758,138 | (3,028,450) |
| Total stockholders' equity | <u>60,933,207</u> | <u>56,119,440</u> |
| Total liabilities and stockholders' equity | <u>\$ 75,388,146</u> | <u>\$ 68,580,284</u> |

Note: The balance sheet at June 30, 2006 has been derived from the audited consolidated financial statements at that date.

See accompanying notes.

MAGELLAN PETROLEUM CORPORATION
FORM 10-QPART I — FINANCIAL INFORMATION
December 31, 2006

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

| | THREE MONTHS ENDED DECEMBER 31, | | SIX MONTHS ENDED DECEMBER 31, | |
|---|------------------------------------|-------------------|----------------------------------|-------------------|
| | 2006 | 2005 | 2006 | 2005 |
| REVENUES: | | | | |
| Oil sales | \$ 3,227,393 | \$ 2,184,124 | \$ 6,152,907 | \$ 4,639,172 |
| Gas sales | 4,490,952 | 3,715,290 | 7,894,350 | 6,933,228 |
| Other production related revenues | 695,740 | 559,604 | 1,189,992 | 981,298 |
| Total revenues | <u>8,414,085</u> | <u>6,459,018</u> | <u>15,237,249</u> | <u>12,553,698</u> |
| COSTS AND EXPENSES: | | | | |
| Production costs | 1,806,267 | 1,949,329 | 3,597,406 | 4,158,983 |
| Exploration and dry hole costs | 2,541,280 | 846,517 | 2,973,263 | 2,157,958 |
| Salaries and employee benefits | 394,972 | 334,588 | 710,102 | 681,040 |
| Depletion, depreciation and amortization | 2,762,867 | 1,539,840 | 4,764,819 | 2,902,144 |
| Auditing, accounting and legal services | 148,204 | 118,152 | 324,009 | 215,589 |
| Accretion expense | 134,413 | 108,747 | 266,179 | 218,716 |
| Shareholder communications | 159,342 | 85,181 | 235,890 | 137,530 |
| Loss (gain) on sale of field equipment | — | 5,339 | — | (149,767) |
| Other administrative expenses | 644,969 | 1,032,540 | 1,167,581 | 1,717,669 |
| Total costs and expenses | <u>8,592,314</u> | <u>6,020,233</u> | <u>14,039,249</u> | <u>12,039,862</u> |
| Operating (loss) income | (178,229) | 438,785 | 1,198,000 | 513,836 |
| Interest income | 425,793 | 321,117 | 770,913 | 661,226 |
| Income before income taxes and minority interests | 247,564 | 759,902 | 1,968,913 | 1,175,062 |
| Income tax provision | (255,471) | (424,910) | (946,684) | (615,257) |
| (Loss) income before minority interests | (7,907) | 334,992 | 1,022,229 | 559,805 |
| Minority interests | — | (561,176) | — | (814,044) |
| NET (LOSS) INCOME | <u>(7,907)</u> | <u>(226,184)</u> | <u>1,022,229</u> | <u>(254,239)</u> |
| Average number of shares outstanding | | | | |
| Basic | <u>41,500,325</u> | <u>25,783,243</u> | <u>41,500,325</u> | <u>25,783,243</u> |
| Diluted | <u>41,500,325</u> | <u>25,783,243</u> | <u>41,500,325</u> | <u>25,783,243</u> |
| NET (LOSS) INCOME PER SHARE (BASIC AND DILUTED) | <u>\$ (.00)</u> | <u>\$ (.01)</u> | <u>\$.02</u> | <u>\$ (.01)</u> |

See accompanying notes

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

| | SIX MONTHS ENDED | |
|--|---------------------|---------------------|
| | DECEMBER 31, | |
| | 2006 | 2005 |
| OPERATING ACTIVITIES: | | |
| Net income (loss) | \$ 1,022,229 | \$ (254,239) |
| Adjustments to reconcile net income loss to net cash provided by operating activities: | | |
| Gain from sale of field equipment | — | (149,767) |
| Depletion, depreciation and amortization | 4,764,819 | 2,905,331 |
| Accretion expense | 266,179 | 218,716 |
| Deferred income taxes | 1,180,020 | (661,172) |
| Minority interests | — | 814,044 |
| Exploration and dry hole costs | 2,861,197 | 1,917,812 |
| Stock option expense | 4,950 | 520,774 |
| Increase (decrease) in operating assets and liabilities: | | |
| Accounts receivable | (1,234,337) | (370,086) |
| Other assets | 61,748 | 59,592 |
| Inventories | 26,709 | (237,161) |
| Accounts payable and accrued liabilities | (600,474) | (305,355) |
| Income taxes payable | (469,226) | (57,249) |
| Net cash provided by operating activities | 7,883,814 | 4,401,240 |
| INVESTING ACTIVITIES: | | |
| Proceeds from sale of field equipment | — | 149,767 |
| Additions to property and equipment | (2,260,338) | (1,150,482) |
| Increase (decrease) in construction payables | 1,830,464 | (868,723) |
| Oil and gas exploration activities | (2,861,197) | (1,917,812) |
| Marketable securities matured | 539,675 | 1,952,880 |
| Marketable securities purchased | (385,347) | (2,018,433) |
| Deferred acquisition costs | — | (869,609) |
| Net cash used in investing activities | (3,136,743) | (4,722,412) |
| FINANCING ACTIVITIES: | | |
| Dividends to MPAL minority shareholders | — | (765,641) |
| Net cash used in financing activities | — | (765,641) |
| Effect of exchange rate changes on cash and cash equivalents | 2,422,556 | (986,811) |
| Net increase (decrease) in cash and cash equivalents | 7,169,627 | (2,073,624) |
| Cash and cash equivalents at beginning of period | 21,882,882 | 21,733,375 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$29,052,509 | \$19,659,751 |
| Cash Payments: | | |
| Income Taxes | 487,312 | 1,326,997 |

See accompanying notes.

MAGELLAN PETROLEUM CORPORATION
FORM 10-Q
PART I — FINANCIAL INFORMATION
December 31, 2006

ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

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 December 31, 2005, MPC's principal asset was a 55.13% equity interest in its subsidiary, Magellan Petroleum Australia Limited (MPAL). At December 31, 2006, MPAL is a wholly-owned subsidiary of MPC (See Note 2). MPAL's major assets are two petroleum production leases covering the Mereenie oil and gas field (35% working interest), three petroleum production leases covering the Nockatunga oil field (41% working interest) and one petroleum production lease covering the Palm Valley gas field (52% working interest). Both the Mereenie and Palm Valley fields are located in the Amadeus Basin in the Northern Territory of Australia. The Nockatunga field 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 unaudited consolidated financial statements include the accounts of MPC and MPAL, collectively the Company, and have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All such adjustments are of a normal recurring nature. Operating results for the three and six months ended December 31, 2006 are not necessarily indicative of the results that may be expected for the year ending June 30, 2007. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2006. All amounts presented are in United States dollars, unless otherwise noted.

Certain reclassifications of prior period data included in the accompanying consolidated financial statements have been made to conform with current financial statement presentation. Reclassifications associated with the 2005 consolidated statements of operations primarily resulted in a decrease in salaries and employee benefits and an increase in other administrative expenses. For the three months and six months ended December 31, 2005, these amounts were \$298,410 and \$628,187, respectively.

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). 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 currently evaluating the impact of adopting FIN 48 (see Note 9).

On September 13, 2006, the Securities Exchange Commission issued Staff Accounting Bulletin No. 108 ("SAB 108") which is effective for the Company's fiscal year ended June 30, 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.

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements," which provides guidance on how to measure assets and liabilities that use fair value. SFAS 157 will apply whenever another US GAAP standard requires (or permits) assets or liabilities to be measured at fair value but does not expand the use of fair value to new circumstances. The standard will also require additional disclosures in both annual and quarterly reports. SFAS 157 will be effective for financial statements issued for fiscal years beginning after November 15, 2007. The company is currently evaluating the potential impacts of SFAS No. 157 on its financial statements.

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Note 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 the Company 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 yet complete, thus the purchase price allocation is subject to future refinement through June 30, 2007 (one year after the consummation of the purchase). During the six month period ended December 31, 2006, goodwill was reduced by \$427,580, representing an increase of \$667,285 to oil and gas properties and a decrease of \$200,185 related to deferred income tax liabilities in connection with the ongoing refinement of the purchase price allocation.

Note 3. Capital and stock options

MPC has a stock repurchase plan to purchase up to one million shares of its common stock in the open market. Through December 31, 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 fiscal 2006 and 2007.

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 and for a term not greater than 10 years. 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.

Under the modified prospective application permitted by SFAS 123(R), 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 (date of adoption of SFAS 123(R)) 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. For the three month periods ended December 31, 2006 and 2005, the Company recorded stock-based compensation expense for the cost of stock options of \$1,239 and \$518,296 (both pre-tax and post-tax or \$.00 per basic and diluted share), respectively. For the six month periods ended December 31, 2006 and 2005, the Company recorded stock-based compensation expense for the cost of stock options of \$4,950 and \$520,774 (both pre-tax and post-tax or \$.00 per basic and diluted share), respectively.

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 SEC Staff Accounting Bulletin No. 107.

| <u>Options Outstanding</u> | <u>Expiration Dates</u> | <u>Number of Shares</u> | <u>Exercise Prices(\$)</u> | <u>Fair Market Value at Grant Date</u> |
|----------------------------|-------------------------|-------------------------|-------------------------------|--|
| 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 |
| December 31, 2006 | | 430,000 | (1.59 weighted average price) | |

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The weighted average remaining contractual term as of December 31 and June 30, 2006 is 8.4 and 8.8 years respectively.

As of December 31 and June 30, 2006, there was \$4,950 and \$3,300, respectively of total unrecognized compensation costs related to stock options, which is expected to be recognized in fiscal 2007.

SUMMARY OF OPTIONS OUTSTANDING AT DECEMBER 31, 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 |
| OPTIONS RESERVED FOR FUTURE GRANTS | | <u>395,000</u> | | |

Note 4. Comprehensive income (loss)

Total comprehensive income (loss) during the three and six month periods ended December 31, 2006 and 2005 was as follows:

| | THREE MONTHS ENDED DECEMBER 31, | | SIX MONTHS ENDED DECEMBER 31, | | ACCUMULATED OTHER COMPREHENSIVE (INCOME)LOSS |
|---|------------------------------------|----------------------|----------------------------------|----------------------|--|
| | 2006 | 2005 | 2006 | 2005 | |
| Balance at June 30, 2006 | | | | | \$ (3,028,450) |
| Net (loss) income | (7,907) | (226,184) | 1,022,229 | (254,239) | |
| Foreign currency translation adjustments | <u>2,510,633</u> | <u>(1,148,430)</u> | <u>3,786,588</u> | <u>(1,214,190)</u> | <u>3,786,588</u> |
| Total comprehensive income (loss) | <u>\$2,502,726</u> | <u>\$(1,374,614)</u> | <u>\$4,808,817</u> | <u>\$(1,468,429)</u> | |
| Balance at December 31, 2006 | | | | | \$ <u>758,138</u> |

Note 5. 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. For the three and six month periods ended December 31, 2006, the Company did not have any stock options that were issued that had a strike price below the average stock price for the quarter. For the three and six month periods ended December 31, 2005, the Company had 430,000 and 30,000 outstanding options that were antidilutive as the Company reported a loss from continuing operations for the respective periods.

Note 6. 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:

| | THREE MONTHS ENDED DECEMBER 31, | | SIX MONTHS ENDED DECEMBER 31, | |
|--------------------------------|------------------------------------|-----------------|---------------------------------------|-----------------------------|
| | 2006 | 2005 | 2006 | 2005 |
| Revenues: | | | | |
| MPC | \$ — | \$ 30 | \$ 1 | \$ 51 |
| MPAL | <u>8,414</u> | <u>6,429</u> | <u>15,236</u> | <u>12,503</u> |
| Total consolidated revenues | <u>\$ 8,414</u> | <u>\$ 6,459</u> | <u>\$ 15,237</u> | <u>\$ 12,554</u> |
| Net (loss) income: | | | | |
| MPC | \$ (432) | \$ (875) | (855) | (1,178) |
| MPAL | <u>424</u> | <u>649</u> | <u>1,877</u> | <u>924</u> |
| Consolidated net (loss) income | <u>\$ (8)</u> | <u>\$ (226)</u> | <u>1,022</u> | <u>(254)</u> |
| | | | SIX MONTHS ENDED DECEMBER 31, 2006 | YEAR ENDED JUNE 30, 2006 |
| Assets: | | | | |
| MPC ⁽¹⁾ | | | 63,078 | 62,248 |
| MPAL | | | 68,748 | 61,811 |
| Equity elimination | | | <u>(56,438)</u> | <u>(55,479)</u> |
| Total consolidated assets | | | <u>75,388</u> | <u>68,580</u> |

(1) Goodwill of \$5,219,000 is attributable to MPC.

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Note 7. Exploration and Dry Hole Costs

These costs relate primarily to the exploration work being performed on MPAL's properties. The dry holes were drilled on MPAL properties in Australia. During the quarter ended December 31, 2006, the Company incurred costs of \$1,900,000 for PELA 107 and \$55,000 for PEL 95 in the Cooper Basin.

Note 8. Asset Retirement Obligations

A reconciliation of the Company's asset retirement obligations for the six months ended December 31, 2006 was as follows:

| | |
|------------------------------|--------------------|
| Balance at July 1, 2006 | \$7,147,261 |
| Liabilities incurred | — |
| Liabilities settled | — |
| Accretion expense | 266,179 |
| Revisions to estimate | — |
| Exchange effect | 563,465 |
| Balance at December 31, 2006 | <u>\$7,976,905</u> |

Note 9 Contingencies

MPAL, the Company's wholly-owned Australian subsidiary, has been notified that the Australian Taxation Office ("ATO") is conducting an audit of the Australian income tax returns of MPAL and its wholly owned subsidiaries for the years 1997- 2005. The Company believes that the ATO inquiry is focused on certain income tax deductions claimed by Paroo Petroleum Pty. Ltd., a wholly-owned subsidiary of MPAL. MPAL has been and will continue to cooperate with the ATO's inquiry and provide relevant information as requested by the ATO staff. Due to the preliminary and uncertain nature of this matter, the Company is unable at this time to determine 1) whether a possible assessment will result from the ATO's audit or 2) the magnitude of any possible assessment if any such assessment is issued. Therefore, no loss contingency has been recorded at December 31, 2006. However, the Company believes that if an assessment is issued by the ATO and if such assessment is upheld, it could have a material adverse impact on the Company's financial condition and results of operations.

ITEM 2 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. The results reflect fully consolidated financial statements of MPC and MPAL. 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 faces the risk that any wells drilled may fail to encounter hydrocarbons in commercially recoverable quantities. The Company undertakes no obligation to update or revise forward-looking statements, whether as a result of new information, future events, or otherwise.

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 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. 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

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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." During the six month period ended December 31, 2006, goodwill was reduced by \$427,580, representing an increase of \$667,285 to oil and gas properties and a decrease of \$200,185 related to deferred income tax liabilities in connection with the ongoing refinement of the purchase price allocation. There was no impairment of goodwill or intangible exploration rights as of December 31, 2006.

Asset Retirement Obligations

SFAS 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, 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. 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 may lag the production month by one or more months.

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). 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,

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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 currently evaluating the impact of adopting FIN 48 (see Item 2, income taxes).

On September 13, 2006, the Securities Exchange Commission issued Staff Accounting Bulletin No. 108 ("SAB 108") which is effective for the Company's 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.

In September 2006, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements," which provides guidance on how to measure assets and liabilities that use fair value. SFAS 157 will apply whenever another US GAAP standard requires (or permits) assets or liabilities to be measured at fair value but does not expand the use of fair value to new circumstances. The standard will also require additional disclosures in both annual and quarterly reports. SFAS 157 will be effective for financial statements issued for fiscal years beginning after November 15, 2007. The company is currently evaluating the potential impacts of SFAS No. 157 on its financial statements.

Executive Summary

Magellan Petroleum Corporation (MPC) is engaged in the sale of oil and gas and the exploration for and development of oil and gas reserves.

MPAL's major assets are two petroleum production leases covering the Mereenie oil and gas field (35% working interest), and three petroleum production leases covering the Nockatunga oil field (41% working interest) and one petroleum production lease covering the Palm Valley gas field (52% working interest). Both the Mereenie and Palm Valley fields are located in the Amadeus Basin in the Northern Territory of Australia. The Nockatunga field is located in the Cooper Basin in South 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.

LIQUIDITY AND CAPITAL RESOURCES

Consolidated

At December 31, 2006 the Company on a consolidated basis had approximately \$29.1 million of cash and cash equivalents and \$0.4 million of marketable securities.

Net cash provided by operations was \$7,833,814 in 2006 versus \$4,401,240 in 2005. The increase in cash provided by operations is primarily related to an increase in net income of \$1,276,468, an increase in non cash items of \$3,511,427 and a decrease in operating assets of \$1,305,321.

The Company invested \$3,291,071 and \$3,937,017 in oil and gas exploration activities during the six months ended December 31, 2006 and 2005, respectively. The net decrease is due to an increase in construction payables offset by increased expenditures for property and equipment and oil and gas exploration activities for the six months ended December 31, 2006. The Company continues to invest in exploratory projects that result in exploratory and dry hole expenses in the consolidated financial statements.

Effect of exchange rate changes

The value of the Australian dollar relative to the U.S. dollar increased 7.8% to \$.7872 at December 31, 2006, compared to a value of \$.7301 at June 30, 2006.

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As to MPC

At December 31, 2006, MPC, on an unconsolidated basis, had working capital of approximately \$1.4 million. 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 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 at the rate of 5.84% on the loan will be paid annually. The tax effect of these transactions was recorded in fiscal year 2006.

MPC has a stock repurchase plan to purchase up to one million shares of its common stock in the open market. Through December 31, 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 fiscal 2006 and 2007.

As to MPAL

At December 31, 2006, MPAL had working capital of approximately \$31.1 million. MPAL has budgeted approximately \$13.4 million for specific exploration projects in fiscal year 2007 as compared to \$3.6 million expended in the six months ended December 31, 2006. However, the total amount to be expended may vary depending on when various projects reach the drilling phase. 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

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:

CONTRACTUAL OBLIGATIONS

| CONTRACTUAL OBLIGATIONS | PAYMENTS DUE BY PERIOD | | | | |
|------------------------------|------------------------|---------------------|--------------------|-------------|-------------------------|
| | TOTAL | LESS THAN 1 YEAR | 1-3 YEARS | 3-5 YEARS | MORE THAN 5 YEARS |
| Operating Lease Obligations | 470,000 | 191,000 | 279,000 | — | — |
| Purchase Obligations(1) | 3,380,000 | 3,380,000 | — | — | — |
| Asset Retirement Obligations | 7,977,000 | 183,000 | 5,233,000 | — | 2,561,000 |
| Total | <u>\$11,827,000</u> | <u>\$ 3,754,000</u> | <u>\$5,512,000</u> | <u>\$ —</u> | <u>2,561,000</u> |

- (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).

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THREE MONTHS ENDED DECEMBER 31, 2006 VS. DECEMBER 31, 2005

REVENUES

OIL SALES INCREASED 48% in the 2006 quarter to \$3,227,000 from \$2,184,000 in 2005 because of the 52% increase in volume due mostly to the Nockatunga project, partially offset by the 4% decrease in average sales price per barrel. Oil unit sales (after deducting royalties) in barrels (bbls) and the average price per barrel sold during the periods indicated were as follows:

| | THREE MONTHS ENDED DECEMBER 31, | | | |
|--------------------|---------------------------------|-------------------------------|---------------|-------------------------------|
| | 2006 SALES | | 2005 SALES | |
| | BBLs | AVERAGE PRICE A.\$ PER BBL | BBLs | AVERAGE PRICE A.\$ PER BBL |
| Australia: | | | | |
| Mereenie field | 27,871 | 74.01 | 25,806 | 75.02 |
| Cooper Basin | 4,010 | 72.41 | 3,680 | 82.62 |
| Nockatunga project | 23,037 | 69.27 | 6,762 | 71.14 |
| Total | 54,918 | 71.92 | 36,248 | 75.05 |

GAS SALES INCREASED 21% to \$4,491,000 in 2006 from \$3,715,000 in 2005 due mostly to the 14% increase in the average price per mcf sold. Due to a development well (L-38) drilled in the Kotanelee 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 cost is absorbed. Accordingly, the Company does not expect to receive any revenues from the L-38 well until the fourth quarter of fiscal 2007 at the earliest.

Gas sales by country are as follows:

| | THREE MONTHS ENDED DECEMBER 31, | |
|--------------|------------------------------------|---------------------|
| | 2006 | 2005 |
| Australia | \$ 4,491,000 | \$ 3,686,000 |
| Canada | — | 29,000 |
| Total | \$ 4,491,000 | \$ 3,715,000 |

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

| | THREE MONTHS ENDED DECEMBER 31, | | | |
|------------------------|---------------------------------|---------------------------------|--------------|---------------------------------|
| | 2006 SALES | | 2005 SALES | |
| | BCF | A.S AVERAGE PRICE PER MCF | BCF | A.S AVERAGE PRICE PER MCF |
| Australia: Palm Valley | .385 | 2.20 | .448 | 2.17 |
| Australia: Mereenie | 1.250 | 3.57 | 1.135 | 3.11 |
| Total | 1.636 | 3.24 | 1.583 | 2.83 |

OTHER PRODUCTION RELATED REVENUES INCREASED 24% to \$696,000 in 2006 from \$560,000 in 2005. Other production related revenues are primarily MPAL's share of gas pipeline tariff revenues. The revenue increase is due to higher sales volume from the Mereenie field in 2006.

COSTS AND EXPENSES

PRODUCTION COSTS DECREASED 7% in 2006 to \$1,806,000 from \$1,949,000 in 2005. The decrease in 2006 was primarily the result of decreased expenditures in the Mereenie field due to the completion of the workover program in 2005 (\$247,000), offset partially by increased expenditures in the Nockatunga field (\$62,000) and the Cooper Basin (\$42,000).

EXPLORATION AND DRY HOLE COSTS INCREASED 200% to \$2,541,000 in 2006 from \$847,000 in 2005. These costs related to the exploration work performed on MPAL's properties. The primary reason for the increase in 2006 was the increased drilling costs related to the Cooper Basin. (\$1,530,000).

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DEPLETION, DEPRECIATION AND AMORTIZATION INCREASED 79% from \$1,540,000 in 2005 to \$2,763,000 in 2006. This increase is mostly due to the higher book values of MPAL's oil and gas properties acquired during fiscal 2006 (\$472,000) (see note 2), depreciation of the revised asset retirement obligation recorded in fiscal 2006 (\$181,000), and increased depletion in the Nockatunga project due to increased production (\$342,000).

AUDITING, ACCOUNTING AND LEGAL EXPENSES INCREASED 25% in 2006 to \$148,000 from \$118,000 in 2005 due to higher accounting and auditing costs relating to the reviews and audit of the Company's consolidated financial statements.

ACCRETION EXPENSE INCREASED 23% in 2006 from \$109,000 in 2005 to \$134,000 in 2006. This is due mostly to accretion of the revised asset retirement obligation recorded in fiscal 2006 (\$24,000).

SHAREHOLDER COMMUNICATIONS COSTS INCREASED 87% from \$85,000 in 2005 to \$159,000 in 2006 primarily because of MPC's increased costs due to the Exchange Offer and an increase in MPC's public company costs.

OTHER ADMINISTRATIVE EXPENSES DECREASED 38% from \$1,033,000 in 2005 to \$645,000 in 2006. The decrease in the 2006 period is primarily due to a non cash charge for directors' stock option expense of \$516,000 recorded during the quarter ended December 31, 2005.

INCOME TAXES

INCOME TAX PROVISION DECREASED in 2006 to \$255,471 from \$424,910 in 2005. The components of the income tax (in thousands) between MPC and MPAL are as follows:

| | <u>2006</u> | <u>2005</u> |
|--|---------------|---------------|
| Income before income taxes and minority interests | \$ 248 | \$ 760 |
| Tax at 30% | 74 | 228 |
| MPC's non Australian loss (a) | 129 | 260 |
| Non-taxable revenue from Australian government sources | (114) | (91) |
| MPAL non-taxable foreign income (New Zealand) | 2 | 12 |
| Depletion on step up basis of oil & gas properties | 165 | 12 |
| Australian income tax provision | 256 | 421 |
| MPC income tax provision(a) | — | 4 |
| Consolidated income tax provision | <u>\$ 256</u> | <u>\$ 425</u> |
| Current income tax provision | \$ 19 | \$ 561 |
| Deferred income tax provision (benefit) | 237 | (136) |
| Income tax provision | <u>\$ 256</u> | <u>\$ 425</u> |
| Effective tax rate | <u>103%</u> | <u>56%</u> |

(a) While MPC did recognize a deferred tax for its non-Australian income tax losses during the 2005 and 2006 quarters, it is not likely that such deferred assets will be realized and therefore have been fully reserved for.

MPAL, the Company's wholly-owned Australian subsidiary, has been notified that the ATO is conducting an audit of the Australian income tax returns of MPAL and its wholly owned subsidiaries for the years 1997- 2005. The Company believes that the ATO inquiry is focused on certain income tax deductions claimed by Paroo Petroleum Pty. Ltd., a wholly-owned subsidiary of MPAL. MPAL has been and will continue to cooperate with the ATO's inquiry and provide relevant information as requested by the ATO staff. Due to the preliminary and uncertain nature of this matter, the Company is unable at this time to determine 1) whether a possible assessment will result from the ATO's audit or 2) the magnitude of any possible assessment if any such assessment is issued. Therefore, no loss contingency has been recorded at December 31, 2006. However, the Company believes that if an assessment is issued by the ATO and if such assessment is upheld, it could have a material adverse impact on the Company's financial condition and results of operations.

EXCHANGE EFFECT

THE VALUE OF THE AUSTRALIAN DOLLAR RELATIVE TO THE U.S. DOLLAR INCREASED TO \$.7872 AT DECEMBER 31, 2006 compared to a value of \$.7499 at September 30, 2006. This resulted in a \$2,510,633 credit to the foreign

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currency translation adjustments account for the three months ended December 31, 2006. The average exchange rate used to translate MPAL's operations in Australia was \$.7700 for the quarter ended December 31, 2006, which was a 3.4% increase compared to the \$.7447 rate for the quarter ended December 31, 2005.

SIX MONTHS ENDED DECEMBER 31, 2006 VS. DECEMBER 31, 2005

REVENUES

OIL SALES INCREASED 33% in the six months to \$6,153,000 from \$4,639,000 in 2005 primarily because of a 31% volume increase due mostly to volume increases in Kiana-1 in the Cooper Basin and the Nockatunga project. Oil unit sales (after deducting royalties) in barrels (bbls) and the average price per barrel sold during the periods indicated were as follows:

| | SIX MONTHS ENDED DECEMBER 31, | | | |
|--------------------|-------------------------------|------------------------------|---------------|------------------------------|
| | 2006 SALES | | 2005 SALES | |
| | BBLs | AVERAGE PRICE A.S PER BBL | BBLs | AVERAGE PRICE A.S PER BBL |
| Australia: | | | | |
| Mereenie field | 52,782 | 81.25 | 53,043 | 80.60 |
| Cooper Basin | 11,013 | 85.39 | 4,621 | 84.78 |
| Nockatunga project | 31,002 | 73.93 | 14,835 | 74.18 |
| Total | 94,797 | 79.33 | 72,499 | 79.55 |

GAS SALES INCREASED 14% to \$7,894,000 in 2006 from \$6,933,000 in 2005. The increase was the result of an increase in volume and an increase in price per mcf sold.

| | SIX MONTHS ENDED DECEMBER 31, | |
|--------------|----------------------------------|--------------------|
| | 2006 | 2005 |
| | Australia | \$7,893,000 |
| Canada | 1,000 | 51,000 |
| Total | \$7,894,000 | \$6,933,000 |

During the 2006 period, the volume of gas sold in Australia increased 2%, and the average price of gas sold increased 11%. The volumes in billion cubic feet (bcf) (after deducting royalties) and the average price of gas per thousand cubic feet (mcf) sold during the periods indicated were as follows:

| | SIX MONTHS ENDED DECEMBER 31, | | | |
|------------------------|-------------------------------|------------------------------|--------------|------------------------------|
| | 2006 SALES | | 2005 SALES | |
| | BCF | A.S AVERAGE PRICE PER MCF | BCF | A.S AVERAGE PRICE PER MCF |
| Australia: Palm Valley | .781 | 2.20 | .912 | 2.16 |
| Australia: Mereenie | 2.289 | 3.39 | 2.101 | 3.05 |
| Total | 3.070 | 3.08 | 3.013 | 2.77 |

OTHER PRODUCTION RELATED REVENUES INCREASED 21% to \$1,190,000 in 2006 from \$981,000 in 2005. Other production related revenues are primarily MPAL's share of gas pipeline tariff revenues. The revenue increase is due to higher sales volume from the Mereenie field in 2006.

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COSTS AND EXPENSES

PRODUCTION COSTS DECREASED 14% IN 2006 to \$3,597,000 from \$4,159,000 in 2005. The decrease in 2006 was primarily the result of decreased expenditures in the Mereenie field due to the completion of the workover program in 2005 (\$806,000), offset partially by increased expenditures in the Nockatunga field (\$115,000) and the Cooper Basin (\$130,000).

EXPLORATION AND DRY HOLE COSTS INCREASED 38% to \$2,973,000 in 2006 from \$2,158,000 in 2005. These costs related to the exploration work performed on MPAL's properties. The primary reason for the increase in 2006 was the higher drilling costs related to the Cooper Basin. (\$1,075,000) partially offset by lower expenditures in New Zealand (\$109,000) and the Nockatunga project (\$178,000)

DEPLETION, DEPRECIATION AND AMORTIZATION INCREASED 64% from \$2,902,000 in 2005 to \$4,765,000 in 2006. This increase is mostly due to the higher book values of MPAL's oil and gas properties acquired during fiscal 2006 (\$863,000) (see note 2) and the depreciation of the revised asset retirement obligation recorded in fiscal 2006 (\$305,000), and increased depletion in the Nockatunga project due to increased production (\$393,000).

AUDITING, ACCOUNTING AND LEGAL EXPENSES INCREASED 50% in 2006 to \$324,000 from \$216,000 in 2005 due to higher accounting and auditing costs relating to the reviews and audit of the Company's consolidated financial statements.

ACCRETION EXPENSE INCREASED 21% in 2006 from \$219,000 in 2005 to \$266,000 in 2006. This is due mostly to accretion of the revised asset retirement obligation recorded in fiscal 2006 (\$47,000).

SHAREHOLDER COMMUNICATIONS COSTS INCREASED 71% from \$138,000 in 2005 to \$236,000 in 2006 primarily because of MPC's increased costs due to the Exchange Offer and an increase in MPC's public company costs.

OTHER ADMINISTRATIVE EXPENSES DECREASED 32% from \$1,718,000 in 2005 to \$1,168,000 in 2006. The decrease in the 2006 period is primarily due to a non cash charge for directors' stock option expense of \$516,000 recorded during the six months ended December 31, 2005.

INCOME TAXES

INCOME TAX PROVISION INCREASED IN 2006 to \$946,684 from \$615,257 in 2005. The components of the income tax (in thousands) between MPC and MPAL are as follows:

| | <u>2006</u> | <u>2005</u> |
|--|-----------------|-----------------|
| Income before income taxes and minority interests | <u>\$ 1,969</u> | <u>\$ 1,175</u> |
| Tax at 30% | 591 | 353 |
| MPC's non Australian loss (a) | 257 | 349 |
| Non-taxable revenue from Australian government sources | (199) | (166) |
| MPAL non-taxable foreign income (New Zealand) | 5 | 55 |
| Depletion on step up basis of oil & gas properties | 293 | 12 |
| Australian income tax provision | 947 | 603 |
| MPC income tax provision(a) | — | 12 |
| Consolidated income tax provision | <u>\$ 947</u> | <u>\$ 615</u> |
| Current income tax provision | \$ 889 | \$ 1,231 |
| Deferred income tax provision (benefit) | 58 | (616) |
| Income tax provision | <u>\$ 947</u> | <u>\$ 615</u> |
| Effective tax rate | <u>48%</u> | <u>52%</u> |

- a) While MPC did recognize a deferred tax for its non-Australian income tax losses during the 2005 and 2006 six month periods, it is not likely that such deferred assets will be realized and have been fully reserved for.

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MPAL, the Company's wholly-owned Australian subsidiary, has been notified that the ATO is conducting an audit of the Australian income tax returns of MPAL and its wholly-owned subsidiaries for the years 1997- 2005. The Company believes that the ATO inquiry is focused on certain income tax deductions claimed by Paroo Petroleum Pty. Ltd., a wholly-owned subsidiary of MPAL. MPAL has been and will continue to cooperate with the ATO's inquiry and provide relevant information as requested by the ATO staff. Due to the preliminary and uncertain nature of this matter, the Company is unable at this time to determine 1) whether a possible assessment will result from the ATO's audit or 2) the magnitude of any possible assessment if any such assessment is issued. Therefore, no loss contingency has been recorded at December 31, 2006. However, the Company believes that if an assessment is issued by the ATO and if such assessment is upheld, it could have a material adverse impact on the Company's financial condition and results of operations.

EXCHANGE EFFECT

THE VALUE OF THE AUSTRALIAN DOLLAR RELATIVE TO THE U.S. DOLLAR INCREASED TO \$.7872 at December 31, 2006 compared to a value of \$.7301 at June 30, 2006. This resulted in a \$3,787,000 credit to the foreign currency translation adjustments account for the six months ended December, 2006. The average exchange rate used to translate MPAL's operations in Australia was \$.7636 for the six month period ended December 31, 2006, which was a 1.5% increase compared to the \$.7524 rate for the six month period ended December 31, 2005.

ITEM 3. 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 December 31, 2006, the carrying value of our investments in marketable securities including those classified as cash and cash equivalents was approximately \$29.4 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 \$1,524,000 and \$1,404,000, for the six months, respectively. For the six month period ended December 31, 2006, oil sales represented approximately 44% of production revenues. Based on the current six month's sales volume and revenue, a 10% change in oil price would increase or decrease oil revenues by \$615,000. Gas sales, which represented approximately 56% of production revenues in the current six months, 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 (ACPI) for the six months ended December 31, 2006.

ITEM 4. 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 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 December 31, 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 SEC 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 fiscal quarter ended December 31, 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

MAGELLAN PETROLEUM CORPORATION
FORM 10-Q
PART II — OTHER INFORMATION
DECEMBER 31, 2006

ITEM 1 LEGAL PROCEEDINGS

MPAL, the Company's wholly-owned Australian subsidiary, has been notified that the ATO is conducting an audit of the Australian income tax returns of MPAL and its wholly-owned subsidiaries for the years 1997- 2005. The Company believes that the ATO inquiry is focused on certain income tax deductions claimed by Paroo Petroleum Pty. Ltd., a wholly-owned subsidiary of MPAL. MPAL has been and will continue to cooperate with the ATO's inquiry and provide relevant information as requested by the ATO staff. Due to the preliminary and uncertain nature of this matter, the Company is unable at this time to determine 1) whether a possible assessment will result from the ATO's audit or 2) the magnitude of any possible assessment if any such assessment is issued. Therefore, no loss contingency has been recorded at December 31, 2006. However, the Company believes that if an assessment is issued by the ATO and if such assessment is upheld, it could have a material adverse impact on the Company's financial condition and results of operations.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following schedule 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 SHARE | TOTAL NUMBER OF SHARES PURCHASED AS PART OF PUBLICLY ANNOUNCED PLAN (1) | MAXIMUM NUMBER OF SHARES THAT MAY YET BE PURCHASED UNDER PLAN |
|------------------|-------------------------------------|-----------------------------|--|---|
| July 1-31, 2006 | 0 | 0 | 0 | 319,150 |
| Aug. 1-31, 2006 | 0 | 0 | 0 | 319,150 |
| Sept. 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 December 31, 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.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

- (a) On December 7, 2006, the Company held its 2006 Annual General Meeting of Stockholders.
- (b) The following directors were elected as directors of the Company. The vote was as follows:

| | Shares | | Stockholders | |
|---------------|------------|----------|--------------|----------|
| | For | Withheld | For | Withheld |
| Donald Basso | 32,276,578 | 848,951 | 1,200 | 124 |
| Robert Mollah | 32,198,327 | 927,202 | 1,210 | 114 |

(c) The firm of Deloitte & Touche LLP was appointed as the Company's independent auditors for the year ending June 30, 2007. The vote was as follows:

| | Shares | Stockholders |
|---------|------------|--------------|
| For | 32,707,555 | 1,219 |
| Against | 212,493 | 45 |
| Abstain | 205,481 | 60 |

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ITEM 6. EXHIBITS

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

Certification of Daniel J. Samela, President, 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. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, is furnished herein.

MAGELLAN PETROLEUM CORPORATION
FORM 10-Q
DECEMBER 31, 2006

SIGNATURES

Pursuant to the requirements 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

Date: February 13 , 2007

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

EXHIBIT 31

RULE 13a-14(a) CERTIFICATIONS

I, Daniel J. Samela, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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. The registrant's other certifying officers and I are 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 pursuant to the guidance contained in SEC Release No. 33-8238.]
 - (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 officers 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.

Dated: February 13, 2007

/s/ Daniel J. Samela

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

EXHIBIT 32

SECTION 1350 CERTIFICATIONS

In connection with the Quarterly Report of Magellan Petroleum Corporation (the "Company") on Form 10-Q for the period ending December 31, 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 Officer of the Company, do 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.

February 13, 2007

By: /s/ Daniel J. Samela
Daniel J. Samela
President and Chief Executive Officer,
Chief Financial and Accounting Officer