

**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, 2009

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.)

7 Custom House Street, Portland, Maine

(Address of principal executive offices)

04101

(Zip Code)

(207) 619-8500

(Registrant's telephone number, including area code)

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

The number of shares outstanding of the issuer's single class of common stock as of February 4, 2010 was 51,985,977.

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MAGELLAN PETROLEUM CORPORATION

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December 31, 2009

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PART I - FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

	December 31, 2009	June 30, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 50,415,794	\$ 34,688,842
Accounts receivable — Trade (net of allowance for doubtful accounts of \$149,210 and \$90,102 at December 31, 2009 and June 30, 2009, respectively)	7,207,651	5,346,111
Accounts receivable — working interest partners	534,649	500,404
Marketable securities	1,198,125	997,306
Inventories	854,799	847,159
Deferred income taxes	623,668	563,853
Assets held for sale	5,041,968	—
Other assets	292,855	598,509
Total current assets	<u>66,169,509</u>	<u>43,542,184</u>
Deferred income taxes	5,003,443	5,708,448
Securities available-for-sale (at fair value)	11,000	903,924
Property and equipment, net:		
Oil and gas properties (successful efforts method)	118,722,742	117,617,555
Land, buildings and equipment	3,481,825	2,962,649
Field equipment	5,230,281	868,504
	127,434,848	121,448,708
Less accumulated depletion, depreciation and amortization	<u>(100,543,103)</u>	<u>(103,919,971)</u>
Net property and equipment	26,891,745	17,528,737
Goodwill	6,054,995	4,020,706
Other assets	138,056	—
Total assets	<u>\$ 104,268,748</u>	<u>\$ 71,703,999</u>

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MAGELLAN PETROLEUM CORPORATION
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PART I - FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS**CONDENSED CONSOLIDATED BALANCE SHEETS**

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,161,122	\$ 2,688,342
Accrued liabilities	2,027,122	1,639,284
Demand note payable	500,000	—
Current portion of note payable	505,585	—
Advance from buyer related to assets held for sale	5,626,530	—
Liabilities related to assets held for sale	2,002,966	—
Income taxes payable	781,561	2,054,052
Total current liabilities	<u>13,604,886</u>	<u>6,381,678</u>
Long term liabilities:		
Deferred income taxes	3,498,706	1,923,907
Notes Payable	402,838	—
Other long term liabilities	257,560	70,232
Asset retirement obligations	10,295,565	9,815,262
Warrants	4,504,013	—
Total long term liabilities	<u>18,958,682</u>	<u>11,809,401</u>
Commitments and contingencies	—	—
Stockholders' equity:		
Stockholders equity attributable to Magellan Petroleum Corporation:		
Common stock, par value \$.01 per share: Authorized 200,000,000 shares, outstanding 51,985,977 and 41,500,325, respectively	519,858	415,001
Capital in excess of par value	83,919,284	73,311,075
Accumulated deficit	(21,897,628)	(22,192,919)
Accumulated other comprehensive income	7,235,589	1,979,763
Total stockholders' equity attributable to Magellan Petroleum Corporation	<u>69,777,103</u>	<u>53,512,920</u>
Non-controlling interest in subsidiaries	1,928,077	—
Total stockholders' equity	<u>71,705,180</u>	<u>53,512,920</u>
Total liabilities and stockholders' equity	<u>\$104,268,748</u>	<u>\$ 71,703,999</u>

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ITEM 1 FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	THREE MONTHS ENDED DECEMBER 31,		SIX MONTHS ENDED DECEMBER 31,	
	2009	2008	2009	2008
REVENUES:				
Oil sales	\$ 3,155,798	\$ 1,832,005	\$ 5,942,624	\$ 7,477,592
Gas sales	5,551,734	2,999,857	10,960,680	7,308,929
Other production related revenues	1,008,737	340,422	1,691,751	824,447
Total revenues	<u>9,716,269</u>	<u>5,172,284</u>	<u>18,595,055</u>	<u>15,610,968</u>
COSTS AND EXPENSES:				
Production costs	2,089,296	1,279,944	5,419,902	4,266,806
Exploration and dry hole costs	317,943	543,977	657,056	1,267,377
Salaries and employee benefits	1,006,793	347,793	2,750,301	813,985
Depletion, depreciation and amortization	1,484,130	2,060,331	2,647,136	4,561,281
Auditing, accounting and legal services	392,686	422,329	777,074	689,799
Accretion expense	209,584	119,861	384,351	278,276
Shareholder communications	223,647	122,593	302,174	213,172
Other administrative expenses	1,660,088	524,181	4,022,397	1,293,250
(Gain) loss on sale of assets	(1,139,465)	15,367	(1,134,275)	11,861
Impairment loss	1,604,417	—	1,604,417	—
Total costs and expenses	<u>7,849,119</u>	<u>5,436,376</u>	<u>17,430,533</u>	<u>13,395,807</u>
Operating income (loss)	1,867,150	(264,092)	1,164,522	2,215,161
Warrant expense	(986,248)	—	(2,378,719)	—
Investment income	1,038,394	460,375	2,534,931	1,088,544
Income before income taxes	1,919,296	196,283	1,320,734	3,303,705
Income tax provision	323,104	720,977	1,021,806	2,320,588
Net income (loss)	1,596,192	(524,694)	298,928	983,117
Net income attributable to non-controlling interest in subsidiaries	3,637	—	3,637	—
Net income (loss) attributable to Magellan Petroleum Corporation	<u>\$ 1,592,555</u>	<u>\$ (524,694)</u>	<u>\$ 295,291</u>	<u>\$ 983,117</u>
Average number of shares outstanding				
Basic	<u>51,679,618</u>	<u>41,500,325</u>	<u>50,612,610</u>	<u>41,500,325</u>
Diluted	<u>52,856,331</u>	<u>41,500,325</u>	<u>51,199,170</u>	<u>41,500,325</u>
Net Income (loss) per share (basic and diluted) attributable to Magellan Petroleum Corporation common shareholders	<u>\$ 0.03</u>	<u>\$ (0.01)</u>	<u>\$ 0.01</u>	<u>\$ 0.02</u>

See accompanying notes

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MAGELLAN PETROLEUM CORPORATION
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PART I - FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	SIX MONTHS ENDED	
	December 31,	
	2009	2008
OPERATING ACTIVITIES:		
Net income	\$ 298,928	\$ 983,117
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Loss (gain) from disposal of assets	(1,134,275)	11,861
(Gain) from sale of investments	(2,065,369)	—
Depletion, depreciation and amortization	2,647,136	4,561,281
Accretion expense	384,351	278,276
Deferred income taxes	(822,012)	(1,029,522)
Stock and stock option compensation and change in warrant valuation	3,267,689	11,372
Write off of exploration permit	—	321,259
Exploration and dry hole costs	—	1,259
Impairment loss	1,604,417	—
Change in operating assets and liabilities:		
Accounts receivable	(225,291)	3,462,482
Other assets	79,858	146,783
Inventories	617,741	(319,336)
Accounts payable and accrued liabilities	(1,912,761)	1,051,920
Income taxes payable	(1,494,817)	(548,152)
Net cash provided by operating activities	1,245,595	8,932,600
INVESTING ACTIVITIES:		
Proceeds from sale of field equipment	1,531,080	29,366
Additions to property and equipment	(1,735,434)	(1,509,451)
Oil and gas exploration activities	(58,041)	(116,066)
Proceeds from sale of securities available for sale	9,615,215	—
Purchase of securities available for sale	(6,993,224)	—
Marketable securities matured or sold	5,995,965	960,428
Marketable securities purchased	(6,196,784)	—
Advance from buyer related to assets held for sale	5,626,530	—
Purchase of controlling interest – Nautilus Poplar LLC	(7,309,113)	—
Cash acquired-purchase of Nautilus Poplar LLC	314,727	—
Net cash provided by (used in) investing activities	790,921	(635,723)
FINANCING ACTIVITIES:		
Debt principal payments	(122,495)	—
Proceeds from issuance of stock	10,000,000	—
Net cash provided by financing activities	9,877,505	—
Effect of exchange rate changes on cash and cash equivalents	3,812,931	(11,236,472)
Net increase in cash and cash equivalents	15,726,952	(2,939,595)
Cash and cash equivalents at beginning of period	34,688,842	34,615,228
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$50,415,794	\$ 31,675,633
Cash Payments:		
Income taxes	3,338,635	3,898,260
Supplemental Schedule of Noncash Investing and Financing Activities:		
Unrealized holding loss	(5,642)	—
Revision to estimate of asset retirement obligations	1,421	(995,621)
Write off of expired license	—	321,259
Accounts payable related to property and equipment	2,872	361,076

See accompanying notes

MAGELLAN PETROLEUM CORPORATION
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ITEM 1 FINANCIAL STATEMENTS

CONDENSED STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME
(unaudited)

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	DECEMBER 31,		DECEMBER 31,	
	2009	2008	2009	2008
Net income (loss)	\$1,596,192	\$ (524,694)	\$ 298,928	\$ 983,117
Foreign currency translation adjustments	719,954	(8,342,277)	5,483,433	(16,957,557)
Unrealized holding gains, net of deferred tax	(592,173)	—	(227,607)	—
Total comprehensive income (loss)	1,723,973	(8,866,971)	5,554,754	(15,974,440)
Less balance attributable to non-controlling interest in subsidiaries	3,637	—	3,637	—
Amount attributable to Magellan Petroleum Corporation	<u>\$1,720,336</u>	<u>\$(8,866,971)</u>	<u>\$5,551,117</u>	<u>\$(15,974,440)</u>

See accompanying notes

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ITEM 1 FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(unaudited)

	<u>Common Stock</u>	<u>Capital in Excess of Par Value</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Noncontrolling Interest</u>	<u>Total</u>	<u>Total Comprehensive Income (Loss)</u>
June 30, 2009	\$415,001	\$73,311,075	\$(22,192,919)	\$ 1,979,763	\$ —	\$53,512,920	
Shares issued-equity investment (Note 2)	86,957	7,527,871	—	—	—	7,614,828	
Purchase of subsidiary shares from noncontrolling interest – Nautilus acquisition (Note 3)	17,000	2,363,000	—	—	1,924,440	4,304,440	
Net income	—	—	295,291	—	3,637	298,928	\$ 298,928
Foreign currency translation adjustments	—	—	—	5,483,433	—	5,483,433	5,483,433
Unrealized holding gains, net of deferred tax	—	—	—	(227,607)	—	(227,607)	<u>(227,607)</u>
Stock and stock option compensation	900	717,338	—	—	—	718,238	
Total comprehensive income	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>\$ 5,554,754</u>
December 31, 2009	<u>\$519,858</u>	<u>\$83,919,284</u>	<u>\$(21,897,628)</u>	<u>\$ 7,235,589</u>	<u>\$ 1,928,077</u>	<u>\$71,705,180</u>	

See accompanying notes

MAGELLAN PETROLEUM CORPORATION
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PART I - FINANCIAL INFORMATION

ITEM 1 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Basis of Presentation

Magellan Petroleum Corporation (“MPC” or “Magellan” or “the Company”) 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 its 100% equity interest in its subsidiary, Magellan Petroleum Australia Limited (“MPAL”). As of December 31, 2009, 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), three petroleum production leases covering the Nockatunga oil fields (41% working interest) and seventeen licenses in the United Kingdom, three of which are operating licenses. Both the Mereenie and Palm Valley fields are located in the Amadeus Basin in the Northern Territory of Australia. The Nockatunga fields are located in the Cooper Basin in South West Queensland, Australia. Santos Ltd., a publicly owned Australian company, owns a 48% interest in the Palm Valley field, a 65% interest in the Mereenie field and a 59% interest in the Nockatunga fields. Santos Ltd. is the operator of the Mereenie and Nockatunga fields. MPAL’s share of the Nockatunga fields were sold effective January 1, 2010. These assets were sold because they are non-core to our strategies.

On October 15, 2009 the Company acquired an approximately 83.5% controlling interest in Nautilus Poplar, LLC (“Nautilus”). Nautilus, based in Denver, Colorado, owns and operates oil development assets in Roosevelt County, Montana known as the East Poplar Unit and the Northwest Poplar field. See Note 3 for further discussion of this acquisition.

The accompanying unaudited condensed consolidated financial statements include the accounts of MPC and its subsidiaries, MPAL and Nautilus (collectively the “Company”), and have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance 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 six months ended December 31, 2009 are not necessarily indicative of the results that may be expected for the year ending June 30, 2010. 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, 2009. All amounts presented are in United States dollars, unless otherwise noted.

Recent Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-03, *Extractive Activities Oil and Gas (Topic 932) - Oil and Gas Reserve Estimation and Disclosures*, to align the oil and gas reserve estimation and disclosure requirements of FASB ASC Topic 932, *Extractive Activities – Oil and Gas*, with the requirements in the Securities and Exchange Commission’s final rule, *Modernization of the Oil and Gas Reporting Requirements*, which was issued on December 31, 2008. The ASU is effective for annual reporting periods ending on or after December 31, 2009. Early application is not permitted. The Company is currently assessing the impact that the adoption will have on the Company’s financial statements.

Business combinations

The Company applies the acquisition method of recording business combinations. Under this method, the Company recognizes and measures the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. Any goodwill or gain from a bargain purchase is identified and recorded. We engage an independent valuation consultant to assist us in determining the fair values of crude oil and natural gas properties acquired, and other third-party specialists as needed to assess the fair value of other assets and liabilities assumed. This valuation requires management to make significant estimates and assumptions, especially with respect to the oil and gas properties.

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PART I - FINANCIAL INFORMATION

ITEM 1 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Goodwill

The aggregate amount of goodwill at December 31 and June 30, 2009 is \$6,054,995 and \$4,020,706, respectively. At December 31, 2009, goodwill consists of \$4,020,706 related to the fiscal 2006 acquisition of the 44.87% of MPAL that we did not own at the time and \$2,034,289 related to the October 15, 2009 acquisition of Nautilus (see Note 3). Goodwill at June 30, 2009 relates entirely to the fiscal 2006 acquisition of the 44.87% of MPAL. Goodwill is not amortized and is tested for impairment annually or whenever events or changes in circumstances indicate that the carrying value may be impaired. Our annual impairment testing date is June 30th for MPAL. The Company has yet to determine the methodology or testing date for goodwill related to the acquisition of the controlling interest in Nautilus.

We employ the adjusted balance sheet method to estimate the fair value of MPAL. This method entails estimating the fair value of all of MPAL's balance sheet items as of the valuation date. If the adjusted equity value, after considering the fair values of the assets and liabilities, is greater than the carrying value of MPAL, then no impairment is indicated.

The fair value of our oil and gas properties are estimated based on the discounted cash flows of our proved and risk adjusted probable and possible reserves. The significant assumptions used in estimating the fair values of the oil and gas properties are oil and gas selling prices for non-contracted volumes, estimated future development costs, oil and gas sales volumes, discount rates, and production trends. The fair value of MPAL is most susceptible to changes in selling prices of oil and gas and changes in estimated sales volume.

The fair value of our nondepletable exploration permits and licenses is estimated separately using one of four methods – discounted cash flows, discounted cash flows adjusted for chances of success, recent farmin costs and premiums, and estimated costs of committed work programs. The majority of the permits and licenses are valued based on the estimated cost of agreed work program commitments, which is a methodology that is not dependent on significant assumptions.

Note 2 Equity Investment

On July 9, 2009, the Company completed, pursuant to the terms of a definitive purchase agreement and related amendments, an equity investment in the Company by the Company's strategic investor, Young Energy Prize S.A. ("YEP"), through the issuance to YEP of 8,695,652 shares of the Company's common stock, \$0.01 par value per share (the "Common Stock") and warrants to acquire an additional 4,347,826 shares of Common Stock. The Company received gross proceeds of \$10 million, a portion of which was used to fund the Nautilus Poplar acquisition (see Note 3) and is also being used for working capital and general corporate purposes.

Also on July 9, 2009, the Company entered into a Warrant Agreement which entitles YEP to purchase 4,347,826 shares of the Company's Common Stock (the "Warrant Shares") at an exercise price of \$1.20 per Warrant Share. The Warrant has a term of five years and contains certain provisions which would reduce the exercise price. Furthermore, The First Amendment to the Purchase Agreement provides that, if YEP completes the purchase of shares of the Company's Common Stock owned by ANS Investments LLC and its CEO, Jonah M. Meer under the ANS-YEP Purchase Agreement, then the exercise price payable by YEP for the Warrant Shares shall be reduced from \$1.20 to \$1.15 per share. This transaction was completed on July 30, 2009, reducing the exercise price to \$1.15 per share.

In connection with the YEP Purchase Agreement, at a Board meeting held on May 27, 2009, the Company's Board adopted resolutions: (a) conditionally amending the Company's Bylaws to expand the size of the Board; and (b) conditionally electing Messrs. Nikolay Bogachev and J. Thomas Wilson to the Board as Class II directors, each to serve a term of office expiring at the Company's 2011 Annual Meeting of Shareholders. On July 9, 2009, upon completion of the YEP equity investment transaction, the elections to the Board of Messrs. Bogachev and Wilson became effective.

The warrants contain anti-dilutive provisions that reduce the exercise price of the warrants based on certain trigger events such as the issuance of additional shares at a discount from the then current warrant exercise price. According to ASC 815, since the provisions permit the warrant holder to avoid bearing some of the risks and rewards normally associated with equity share ownership, the warrants are classified as liabilities and marked to market each reporting date with the change in value flowing through earnings.

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ITEM 1 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

At December 31, 2009, the fair value of the warrants was \$4,504,013 based on the Black-Scholes valuation models using the following assumptions:

	<u>December 31, 2009</u>
Risk free interest of credit	2.52%
Expected life	4.5 yrs
Expected volatility (based on historical price)	.580
Expected dividend	\$ 0

For the three and six months ended December 31, 2009, non-cash charges of \$986,248 and \$2,378,719, respectively were recorded in the consolidated statement of operations.

Note 3 Acquisition of Nautilus

On October 15, 2009, we acquired an approximate 83.5% controlling member interest in Nautilus. Based in Denver, Colorado, Nautilus owns and operates oil development assets in Roosevelt County, Montana known as the East Poplar Unit and the Northwest Poplar field. Consideration for this acquisition consisted of a cash payment totaling approximately \$7.3 million, issuance of 1.7 million new shares of Company common stock (valued at \$1.40 per share), and the assumption of \$1.5 million of debt. The controlling interest in Nautilus was purchased from White Bear LLC and YEP I, SICAV- FIS, entities affiliated with Nikolay Bogachev, a director of the Company. In addition, Thomas Wilson, a director of the Company, has a direct ownership interest in Nautilus.

Nautilus was acquired to gain a presence in the United States and is a business mechanism to grow oil production in an attractive, stable environment. The Poplar Dome area is an underexploited area with a wide range of development strategies used effectively in similar fields in the Basin but not yet in Montana.

The acquisition was accounted for under the purchase accounting method of accounting. Under the purchase accounting method, the purchase price is allocated to the assets acquired and liabilities assumed based on their estimated fair values. The allocation of the purchase price has been prepared based on preliminary estimates of fair values and is subject to revision. Goodwill of approximately \$2 million for this acquisition represents the excess of the purchase price over the fair value of the net assets acquired (\$89,499) and a deferred tax liability (\$1,944,790) on the increased valuation of the oil properties. None of the goodwill is expected to be deductible for tax purposes. The results of Nautilus' operations have been included in the consolidated financial statements since October 15, 2009.

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PART I - FINANCIAL INFORMATION

ITEM 1 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table presents the allocation of the acquisition cost based upon preliminary fair values.

Purchase price:	
Cash consideration	\$ 7,309,113
Value of Magellan common stock issued	<u>2,380,000</u>
Total consideration	\$ 9,689,113
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash	\$ 314,727
A/R	968,847
Other Current Assets	547,620
Oil Properties	13,518,000
Other Non-current Assets	<u>387,943</u>
Total assets acquired	15,737,137
Accounts Payable	886,165
Other Current Liabilities	1,645,037
Asset Retirement Obligations	1,064,000
Deferred taxes	1,944,790
Other Non Current Liabilities	<u>621,477</u>
	<u>6,161,469</u>
Total identifiable net assets	9,575,668
Less non controlling interest	<u>(1,920,844)</u>
Goodwill	<u>2,034,289</u>
Net assets acquired by Magellan Petroleum Corporation	<u>\$ 9,689,113</u>

The results of operations of Nautilus included in the consolidated statement of operations of Magellan for the period ended December 31, 2009 was net income of \$21,980 on revenues of \$739,584.

Supplemental Pro Forma Results

The following pro forma financial information represents the combined results for the Company and Nautilus for the three and six months ended December 31, 2009 and 2008, as if the acquisition had occurred on October 1 and July 1, 2009 and 2008:

	Three months ended December 31, 2009	Three months ended December 31, 2008	Six months ended December 31, 2009	Six months ended December 31, 2008
Total Revenue	\$ 11,963,555	\$ 5,745,255	\$ 19,307,955	\$ 17,571,971
Costs and expenses	<u>10,160,020</u>	<u>6,773,424</u>	<u>18,360,706</u>	<u>15,689,574</u>
Operating income	1,803,535	(1,028,169)	947,249	1,882,397
Other income - net	<u>56,866</u>	<u>329,402</u>	<u>150,035</u>	<u>940,379</u>
Income (loss) before taxes	1,860,401	(698,767)	1,097,284	2,822,776
Income taxes	<u>(334,980)</u>	<u>(720,977)</u>	<u>1,033,682</u>	<u>(2,320,588)</u>
Net income (loss)	1,525,421	(1,419,744)	63,602	502,188
Less non-controlling interest in subsidiaries (income) loss	<u>(8,072)</u>	<u>148,084</u>	<u>35,298</u>	<u>79,569</u>
Net income attributable to Magellan Petroleum Corporation	<u>\$ 1,533,493</u>	<u>\$ (1,271,660)</u>	<u>\$ 98,900</u>	<u>\$ 581,757</u>
Average number of shares outstanding				
Basic	51,938,314	43,200,325	51,647,103	43,200,325
Diluted	53,115,026	43,200,325	52,233,663	43,200,325
Net Income (loss) per share (basic and diluted) attributable to Magellan Petroleum Corporation common shareholders	<u>\$ 0.03</u>	<u>\$ (0.03)</u>	<u>\$ 0.00</u>	<u>\$ 0.01</u>

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ITEM 1 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)*Note 4 Sale of Cooper Basin Assets and Assets for Sale*

During the quarter ended December 31, 2009, the Company entered in to agreements to sell all its assets located in the Cooper Basin, Australia. The proceeds from the series of transactions to sell the Cooper Basin assets, which includes Nockatunga, Kiana, and Aldinga oil fields and other miscellaneous exploration licenses (subject to final sale agreements) are expected to total A\$9.975 million, subject to final accounting adjustments. These assets, which related to the MPAL reporting segment, are being disposed of because they are non-core to our strategies. All of these properties were previously carried in property and equipment at \$20,684,459, net of accumulated depletion of \$17,094,936.

The Aldinga oil field and certain exploration licenses were sold in the quarter ended December 31, 2009. The Company recorded a gain of approximately \$1.1 million (after tax of \$0.8 million) during the quarter ended December 31, 2009 related to the sale of these assets. The remaining assets were transferred to property held for sale in accordance with ASC 360-10.

The Company also recorded an impairment loss during the quarter of approximately \$1.6 million related to its Udacha assets, PEL91 and 106, located in the Cooper Basin. This loss reflected the difference in the expected sales price and the net book value of the assets at December 31, 2009, and is reported as impairment loss in the statement of operations.

The sale of the remaining Cooper Basin Assets, including the Nockatunga and Kiana oil fields were completed subsequent to the quarter ended December 31, 2009. These assets are included in property held for sale. During the quarter, the Company received approximately \$5.6 million from the buyer of the Nockatunga fields in advance of completion of the sale. This amount together with \$2.0 million of asset retirement obligations (see Note 9) related to the assets held for sale is reflected in the current liabilities section of the balance sheet at December 31, 2009.

Assets held for sale at December 31, 2009 and June 30, 2009 consists of the following:

	<u>December 31, 2009</u>
Oil and gas properties	\$ 19,422,711
Less – accumulated depletion	(16,279,135)
Deferred income taxes	<u>1,898,392</u>
Assets held for sale	\$ 5,041,968
Asset retirement obligations	<u>2,002,966</u>
Total liabilities	2,002,966
Net assets	<u>\$ 3,039,002</u>

Note 5 Stock Options

During the six months ended December 31, 2009, the Company granted 262,500 time-based options and 125,000 performance/market based options (“PBO”) with an exercise price of \$1.20 per share to a director and consultant under the Company’s 1998 Stock Incentive Plan. Since the options were issued to a non-employee, the Company determines the fair value of the time based options at the end of each reporting period. The option expense is recognized in the statement of operations using the accelerated method for the time-based awards with graded vesting and over the implied term for PBO’s.

The fair value at December 31, 2009 of the time-based option was determined to be \$335,409 based on the Black-Scholes valuation models using the following assumptions:

	<u>December 31, 2009</u>
Risk free interest rate	3.71%
Expected life	9.08 yrs
Expected volatility (based on historical price)	.580
Expected dividend	\$ 0

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The expected life of the time-based options is the remaining contractual term. The Company recorded non-cash charges of \$64,813 and \$102,486 related to the time based options for the three and six months ended December 31, 2009, respectively.

The fair value at December 31, 2009 of the PBOs was determined to be \$108,750 based on the Monte Carlo model. The Company recorded a non-cash charge of \$49,600 and \$68,246 during the three and six months ended December 31, 2009, respectively, related to the PBOs. A Monte Carlo simulation allows for the analysis of a complex security through statistical measures applied to a model that is simulated thousands of times to build distributions of potential outcomes. The variables and assumptions used in this calculation at December 31, 2009 were as follows:

	<u>December 31, 2009</u>
Risk free interest rate	3.71%
Expected volatility (based on historical price)	.70
Expected dividend	\$ 0
Closing stock price as of December 31, 2009	\$ 1.73
Term	10 years
Days until expiration	252 days
Probability of performance criteria occurring over term of options:	
Monetization of uncontracted reserves	25% – 60%
Change of control	10% – 50%

The time-based stock options vest in equal annual installments over the vesting period, which is also the requisite service period. Vesting criteria of PBOs are determined by the Company's compensation committee. PBOs issued during the six months ended December 31, 2009 will vest in full upon attainment of either of the following investment goals; monetizing the uncontracted gas reserves held by MPAL at the Amadeus Basin field, or upon the closing price of the Company's common stock being at or above \$1.50 per share for sixty consecutive trading days. All options vest in the event of change of control of the Company.

During the six months ended December 31, 2009 the Company also granted to employees 250,000 time-based options.

The Company determined the fair value of the options at the date of grant using the Black-Scholes option pricing model for these time based options. Option valuation models require the input of certain assumptions including the expected stock price volatility. The assumptions used to value the Company's time based grants were as follows:

	<u>Oct. 1, 2009</u>	<u>Dec. 15, 2009</u>
Risk free interest rate	2.43%	2.62%
Expected life	5.75 yrs	5.75 yrs
Expected volatility (based on historical price)	.620	.625
Expected dividend	\$ 0	\$ 0

The expected life of the time based options was determined under the "simplified" method.

The following is a summary of option transactions for the six months ended December 31, 2009:

<u>Options Outstanding</u>	<u>Expiration Dates</u>	<u>Number of Shares</u>	<u>Exercise Prices (\$)</u>	<u>Fair Value at Grant Date</u>
June 30, 2009		3,242,500	(1.25 weighted average price)	
Awarded	Jul. 2019	387,500	1.20	\$ 247,280
Awarded	Oct. 2019	150,000	1.40	115,868
Awarded	Dec. 2019	100,000	1.72	95,725
December 31, 2009		<u>3,880,000</u>	(1.26 weighted average price)	

Note 6 Earnings (Loss) 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 items in the calculation of diluted earnings per share would be the dilutive effect of stock options and warrants which were computed using the treasury stock method.

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During the three and six month period ended December 31, 2009, the Company issued 387,500 and 637,500 stock options, respectively and 4,347,826 warrants (see Note 5 – Stock Options and Note 2 – Equity Investment).

For the three and six months ended December 31, 2009, the Company had 6,577,826 and 4,710,326 options and warrants outstanding respectively, that had an exercise price below the average stock price for the periods and resulted in 1,176,713 and 586,560 incremental dilutive shares for the respective periods. There were no other potentially dilutive items at December 31, 2009.

During the three and six month periods ended December 31, 2008, the Company issued 3.1 million stock options. These options were issued under the 1998 stock incentive plan, which was subject to shareholder approval at the May 27, 2009 annual shareholders meeting. As this approval was pending, there was no grant date for accounting purposes and, consequently, there was no financial statement impact during the period. At December 31, 2008, the Company did not have any stock options that were issued that had an exercise price below the average stock price for the period. Accordingly, there were no potentially dilutive items at December 31, 2008.

Note 7 Segment Information

The Company has three reportable segments: MPC, its wholly owned subsidiary, MPAL and its 83.5% controlling member interest in Nautilus. The Company's chief operating decision maker is William H. Hastings (President, Chief Executive Officer) who reviews the results of the MPC, MPAL and Nautilus businesses on a regular basis. All three segments engage in business activities from which they may earn revenues and incur expenses. MPAL and its subsidiaries are considered one segment. Although there is discreet information available below the MPAL level, their products and services, production processes, market distribution and customers are similar in nature. In addition, MPAL has a management team which focuses on drilling efforts, capital expenditures and other operational activities.

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	DECEMBER 31,		DECEMBER 31,	
	2009	2008	2009	2008
Revenues:				
MPC	\$ 9	\$ 26	\$ 18	\$ 117
Nautilus	740		740	
MPAL	8,967	5,146	17,837	15,494
Total consolidated revenues	<u>\$ 9,716</u>	<u>\$ 5,172</u>	<u>\$ 18,595</u>	<u>\$ 15,611</u>
Operating income (loss):				
MPC	\$ (1,822)	\$ (822)	\$ (3,634)	\$ (1,423)
Nautilus	11		11	
MPAL	3,678	558	4,788	3,638
Total operating income (loss)	<u>\$ 1,867</u>	<u>\$ (264)</u>	<u>\$ 1,165</u>	<u>\$ 2,215</u>
Net income (loss):				
MPC	\$ (2,617)	\$ (819)	\$ (4,529)	\$ (1,434)
Nautilus	22		22	
MPAL	4,191	294	4,806	2,417
Consolidated net income (loss)	<u>\$ 1,596</u>	<u>\$ (525)</u>	<u>\$ 299</u>	<u>\$ 983</u>
Less non-controlling interest in subsidiaries	4	—	4	—
Consolidated net income (loss) attributable to Magellan Petroleum Corporation	<u>\$ 1,592</u>	<u>\$ (525)</u>	<u>\$ 295</u>	<u>\$ 983</u>
December 31, 2009 June 30, 2009				
Assets:				
MPC (1)		\$ 76,996	\$68,349	
Nautilus		17,281	—	

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	December 31, 2009	June 30, 2009
MPAL	83,934	69,711
Equity elimination	(73,942)	(66,356)
Total consolidated assets	<u>\$ 104,269</u>	<u>\$ 71,704</u>

- (1) Goodwill attributable to MPAL was \$4,020,706 at December 31 and June 30, 2009. Goodwill attributable to Nautilus was \$2,034,289 at December 31, 2009.

Note 8 Exploration and Dry Hole Costs

Exploration and dry hole costs relate to the exploration work performed on MPAL's properties. Components of these costs are as follows:

<u>Exploration and Dry Hole Costs</u>	THREE MONTHS ENDED December 31,		SIX MONTHS ENDED December 31,	
	2009	2008	2009	2008
Farmout, Field Monitoring and Technical Costs	\$ 279,475	\$ 265,466	\$552,445	\$ 696,509
Seismic Data and Acquisition Costs	38,468	248,350	104,611	248,350
Other (1)	—	30,161	—	322,518
Total	<u>\$ 317,943</u>	<u>\$ 543,977</u>	<u>\$657,056</u>	<u>\$1,267,377</u>

- (1) The six month period ended December 31, 2008 includes a write off of expired U.K. permits of \$257,519 and an impairment loss related to U.K. permits of \$63,740.

Note 9 Asset Retirement Obligations

A reconciliation of the Company's asset retirement obligations for the six months ended December 31, 2009 was as follows:

Balance at June 30, 2009	\$ (9,815,262)
Liabilities incurred (1)	(1,064,000)
Liabilities settled	—
Accretion expense	(384,351)
Revisions to estimate	1,421
Exchange effect	<u>(1,036,339)</u>
Balance at December 31, 2009 before reclassification of liabilities related to assets held for sale	(12,298,531)
Reclassification of liabilities related to assets held for sale-see Note 4	<u>2,002,966</u>
Balance at December 31, 2009	<u>\$ (10,295,565)</u>

- (1) Related to purchase of Nautilus – see Note 3

Note 10 Income Taxes

The Company has estimated the effective tax rate expected to be applicable for the full fiscal year. The rate used in providing for income taxes on a current year-to-date basis for the six months ended December 31, 2009 is 77.4% compared to 70% for the period ended December 31, 2008. The primary reason for the high effective tax rate is that MPAL has net income and will pay taxes while the U.K. losses resulting from exploration activities and MPC's losses do not generate tax benefits.

Note 11 Fair Value Measurements

On July 1, 2008, the Company adopted the provisions of ASC 320-10 which established a framework for defining and measuring fair value and requires expanded disclosures about fair value measurements. The Company's only items to which these provisions apply are cash equivalents, securities available for sale, marketable securities (fixed maturity securities) and notes payable. Cash equivalents and securities available for sale are classified as Level 1 in the fair value hierarchy. These investments are traded in active markets and quoted prices are available for identical investments. Fixed maturity securities, classified as Level 2 within the fair value hierarchy, include U.S. Treasury securities. The fair value of these instruments is estimated using pricing models which utilize inputs such as recent trades for the same or similar instrument, yield curves, discount margin and bond structures.

Cash balances were \$23,200,000 as of December 31, 2009 and the remaining \$27,200,000 was held in time deposit accounts in several Australian banks that have terms of 90 days or less, and are therefore classified as cash equivalents. National Australia Bank, Ltd. ("NAB") holds 65% of the cash and cash equivalent balance. Although the funds are uninsured, Standard and Poor's credit rating of NAB is AA Stable long-term and A-1+ short-term.

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The following table presents the amounts of assets carried at fair value at December 31, 2009 and June 30, 2009 by the level in which they are classified within the valuation hierarchy:

Description	Fair Value Measurements at December 31, 2009 Rate Using	
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs
	Level 1	Level 2
Cash Equivalents	\$ 27,241,076	—
Securities available for sale	11,000	—
Marketable securities (fixed maturity securities)	—	\$ 1,199,880

Description	Fair Value Measurements at June 30, 2009 Rate Using	
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs
	Level 1	Level 2
Cash Equivalents	\$ 21,394,200	—
Securities available for sale	903,924	—
Marketable securities (fixed maturity securities)	—	\$ 999,775

Marketable Securities

At December 31 and June 30, 2009, MPC had the following marketable securities which are expected to be held until maturity and are carried at amortized cost:

December 31, 2009	Par Value	Maturity Date	Carrying Amount	Fair Value
<i>Short-term securities</i>				
U.S. government agency note	\$ 600,000	Mar. 10, 2010	\$ 599,250	\$ 599,940
U.S. government agency note	600,000	Mar. 23, 2010	598,875	599,940
Total	<u>\$1,200,000</u>		<u>\$1,198,125</u>	<u>\$1,199,880</u>

June 30, 2009	Par Value	Maturity Date	Carrying Amount	Fair Value
<i>Short-term securities</i>				
U.S. government agency note	\$ 250,000	Jul. 15, 2009	\$ 249,690	\$ 250,000
U.S. government agency note	250,000	Aug. 14, 2009	249,449	249,975
U.S. government agency note	250,000	Sep. 21, 2009	249,179	249,925
U.S. government agency note	250,000	Oct. 15, 2009	248,988	249,875
Total	<u>\$1,000,000</u>		<u>\$ 997,306</u>	<u>\$ 999,775</u>

Securities Available-for-Sale

The Company classifies equity securities that have a readily determinable fair value and are not bought and held principally for the purpose of selling them in the near term as securities available-for-sale. Unrealized holding gains and losses for available-for-sale securities are excluded from earnings and reported in other comprehensive income until realized. The Company had the following securities classified as available for sale at December 31 and June 30, 2009:

December 31, 2009	Maturity Date	Fair Value
Equity securities	Not applicable	\$ 11,000

June 30, 2009	Maturity Date	Fair Value
Equity securities	Not applicable	\$903,924

During the three and six months ended December 31, 2009, the Company received proceeds of \$980,589 and \$2,648,278, respectively, upon the sale of available-for-sale equity securities. The gain on sale was calculated on a last-in-first-out basis. Realized

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gains of \$785,495 and \$2,073,695 for the three and six months ended December 31, 2009, respectively, were included in earnings for the respective periods. The amount of unrealized holding gains for the three and six months ended December 31, 2009 that has been reclassified out of accumulated other comprehensive income into earnings and included in the gain on sale is \$866,220 and \$1,051,299, respectively. The amount of net unrealized holding losses that have been included in accumulated other comprehensive income on remaining securities available-for-sale is \$5,642 for the three and six months ended December 31, 2009.

Note 12 Nondepletable Assets

At December 31, 2009 and June 30, 2009, oil and gas properties include \$3.7 million and \$6.6 million, respectively, of capitalized costs that are currently not being depleted. Components of these costs are as follows:

Nondepletable capitalized costs	At December 31, 2009		At June 30, 2009	
	\$A	\$US	\$A	\$US
PEL 106 – Cooper Basin (1)	\$ —	\$ —	\$1,929,470	\$1,552,838
Weald/Wessex Basin U.K. (2)	1,288,739	1,150,973	1,222,102	983,548
Exploration permits and licenses – Australia and U.K. (3)	—	2,535,826	—	4,104,491
Total		<u>\$3,686,799</u>		<u>\$6,640,877</u>

- (1) These costs were capitalized during the fiscal year ended June 30, 2006 and remained capitalized because the related well had sufficient quantity of reserves to justify its completion as a producing well. This permit was a part of the Cooper Basin asset sale described in Note 4 and has been reclassified out of oil and gas properties to assets held for sale at December 31, 2009.
- (2) Capitalized exploratory well costs pending discovery of reserves.
- (3) The Company evaluates exploration permits and licenses annually or whenever events or changes in circumstances indicate that the carrying value, related to step up to fair value for the 44.87% remaining interest of MPAL acquired in 2006, may be impaired. At December 31, 2009, \$1,568,665 of capitalized permit costs related to the Cooper Basin asset sale, described in Note 4 have been reclassified out of oil and gas properties to assets held for sale.

Note 13 Debt

The Company's long-term debt consists of the following:

	December 31, 2009
Note payable to bank in monthly installments of \$41,000 plus interest, at 6.0% through 2011	\$ 879,220
Loans payable, varying terms through 2012, collateralized by vehicles	29,203
	<u>\$ 908,423</u>
Less current portion	505,585
Long-term debt, excluding current portion	<u>\$ 402,838</u>

The following is a summary of principal maturities of long-term debt:

Less than 1 year	\$ 505,585
Two years	\$ 400,805
Three years	\$ 2,033

Under the Note, Nautilus is subject to both financial and non-financial covenants. The financial covenant includes maintaining a debt service coverage ratio, as defined, of 1.2 to 1.0, which is calculated based on the annual tax return. As of December 31, 2009, Nautilus was in compliance with the financial covenant. If the covenant is violated, and the Company is unable to negotiate a waiver or amendment thereof, the lender would have the right to declare an event of default, terminate the remaining commitment and accelerate all principal and interest outstanding.

The Company also has a demand note payable, classified as short term debt, which consists of advances under a \$500,000 working capital line of credit. The line bears interest at 6.50%, matures on February 27, 2010 and is expected to be renewed at that time. The note payable to bank and the demand note payable are collateralized by first mortgages on Nautilus's properties.

The debt referred to above is the debt of Nautilus (see Note 3).

The carrying amount of the Company's long term debt approximates its fair market value.

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Note 14 Related Party Transactions

The Company leases its Denver office (the office of Nautilus) from an entity owned by two related parties. One of the parties is a director of MPC and the other is the Chief Operating Officer of Nautilus. The lease is month to month and total paid to the related parties from October 15, 2009 (the date of the Nautilus acquisition – see Note 3) to December 31, 2009 was \$15,061.

On October 15, 2009, the Company acquired an approximate 83.5% controlling member interest in Nautilus (see Note 3). The controlling interest in Nautilus was purchased from White Bear LLC and YEP I, SICAV- FIS, entities affiliated with Nikolay Bogachev, a director of the Company. In addition, Thomas Wilson, a director of the Company, continues to have a direct ownership interest in Nautilus.

Note 15 Contingent Liabilities

Nautilus has a letter of credit of \$335,000, issued by a bank, to cover possible future environmental issues. In the event of such an occurrence, the beneficiaries may draw on the letter of credit.

Note 16 Subsequent Events

The Company has evaluated subsequent events through the date of issuance, February 16, 2010, of this quarterly report on Form 10-Q, and noted no additional events that require recognition or disclosure at December 31, 2009, other than those listed below.

The sale of the remaining Cooper Basin Assets, including the Nockatunga and Kiana oil fields were completed subsequent to the quarter ended December 31, 2009. These assets are included in assets held for sale in the current assets section of the balance sheet at December 31, 2009. During the quarter, the Company received approximately \$5.6 million from the buyer of the Nockatunga fields in advance of completion of the sale. This amount together with \$2.0 million of asset retirement obligations (see note 9) related to the assets held for sale is reflected in the current liabilities section of the balance sheet at December 31, 2009.

Subsequent to December 31, 2009, the Company also sold its Udacha assets, PEL91 and 106, located in the Cooper Basin. The Company recorded an impairment loss during the quarter ended December 31, 2009 of approximately \$1.6 million. This loss reflected the difference in the expected sales price and the net book value of the assets at December 31, 2009, and is reported as impairment loss in the statement of operations. The remaining book value of these assets are included in assets held for sale in the current asset section of the balance sheet at December 31, 2009.

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 the pricing and production levels from the properties in which the Company has interests, the extent of the recoverable reserves at those properties and the profitable integration of acquired businesses, including Nautilus Poplar LLC, into the Company's operations. 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.

Executive Summary

Magellan Petroleum Corporation develops, produces, and sells natural gas and oil. Magellan has a strong balance sheet with little debt and continues work toward business combinations involving distressed, small-cap energy companies and assets with "under-exploited reserves" Magellan also maintains significant controlling input into the plans of MPAL.

We continue with restructuring and refocusing activities toward an objective of gaining operating control of substantive, largely offshore assets. Our plan is to redirect smaller scale, non-operated positions at value into more substantive, higher impact oil and natural gas positions largely offshore. Over time this may mean the addition of new equity partners and or the generation of new operating partnerships with major companies. Magellan is drawing upon the lengthy experience of its new management in pulling together these partnerships and creating value for shareholders.

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Recent initiatives are as follows:

- We completed our first private investment transaction with Young Energy Prize S. A. (“YEP”) and signed a significant Heads of Agreement and Exclusivity Agreement with a major Methanol producer that has resulted in the initiation of feasibility work and commercial negotiations which may result in the construction of material methanol operations in or around the Darwin, NT, Australia area. The methanol plans are driven by market growth in Asia where recent mandates have led to increased use of methanol as vehicle fuel and increased use of DME (Dimethyl Ether), a methanol derivative to augment supply for LPG systems already in place. Negotiations under the terms of the Methanol Heads of Agreement, toward a substantive long-term arrangement, are active now.
- The Company acquired an 83.5% ownership position as the Operator of Montana oil fields with significant remaining oil in place. The thrust of this acquisition is to upgrade primary recovery operations and to closely review the development of a tertiary recovery plan related to the wide availability of excess CO₂.
- Negotiations with new partners for the Montana operations, toward that efficient redevelopment program and an AMI (area of mutual interest), are active now.
- We completed the sale of assets in the Cooper Basin, Australia. The assets were sold and the proceeds will be redirected into current initiatives.
- Ongoing discussions continue on developing a consolidated, single operations group for our Palm Valley and Mereenie asset position. We believe that success in these programs will result in material long-term expense reduction.
- Gas sales discussions for near and longer term Mereenie volumes remain fluid. Mereenie volumes have flowed in the 20-25TJ/d (gross interest) range, however, increased volumes from Blacktip are entering the natural gas pipeline system. Efforts to resolve the situation on a longer-term basis continue and we expect to have more concise news over the next 3 to 6 month period as key operational performance facts on the pipeline and for the new supply become clear.
- In the Weald Basin, United Kingdom, Magellan (40% interest) will participate in the Markwells Wood-1 well. Given recent severe winter conditions in the U.K., this well is expected to spud late in the first quarter or early in the second quarter of 2010. Havant-1 well is to be drilled immediately following the end of drilling operations at Markwells Wood-1.

The Palm Valley Darwin contract expires in the year 2012 and the principal Mereenie contracts expired in January and June 2009. There remains in place, for Mereenie, a reasonable endeavor obligation to supply nominated Power and Water Company’s (PWC) requirements for gas through to December 31, 2010. Gas has been flowing in the 20-25 TJ/day gross range since mid-2009. We continue with efforts to gain a supplementary long-term sales agreement with PWC and / or will target these volumes for Methanol fuel gas in conjunction with the initiative(s) described above.

MPAL’s major customer, PWC, has contracted with Eni Australia for the supply of PWC’s Northern Territory gas demand requirement for twenty five years. Eni Australia, initially expected to commence sales in January 2009, is to supply the gas from its Blacktip field offshore of the Northern Territory. The Blacktip development encountered delays and commenced partial production in December 2009. If all Blacktip gas ultimately becomes available, there may be excess natural gas volumes within the delivery system to Darwin for the near-term. MPAL may not be able to flow or sell all of its remaining reserves. Increased throughput is likely in the longer term with area industrial demand. Again, this would include Methanol fuel gas as cited above. Unless MPAL is able to sell uncontracted gas, including reasonable endeavors gas not taken by PWC, its revenues will begin to decline substantially after December 31, 2010. Mereenie gas sales were approximately \$11.1 million (net of royalties) or 90% of total gas sales for the six months ended December 31, 2009.

During fiscal 2009, the Company took an open market position in an undervalued energy company traded on the Australian Stock Exchange. The position was closed, after lengthy management discussions, with a gain of approximately \$2.1 million reflected in the first six months of fiscal 2010. The Company currently has an open position in another company and is evaluating further business combination strategies.

On October 15, 2009, the Company completed the acquisition of an 83.5% controlling interest in Nautilus Poplar, LLC (Nautilus). Nautilus, based in Denver, Colorado, owns and operates oil development assets in Roosevelt County, Montana known as the East Poplar Unit and the Northwest Poplar field. The Company paid gross \$10.9 million for this controlling interest with a cash payment totaling approximately \$7.3 million, with the issuance of 1.7 million new shares of Company common stock, and with an assumption of \$1.5 million of net debt. The controlling interest in Nautilus was purchased from White Bear LLC and YEP I, SICAV-

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FIS, entities affiliated with Nikolay Bogachev, a director of the Company. In addition, Thomas Wilson, a director the Company, has a direct ownership interest in Nautilus. This acquisition gives us new momentum in the United States and a business mechanism to grow oil production in an attractive, stable environment. It also provides us with a better balanced cash flow and may allow utilization of our U.S. tax loss position. As noted above, the Company is in negotiation with partners toward the efficient redevelopment of the field and initiation of a potential tertiary recovery program.

CRITICAL ACCOUNTING POLICIES

Income Taxes

The Company follows 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.

The Company evaluates uncertain tax positions, which requires significant judgments and estimates regarding the recoverability of deferred tax assets, the likelihood of the outcome of examinations of tax positions that may or may not be currently under review and potential scenarios involving settlements of such matters. Changes in these estimates could materially impact the consolidated financial statements. There are no uncertain tax positions at December 31, 2009.

The Company has estimated the effective tax rate expected to be applicable for the full fiscal year. The rate used in providing for income taxes on a current year-to-date basis was 77.4% on December 31, 2009 compared to 70% for the period ended December 31, 2008.

Goodwill

Our goodwill is related to the fiscal 2006 acquisition of the 44.87% of MPAL that we did not own at the time and the October 15, 2009 acquisition of a controlling member interest in Nautilus (see Note 3 to the Financial Statements). Goodwill is not amortized and is tested for impairment annually or whenever events or changes in circumstances indicate that the carrying value may be impaired. Our annual impairment testing date is June 30th goodwill related to MPAL. The Company has yet to determine the testing date or methodology for goodwill related to the acquisition of Nautilus.

We employ the adjusted balance sheet method to estimate the fair value of MPAL. This method entails estimating the fair value of all of MPAL's balance sheet items as of the valuation date. If the adjusted equity value, after considering the fair values of the assets and liabilities, is greater than the carrying value of MPAL, then no impairment is indicated.

The fair value of our oil and gas properties are estimated based on the discounted cash flows of our proved and risk adjusted probable and possible reserves. The significant assumptions used in estimating the fair values of the oil and gas properties are oil and gas selling prices for non-contracted volumes, oil and gas sales volumes, discount rates, and production trends. The fair value of MPAL is most susceptible to changes in selling prices of oil and gas and changes in estimated sales volume.

The fair value of our nondepletable exploration permits and licenses is estimated separately using one of four methods – discounted cash flows, discounted cash flows adjusted for chances of success, recent farmin costs and premiums, and estimated costs of committed work programs. The majority of the permits and licenses are valued based on the estimated cost of agreed work program commitments, which is a methodology that is not dependent on significant assumptions.

Business combinations

The Company applies the acquisition method of recording business combinations. Under this method the Company recognizes and measures the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. Any goodwill or gain from a bargain purchase is identified and recorded. We engage an independent valuation consultant to assist us in determining the fair values of crude oil and natural gas properties acquired, and other third-party specialists as needed to assess the fair value of other assets and liabilities assumed. This valuation requires management to make significant estimates and assumptions, especially with respect to the oil and gas properties.

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LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Resources

At December 31, 2009, the Company on a consolidated basis had approximately \$50.4 million of cash and cash equivalents and \$1.2 million in marketable securities. The Company considers cash equivalents to be short term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of change in interest rates. Cash balances were \$23.2 million as of December 31, 2009 and the remaining \$27.2 million was held in time deposit accounts in several Australian banks that have terms of 90 days or less. National Australia Bank, Ltd. ("NAB") holds 50.3% of the cash and cash equivalent balance. Although the funds are uninsured, Standard and Poor's credit rating of NAB is AA Stable long-term and A-1+ short-term.

Consolidated

When considering our liquidity and capital resources, we consider cash and cash equivalents and marketable securities together since all of these amounts are available to fund operating, exploration and development activities. The balance of cash and cash equivalents and marketable securities increased \$15.9 million during the six months ended December 31, 2009 compared to a \$3.9 million decrease in those balances during the six months ended December 31, 2008. The factors favorably impacting our liquidity and capital resources during the six months ended December 31, 2009 included proceeds of \$10.0 million from the issuance of stock, net proceeds of \$2.6 million from the sale of securities available for sale, proceeds of \$1.5 million from the sale of the Aldinga oil field and certain exploration licenses in the Cooper Basin (see Note 4) and proceeds of \$5.6 million from the buyer of the Nockatunga fields in advance of completion of the sale (see Note 4). We expended cash of \$7.3 million to acquire an approximately 83.5% controlling interest in Nautilus Poplar (see Note 3), made principal payments of \$122,000 on debt and incurred an approximately \$226,000 increase in property and equipment expenditures.

Cash from revenues decreased approximately \$704,000. The decrease in cash from the sales of oil and gas was due to decreased collections of accounts receivable of \$3.7 million offset by an increase in sales of \$3.0 million. Collections for the prior year were greater than the current year due to a large delayed billing at June 30, 2008 that was not present at June 30, 2009. The increase in sales is attributable largely to a 74% increase in gas price per mcf.

Operating costs increased approximately \$5.7 million due the paydown of accounts payable of \$3.0 million as well as a \$900,000 severance payment, increased salaries of \$270,000 relating to additional executive employees at MPC, the payment of \$440,000 in closing costs relating to the July 2009 closing of the YEP investment transaction, increased travel expenses of \$311,000, increased director fees of \$85,000 related to the addition of two new directors, increased office rent of \$82,000, increased auditing, accounting and legal services of \$87,000 relating to the securities purchase agreement with YEP (see Note 2) and the acquisition of Nautilus (see Note 3) and a listing fee of \$65,000 for the Nasdaq registration of the additional MPC shares issued in connection with the YEP transaction. Our cash position was favorably affected, when compared to the same period in the prior year by the increase of exchange rate changes on cash and cash equivalents of \$15 million resulting from a strengthened Australian dollar offset by a \$1.2 million foreign exchange transaction loss.

The Company invested \$1.8 million and \$1.6 million in oil and gas exploration activities, which includes additions to property and equipment, during the six months ended December 31, 2009 and 2008, respectively.

Effect of exchange rate changes

The value of the Australian dollar relative to the U.S. dollar increased 11% to \$0.8931 at December 31, 2009, compared to a value of \$0.8048 at June 30, 2009.

As to MPC (Unconsolidated)

On July 9, 2009, MPC completed, pursuant to the terms of a definitive purchase agreement and related amendments, an equity investment in MPC by MPC's strategic investor, YEP, through the issuance to YEP of 8,695,652 shares of the Company's common stock, \$0.01 par value per share and warrants to acquire an additional 4,347,826 shares of Common Stock. The Company received gross proceeds of \$10 million, which are being used for acquisitions, working capital and general corporate purposes.

At December 31, 2009, MPC, on an unconsolidated basis, had working capital of \$3.8 million. Working capital is comprised of current assets less current liabilities. MPC's current cash position and any future MPAL dividends are adequate to meet MPC's current obligations.

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In October 2009, MPC paid \$7.3 million in cash for a controlling interest in Nautilus Poplar, LLC. See Note 3 to the condensed consolidated financial statements.

As to MPAL

At December 31, 2009, MPAL had working capital of \$48.8 million and has budgeted approximately (Aus) \$6.0 million for specific exploration projects in fiscal year 2010 as compared to the (Aus) \$438,000 expended during the six months ended December 31, 2009. 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 oil and gas in Australia. MPAL's current contract for the sale of Palm Valley gas will expire during fiscal year 2012. Mereenie contracts expired in January and June 2009. Supply obligations ceased in June 2009, however, there is a reasonable endeavor obligation to supply certain of PWC's requirements through to December 31, 2010. Unless MPAL is able to sell uncontracted gas, including reasonable endeavors gas not taken by PWC or be successful in its current exploration program, its revenues will begin to decline substantially after December 31, 2010, which could materially affect liquidity. The price of gas under the Palm Valley and Mereenie gas contracts is adjusted quarterly to reflect changes in the Australian Consumer Price Index. Future oil revenues will be impacted by any volatility in the world price for crude oil. MPAL will strive to optimize operating expenses with any reductions in revenues.

As in the past, 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. Nautilus has a letter of credit of \$335,000, issued by a bank, to cover possible future environmental issues. In the event of such an occurrence, the beneficiaries may draw on the letter of credit.

CONTRACTUAL OBLIGATIONS

The following is a summary of our consolidated contractual obligations at December 31, 2009, in thousands:

	PAYMENTS DUE BY PERIOD				
	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Operating Lease Obligations	\$ 1,657	\$ 429	\$ 695	\$ 142	\$ 391
Purchase Obligations (1)	6,830	6,830	—	—	—
Asset Retirement Obligations-Undiscounted	15,740	—	3,930	9,207	2,603
Credit facilities	1,409	1,006	403	—	—
Total	\$25,636	\$8,265	\$5,028	\$9,349	\$ 2,994

- (1) Represents firm commitments for exploration and capital expenditures. Although the Company is committed to these expenditures, some may be farmed out to third parties. Exploration contingent expenditures of \$41,997,000 which are not legally binding have been excluded from the table above and based on exploration decisions would be due as follows: \$0 (less than 1 year), \$19,880,000 (1-3 years), \$19,831,000 (3-5 years), \$2,286,000 (greater than 5 years).

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THREE MONTHS ENDED DECEMBER 31, 2009 VS. DECEMBER 31, 2008

REVENUES AND OTHER INCOME

Significant changes in revenues and other income were as follows:

	THREE MONTHS ENDED			
	December 31			
	2009	2008	\$ Variance	% Variance
Oil sales	\$3,155,798	\$1,832,005	\$1,323,793	72%
Gas sales	5,551,734	2,999,857	2,551,877	85%
Other production related revenues	1,008,737	340,422	668,315	196%
Investment income	1,038,394	460,375	578,019	126%

OIL SALES INCREASED primarily due to the October 15, 2009 acquisition of Nautilus (see Note 3), a net 19% increase in average price per barrel in Australia and the 35% increase in the average exchange rate discussed below. 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,					
	2009 SALES		2008 SALES		% Variance	% Variance
	BBLs	AVERAGE PRICE A.\$ PER BBL	BBLs	AVERAGE PRICE A.\$ PER BBL		
Australia (1):						
Mereenie field	15,661	92.50	21,915	69.14	(28)%	34%
Cooper Basin	496	92.40	669	33.42	(26)%	176%
Nockatunga project (2)	13,358	77.07	18,030	77.09	(26)%	—
Total Australia	29,515	85.58	40,614	72.06	(27)%	19%

	AVERAGE PRICE U.S.\$ PER BBL			AVERAGE PRICE U.S.\$ PER BBL		% Variance	% Variance
	BBLs	AVERAGE PRICE U.S.\$ PER BBL		BBLs	AVERAGE PRICE U.S.\$ PER BBL		
North America (3)							
East Poplar	7,739	65.68					
North West Poplar	2,241	65.68					
Total North America	9,980	65.68					

- (1) Average price per barrel in Australian dollars.
- (2) Nockatunga average price per bbl is net of crude oil transportation costs which are deducted from the gross sales price.
- (3) Average price per barrel in U.S. dollars – refers to Nautilus (see Note 3).

GAS SALES INCREASED due to a 75% increase in the average price per mcf and the 35% increase in the average exchange rate, offset by a 19% decrease in volume caused by natural declines and limited takes from other suppliers.

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,					
	2009 SALES		2008 SALES		% Variance	% Variance
	BCF	AVERAGE PRICE A.\$ PER MCF	BCF	AVERAGE PRICE A.\$ PER MCF		
Australia: Palm Valley	.257	2.25	.296	2.25	(13)%	—
Australia: Mereenie	.806	6.56	1.020	3.42	(21)%	92%
Total	1.063	5.49	1.316	3.14	(19)%	75%

OTHER PRODUCTION RELATED REVENUES are primarily MPAL's share of gas pipeline tariff revenues which increased due to higher tariff generating gas sales and the 35% Australian foreign exchange rate increase discussed below.

INVESTMENT INCOME INCREASED primarily as a result of a \$785,495 realized gain on the sale of available-for-sale securities and the 35% increase in the average exchange rate discussed below, offset by a decrease in interest income.

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OPERATING AND OTHER EXPENSES

Significant changes in operating and other expenses were as follows:

	THREE MONTHS ENDED		\$ Variance	% Variance
	December 31,			
	2009	2008		
Production costs	\$ 2,089,296	\$1,279,944	\$ 809,352	63%
Exploration and dry hole costs	317,943	543,977	(226,034)	(42)%
Salaries and employee benefits	1,006,793	347,793	659,000	189%
Depletion, depreciation and amortization	1,484,130	2,060,331	(576,201)	(28)%
Accretion expense	209,584	119,861	89,723	75%
Shareholder communication	223,647	122,593	101,054	82%
(Gain) loss on sale of assets	(1,139,465)	15,367	(1,154,832)	(7,515)%
Impairment loss	1,604,417	—	1,604,417	
Other administrative expenses	1,660,088	524,181	1,135,907	217%
Warrant expense	986,248	—	986,248	
Income tax provision	323,104	720,977	(397,873)	(55)%

PRODUCTION COSTS INCREASED primarily due to the Nautilus acquisition (\$345,000) and the 35% increase in the average exchange rate described below.

EXPLORATION AND DRY HOLE COSTS DECREASED primarily due to prior year seismic data costs of \$248,000 not incurred in the current year, partially offset by the 35% increase in the average exchange rate described below.

SALARIES AND EMPLOYEE BENEFITS INCREASED due to non cash expenses related to employee stock options of \$239,000, the addition of new personnel at MPC \$162,000, \$84,000 due to the Nautilus acquisition and the 35% increase in the average exchange rate described below.

DEPLETION, DEPRECIATION AND AMORTIZATION DECREASED in 2009 due to lower depletable costs partially offset by the 35% increase in the average exchange rate described below.

ACCRETION EXPENSES INCREASED in 2009 due mostly to the 35% increase in the average exchange rate described below and the acquisition of Nautilus.

SHAREHOLDER COMMUNICATIONS increased primarily due to the timing of the 2009 annual meeting which was held in December 2009, compared to the 2008 meeting held in May 2009, and Nasdaq listing fees of \$65,000 incurred due to the YEP transaction.

(GAIN) LOSS ON THE SALE OF ASSETS INCREASED in 2009 due to the gain recorded in 2009 on the sale of MPAL'S Aldinga oil field and certain exploration licenses (See Note 4 to the Financial Statements).

IMPAIRMENT LOSS INCREASED in 2009 due to the impairment loss recorded in 2009 on MPAL's Udacha assets.

OTHER ADMINISTRATIVE EXPENSES INCREASED due to the exchange rate losses on U.S. dollar cash held by MPAL (\$160,000), a 2008 exchange rate gain that did not occur in 2009 (\$428,000), increased directors' fees including the addition of two new directors (\$138,000), increased consulting costs (\$152,000), increased travel costs (\$121,000), and the 35% increase in the average exchange rate described below.

WARRANT EXPENSE relates to the increase in the fair value of the YEP warrants at December 31, 2009. The fair value of the warrants at December 31, 2009 was \$4,504,013. These warrants did not exist in 2008.

INCOME TAXES

INCOME TAX PROVISION DECREASED due to a decrease in the effective tax rate from the prior quarter which created a negative adjustment to the provision. The decrease in the effective tax rate was due to a change in estimated profit and loss projections for the fiscal year which did not affect permanent non-taxable items in the same proportion as in the first fiscal quarter. In the prior year, the effective tax rate increased from the previous quarter which created a positive adjustment to the provision.

EXCHANGE EFFECT

THE VALUE OF THE AUSTRALIAN DOLLAR RELATIVE TO THE U.S. DOLLAR INCREASED TO \$.8931 at December 31, 2009 compared to a value of \$.8729 at September 30, 2009. This resulted in a \$719,954 credit to the foreign currency translation adjustments account for the three months ended December 31, 2009. The average exchange rate used to translate MPAL's operations in Australia was \$.9090 for the quarter ended December 31, 2009, which was a 35% increase compared to the \$.6740 rate for the quarter ended December 31, 2008.

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SIX MONTHS ENDED DECEMBER 31, 2009 VS. DECEMBER 31, 2008

REVENUES

Significant changes in revenues were as follows:

	SIX MONTHS ENDED			
	December 31,			
	2009	2008	\$ Variance	% Variance
Oil sales	\$ 5,942,624	\$7,477,592	\$(1,534,968)	(21)%
Gas sales	10,960,680	7,308,929	3,651,751	50%
Other production related revenues	1,691,751	824,447	867,304	105%
Investment income	2,534,931	1,088,544	1,446,387	133%

OIL SALES DECREASED due to a net 14% decrease in production and a net 23% decrease in price per barrel in Australia, offset by the Nautilus acquisition and the 11% increase in the average exchange rate discussed below.

	SIX MONTHS ENDED DECEMBER 31,					
	2009 SALES			2008 SALES		
	BBLs	AVERAGE PRICE A.\$ PER BBL		BBLs	AVERAGE PRICE A.\$ PER BBL	
Australia:						
Mereenie field	43,125	84.93	45,189	107.30	(5)%	(21)%
Cooper Basin	1,086	84.05	1,860	108.47	(42)%	(23)%
Nockatunga project (1)	26,827	74.07	35,206	101.83	(24)%	(27)%
Total Australia	71,038	80.84	82,255	105.00	(14)%	(23)%

	AVERAGE PRICE U.S.\$ PER BBL				% Variance BBLs	% Variance A.\$ PER BBL
	BBLs	AVERAGE PRICE A.\$ PER BBL				
North America:						
East Poplar	7,739	65.68				
North West Poplar	2,241	65.68				
Total North America	9,980	65.68				

(1) Nockatunga average price per bbl is net of crude oil transportation costs which are deducted from the gross sales price.

GAS SALES INCREASED due to a 74% increase in price per mcf and the 11% increase in the average exchange rate discussed below, offset by a net 16% decrease in volume.

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,					
	2009 SALES			2008 SALES		
	BCF	AVERAGE PRICE A.\$ PER MCF		BCF	AVERAGE PRICE A.\$ PER MCF	
Australia: Palm Valley	.532	2.25	.603	2.25	(12)%	—
Australia: Mereenie	1.696	6.52	2.061	3.42	(18)%	91%
Total	2.228	5.47	2.664	3.15	(16)%	74%

OTHER PRODUCTION RELATED REVENUES are primarily MPAL's share of gas pipeline tariff revenues which increased due to higher tariff generating gas sales and the 11% Australian foreign exchange rate increase discussed below.

INVESTMENT INCOME INCREASED primarily as a result of a \$2,073,695 realized gain on the sale of available-for-sale securities and the 11% increase in the average exchange rate discussed below, offset by a decrease in interest income.

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OPERATING AND OTHER EXPENSES

Significant changes in costs and expenses are as follows:

	SIX MONTHS ENDED		\$Variance	% Variance
	December 31,			
	2009	2008		
Production costs	\$ 5,419,902	\$4,266,806	1,153,096	27%
Exploration and dry hole costs	657,056	1,267,377	(610,321)	(48)%
Salaries and employee benefits	2,750,301	813,985	1,936,316	238%
Depletion, depreciation and amortization	2,647,136	4,561,281	(1,914,145)	(42)%
Auditing, accounting and legal services	777,074	689,799	87,275	13%
Accretion Expense	384,351	278,276	106,075	38%
Shareholder Communications	302,174	213,172	89,002	42%
(Gain) Loss on sale of assets	(1,134,275)	11,861	(1,146,136)	9,663%
Impairment Loss	1,604,417	—	1,604,417	—
Other administrative expenses	4,022,397	1,293,250	2,729,147	(211)%
Warrant expense	2,378,719	—	2,378,719	—
Income tax provision	1,021,806	2,320,588	(1,298,782)	(56)%

PRODUCTION COSTS INCREASED due primarily to the Nautilus acquisition (\$345,000) and the 11% increase the average exchange rate described below.

EXPLORATION AND DRY HOLE COSTS DECREASED in 2009 primarily due to a prior year's costs of \$321,000 related to the write down of the value of U.K. exploration licenses and seismic data costs of \$248,000 not incurred in the current year, partially offset by the 11% increase in the average exchange rate described below.

SALARIES AND EMPLOYEE BENEFITS INCREASED mostly due to the payment of employee termination costs (\$993,000), non cash expense related to employee stock options (\$616,000), the addition of new personnel at MPC (\$256,000), the acquisition of Nautilus (\$84,000) and the 11% increase in the average exchange rate discussed below.

DEPLETION, DEPRECIATION AND AMORTIZATION DECREASED in 2009 due to lower depletable costs partially offset by the 11% increase in the average exchange rate described below.

AUDITING, ACCOUNTING AND LEGAL SERVICES INCREASED in 2009 primarily due to increased fees relating to the YEP equity investment and the acquisition of Nautilus.

ACCRETION EXPENSE INCREASED primarily due to the 11% increase the average exchange rate described below and the acquisition of Nautilus.

SHAREHOLDER COMMUNICATIONS INCREASED primarily due to the timing of the 2009 annual meeting which was held in December 2009 compared to the 2008 meeting held in May 2009 and the Nasdaq listing fees of \$65,000 incurred related to the YEP transaction.

(GAIN) LOSS ON THE SALE OF ASSETS INCREASED in 2009 due to the gain recorded in 2009 on the sale of MPAL'S Aldinga oil field and certain exploration licenses (See Note 4 to the Financial Statements).

IMPAIRMENT LOSS INCREASED in 2009 due to the impairment loss recorded in 2009 on MPAL's Udacha assets.

OTHER ADMINISTRATIVE EXPENSES INCREASED in 2009 due to the exchange rate loss on U.S. dollar cash held by MPAL (\$1,182,000), a 2008 exchange rate gain that did not occur in 2009 (\$402,000), costs relating to the July 2009 closing of the YEP equity investment (\$440,000), increased travel costs (\$311,000), increased directors' fees including the addition of two new directors (\$176,000), increased office rent (\$148,000), and the 11% increase in the average exchange rate described below.

WARRANT EXPENSE INCREASED due to adjusting the YEP warrants to market value, at December 31, 2009. The fair value of the warrants at December 31, 2009 was \$4,504,013. These warrants did not exist in 2008.

INCOME TAXES

Income tax provision decreased primarily due to a decrease in income before income taxes compared to the same period last year.

EXCHANGE EFFECT

THE VALUE OF THE AUSTRALIAN DOLLAR RELATIVE TO THE U.S. DOLLAR INCREASED TO \$.8931 at December 31, 2009 compared to a value of \$.8048 at June 30, 2009. This resulted in a \$5,483,433 credit to the foreign currency translation adjustments account for the six months ended December 31, 2009. The average exchange rate used to translate MPAL's operations in Australia was \$.8710 for the six months ended December 31, 2009, which was an 11% increase compared to the \$.7824 rate for the six months ended December 31, 2008.

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ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's exposure to market risk relates to fluctuations in foreign currency and world prices for crude oil, as well as market risk related to investment in marketable securities. The exchange rates between the Australian dollar and the U.S. dollar, as well as the exchange rates between the U.S. dollar and the U.K. pound sterling, have changed in recent periods and may fluctuate substantially in the future. We expect that a majority of our revenue will continue to be generated in the Australian dollar in the future. Any appreciation of the U.S. dollar against the Australian dollar is likely to have a negative impact on our revenue, operating income and net income. Because of our U.K. development program, a portion of our expenses, including exploration costs and capital and operating expenditures, will continue to be denominated in U.K. pound sterling. Accordingly, any material appreciation of the U.K. pound sterling against the Australian and U.S. dollars could have a negative impact on our business, operating results and financial condition. 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 \$1,783,700 and \$1,304,900, for the six months ended December 31, 2009, respectively.

For the six months ended December 31, 2009, oil sales represented approximately 35% of total oil and gas revenues. Based on the current six month's sales volume and revenues, a 10% change in oil price would increase or decrease oil revenues by \$594,000. Gas sales, which represented approximately 65% of total oil and gas 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 for the six months ended December 31, 2009.

At December 31, 2009, the carrying value of our investments in marketable securities including those classified as cash and cash equivalents was approximately \$28.4 million, which approximates the fair value of the securities. Since the Company expected to hold the investments to maturity, the maturity value should be realized. The value of these marketable securities has not been impacted by the ongoing U.S. credit crisis.

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 William H. Hastings, the Company's President and Chief Executive Officer ("CEO"), and William E. Begley, Jr., the Company's Chief Financial Officer ("CFO"), 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, 2009. Based on this evaluation, the Company's CEO and CFO 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 six months ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Nautilus Controls and Procedures

During the second quarter ended December 31, 2009, the Company acquired a controlling interest in Nautilus (see Note 4 to the Financial Statements in Item 1 above). While the Company is beginning the process of incorporating its controls and procedures into this business, management has not yet performed documentation, evaluation and testing of internal controls over financial reporting at the Nautilus subsidiary. Accordingly, in reliance on guidance of the staff of the Securities and Exchange Commission, the internal controls of Nautilus will not be included in the assessment of internal controls over financial reporting by management of the Company for the fiscal year ending on June 30, 2010.

MAGELLAN PETROLEUM CORPORATION
FORM 10-Q
PART II - OTHER INFORMATION
DECEMBER 31, 2009

ITEM 1A RISK FACTORS

Our business, financial condition, operating results and cash flows can be impacted by a number of factors, including, but not limited to, those set forth below, any one of which could cause our actual results to vary materially from recent results or anticipated future results.

Information regarding risk factors appears in Part I – Item 1A of our Report on Form 10-K for the fiscal year ended June 30, 2009. We have added one new risk factor - a discussion of a recently completed acquisition and the impact that this and future acquisitions may have on us.

Other than this new risk factor, there have not been any material changes to the risk factors disclosed in Item 1A of our Form 10-K for the fiscal year ended June 30, 2009.

We recently completed an acquisition of a controlling interest in Nautilus Poplar LLC and may make acquisitions or investments in new oil and gas reserves, operating businesses or assets that involve additional risks, which could disrupt our business or harm our financial condition or results of operations.

As part of our business strategy, we have recently made an acquisition of a controlling interest in Nautilus Poplar LLC. We expect to continue to make, acquisitions of companies that possess oil and gas reserves, or other businesses or assets, that are complementary to our growth strategy. Such acquisitions or investments involve a number of risks, including:

- Assimilating operations and new personnel may be unexpectedly difficult;
- Management’s attention may be diverted from other business concerns;
- We may enter markets in which we have limited or no direct experience;
- We may lose key employees of an acquired business;
- We may not realize the value of the acquired assets relative to the price paid; and
- Despite our due diligence efforts, we may not succeed at quality control or other customer issues.

These factors could have a material adverse effect on our business, financial condition and operating results. Consideration paid for any future acquisitions could include our stock or require that we incur additional debt and contingent liabilities. As a result, future acquisitions could cause dilution of existing equity interests and earnings per share.

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ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Share Repurchase Plan

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:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plan(1)</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under Plan</u>
October 1-31, 2009	0	0	0	319,150
November 1-30, 2009	0	0	0	319,150
December 1-31, 2009	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, 2009, 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 9, 2009, the Company held its 2009 Annual Meeting of Shareholders.

(b) The following two directors were elected as directors of the Company. The vote of shares and shareholders were as follows:

	<u>Shares</u>		<u>Stockholders</u>	
	<u>For</u>	<u>Withheld</u>	<u>For</u>	<u>Withheld</u>
Donald V. Basso	43,017,768	2,088,889	911	90
Robert J. Mollah	43,539,625	1,562,327	913	89

(b) The firm of Deloitte & Touche LLP was appointed as the Company's independent auditors for the year ending June 30, 2010. The vote of shares and shareholders were as follows:

	<u>Shares</u>	<u>Stockholders</u>
For	43,769,432	948
Against	273,234	21
Abstain	1,063,992	34

ITEM 6 EXHIBITS

- 2.1 Purchase and Sale Agreement between and among the Company, White Bear and the YEP I Fund, dated as of October 14, 2009, incorporated by reference from Exhibit 2.1 to current report on Form 8-K filed on October 19, 2009.
- 3.1 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, as filed as Exhibit 4(b) to the Company's Form S-8 Registration Statement (File No. 333-70567), filed on January 14, 1999, are incorporated herein by reference.
- 3.2 Certificate of Amendment to Certificate of Incorporation as filed on December 26, 2000 with the State of Delaware, as 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.
- 3.3 Certificate of Amendment to Certificate of Incorporation related to Article Twelfth as filed on October 15, 2009 with the State of Delaware, is filed herewith.
- 3.4 Certificate of Amendment to Certificate of Incorporation related to Article Thirteenth as filed on October 15, 2009 with the State of Delaware, is filed herewith.

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- 10.1 Amended and Restated Operating Agreement of Nautilus Poplar, between and among White Bear, the YEP I Fund, Nautilus Tech and Eastern Rider, dated as of October 14, 2009, , incorporated by reference from Exhibit 10.1 to current report on Form 8-K filed on October 19, 2009.
- 10.2 First Amendment to Registration Rights Agreement, between and among the Company, YEP and the YEP I Fund, dated as of October 14, 2009, incorporated by reference from Exhibit 10.2 to current report on Form 8-K filed on October 19, 2009.
- 10.3 Letter Agreement between and among the Company, Eastern Rider, Nikolay V. Bogachev and Nautilus Tech, dated October 14, 2009, incorporated by reference from Exhibit 10.3 to current report on Form 8-K filed on October 19, 2009.
- 10.4 Nockatunga Asset Sale Agreement, Magellan Petroleum (Eastern) Pty Ltd and Santos QNT Pty Ltd, dated as of December 22, 2009, is filed herewith.
31. Rule 13a-14(a) Certifications.
- Certification of William H. Hastings, President and Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, is furnished herewith.
- Certification of William E Begley, Jr., Chief Financial Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, is furnished herewith.
32. Section 1350 Certifications.
- Certification of William H. Hastings, President and Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, is filed herein.
- Certification of William E Begley, Jr. Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, is filed herein.

**CERTIFICATE OF AMENDMENT OF
RESTATED CERTIFICATE OF INCORPORATION OF
MAGELLAN PETROLEUM CORPORATION**

Magellan Petroleum Corporation, a corporation duly organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "Corporation") does hereby certify:

FIRST: That at a meeting of the Board of Directors of the Corporation held on February 2, 2009, resolutions were duly adopted setting forth two proposed amendments of the Restated Certificate of Incorporation of the Corporation (the "Restated Certificate"), declaring said amendments to be advisable and providing that said amendments be submitted to the stockholders of the Corporation for consideration thereof at the 2008 annual meeting of the stockholders of the Corporation to be held on May 27, 2009. The resolutions setting forth the proposed amendments are as follows:

RESOLVED, that, effective December 31, 2009, the Restated Certificate of Incorporation of the Corporation be, and it hereby is, amended by repealing Article thereof numbered "TWELFTH" and inserting in place of said Article the following "[Reserved]".

RESOLVED, that, effective December 31, 2009, the Restated Certificate of Incorporation of the Corporation be, and it hereby is, amended by amending the Article thereof numbered "FOURTEENTH" so that, as amended, said Article shall read in its entirety as follows:

The By-Laws of this corporation may be altered, amended or repealed by the vote of a majority of the directors at any regular or special meeting of the board; provided notice of such proposed alteration, amendment or repeal shall have been included in the notice of such meeting, or shall have been waived in writing by all the directors, or at any regular or special meeting of the board at which all of the directors are present, without such notice or waiver of notice. Notwithstanding any other provision in the Certificate of Incorporation to the contrary and subject to the rights of the holders of any series of Preferred Stock then outstanding, the By-Laws of this corporation may also be altered, amended or repealed by the stockholders at any regular or special meeting called for that purpose by the favorable vote of sixty-six and two-thirds percent (66 $\frac{2}{3}$ %) of the voting power of all outstanding voting stock of the corporation generally entitled to vote at such meeting.

SECOND: That thereafter, pursuant to resolution of its Board of Directors, at the 2008 annual meeting of the stockholders of the Corporation held on May 27, 2009, duly called and held upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware, the necessary number of shares and shareholders as required by statute and by the Restated Certificate were voted and voted in favor of the amendments.

THIRD: That said amendments were duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to the Restated Certificate of Incorporation to be signed this 15th day of October, 2009.

MAGELLAN PETROLEUM CORPORATION

By: /s/ William H. Hastings

Name: William H. Hastings

Title: President and Chief Executive Officer

**CERTIFICATE OF AMENDMENT OF
RESTATED CERTIFICATE OF INCORPORATION OF
MAGELLAN PETROLEUM CORPORATION**

Magellan Petroleum Corporation, a corporation duly organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "Corporation") does hereby certify:

FIRST: That at a meeting of the Board of Directors of the Corporation held on February 2, 2009, resolutions were duly adopted setting forth a proposed amendment of the Restated Certificate of Incorporation of the Corporation (the "Restated Certificate"), declaring said amendment to be advisable and providing that said amendment be submitted to the stockholders of the Corporation for consideration thereof at the annual meeting of the stockholders of the Corporation to be held on May 27, 2009. The resolution setting forth the proposed amendment is as follows:

RESOLVED, that, effective December 31, 2009, the Restated Certificate of Incorporation of the Corporation be, and it here by is, amended by repealing the Article thereof numbered "THIRTEENTH" and inserting in place of said Article the following "[Reserved]".

SECOND: That thereafter, pursuant to resolution of its Board of Directors, at the annual meeting of the stockholders of the Corporation held on May 27, 2009, duly called and held upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware, the necessary number of shares and shareholders as required by statute and by the Restated Certificate were voted and voted in favor of the amendment.

THIRD: That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to the Restated Certificate of Incorporation to be signed this 15th day of October, 2009.

MAGELLAN PETROLEUM CORPORATION

By: /s/ William H. Hastings

Name: William H. Hastings

Title: President and Chief Executive Officer

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Magellan Petroleum (Eastern) Pty Ltd

Magellan Petroleum Australia Limited

Santos QNT Pty Ltd

Vamgas Pty Ltd

Nockatunga Asset
Sale Agreement –
Magellan Petroleum
(Eastern) Pty Ltd and
Santos QNT Pty Ltd

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Date December 22, 2009

Parties

Magellan Petroleum (Eastern) Pty Ltd ABN 16 053 726 711 of Level 10, 145 Eagle Street, Brisbane, Queensland (**Seller**).

Magellan Petroleum Australia Limited ABN 62 009 728 581 of Level 10, 145 Eagle Street, Brisbane, Queensland (**Guarantor**)

Santos QNT Pty Ltd ABN 33 083 077 196 of Ground Floor, Santos Centre, 60 Flinders Street, Adelaide, South Australia (**Buyer**)

Vamgas Pty Ltd ABN 76 006 245 110 of Ground Floor, Santos Centre, 60 Flinders Street, Adelaide, South Australia (**Vamgas**)

Background

- A The Seller is the holder of the Nockatunga Sale Interest.
 - B The Seller has agreed to sell to the Buyer, and the Buyer has agreed to buy from the Seller, the Nockatunga Sale Interest.
 - C This document records the terms that the parties have agreed for the sale and purchase of the Nockatunga Sale Interest.
-

Agreed terms

- 1 Interpretation

1.1 Definitions

In this document:

Adjustment Period means the period of 46 days after the Effective Date or such longer period as the parties may agree as reasonably necessary.

ASIC means the Australian Securities and Investments Commission.

ATP means an authority to prospect for petroleum granted under the Queensland Petroleum Legislation.

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

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Buyer's Warranties means the warranties and representations of the Buyer in **clause 12.1**.

Carry Continuation Agreement means the document referred to at paragraph (c) of the definition of "Related Agreements".

Claim means any claim, demand, legal proceedings, liability or cause of action whatsoever including any claim, demand, legal proceedings or cause of action based in contract (including breach of warranty), based in tort (including misrepresentation or negligence) and under common law or under statute including Part V or VI of the *Trade Practices Act 1974* or like provisions in any State or Territory Legislation, and includes a claim, demand, legal proceedings, liability or cause of action arising from a breach of warranty or under an indemnity in this document.

Coal Seam Gas JOA means the Coal Seam Gas Joint Operating Agreement for ATP 267P (part) and Petroleum Leases number 33 and 51 dated 9 July 2002 between the Seller, the Buyer and Vamgas.

Completion means the process to occur on the Completion Date in accordance with **clause 5**.

Completion Date means 22 December 2009.

Completion Time means the time on the Completion Date when Completion occurs.

Corporations Act means the *Corporations Act 2001* (Cth).

Crude Oil Purchase Agreement means the crude oil purchase agreement dated 1 September 2009 between the Seller and IOR.

Data Room means the electronic document repository containing documents relating to the Nockatunga Sale Interest, amongst other assets, kept and operated for the Seller by Intralinks Inc.

Deed of Assignment, Assumption and Release means the deed in the form or substantially the form set out in **schedule 2**.

Disclosure Material means:

- (a) all information contained in this document; and
- (b) all information disclosed by the Seller to the Buyer in writing prior to the Execution Date.

Drilling Costs Claims means all and any claims for or liabilities to contributions, including under AFEs, (and whether actual, contingent, intended or prospective) in respect of the settlement sum, drilling rig costs, associated drilling rig demobilisation costs, and unrecovered mobilisation and termination costs with respect to the Santos ATP 267P –WDI settlement claim, under either or both Nockatunga JOAs made or intended to be made against the Seller on or before the Execution Date and which remained unpaid as at the Execution Date, being in the amount of approximately \$229,200.

Effective Date means 1 January 2010.

Encumbrance means any mortgage, charge, lien, pledge, security interest, adverse interest or other encumbrance.

Execution Date means the date of this document.

Existing JOA Approvals means all resolutions, decisions, operating committee determinations, cash calls and AFEs under any of the Related Agreements which commit the Seller to or require the Seller to meet expenditure under the relevant Related Agreement and which have been made or approved as at the Execution Date.

Government Agency means:

- (a) any Commonwealth, State or Local government; and
- (b) any government authority or semi-government authority (including a judicial body) that has legal power to require another person to act or not act in a particular way or to authorise a particular act.

GST means GST within the meaning of the GST Act and includes penalties and interest.

GST Act means the *A New Tax System (Goods and Services Tax) Act 1999* (as amended).

GST Law has the same meaning given to that expression in the GST Act.

IOR means IOR Energy Pty Ltd ABN 60 010 504 444.

Liability Cap means \$1.725 million.

Loss means, in relation to any person, a damage, loss, cost, expense or liability incurred by the person, however arising (including contractual, tortious, legal, equitable or pursuant to statute).

Nockatunga JOAs means the agreements referred to at paragraphs (a) and (b) of the definition of “ Related Agreements”.

Nockatunga Sale Interest means :

- (a) the Seller’s 40.936% legal and beneficial interest in each of the Petroleum Tenements; and
- (b) all the Seller’s right, title and interest under each of the Related Agreements.

Party means a party to this document.

Petroleum has the meaning under the Queensland Petroleum Legislation.

Petroleum Tenements means each of ATP 267P, PL 33, PL 50, PL 51, PL 244 and PL 245.

PL means a petroleum lease granted under the Queensland Petroleum Legislation.

PL Area JOA means the Petroleum Lease 33 and ATP 267P (part) PL Area – Joint Operating Agreement dated 29 September 1988 between the Seller, the Buyer and Vamgas.

Prior Related Agreements Obligations means all the obligations and liabilities of the Seller under each Related Agreement which accrued prior to the Effective Date other than the Drilling Costs Claims.

Purchase Price means \$6.3 million.

Queensland Petroleum Legislation means the *Petroleum and Gas (Production and Safety) Act 2004* and the *Petroleum Act 1923* of Queensland.

Reconciliation has the meaning under **clause 8.6**.

Regulatory Approvals means the consents, approvals and registration of the Government of Queensland and any government department, government agency or representative thereof required under the Queensland Petroleum Legislation in order to effect the transfer of the Seller's interests in the Petroleum Tenements to the Buyer, including, but not limited to:

- (a) registration of the transfer of the Nockatunga Sale Interest to the Buyer with Queensland Mines and Energy; and
- (b) registration of the transfer of any environmental authority associated with the Nockatunga Sale Interest with the Queensland Department of Environment and Resource Management.

Related Agreements means each of:

- (a) the Coal Seam Gas JOA;
- (b) the PL Area JOA; and
- (c) the Chimelle- Minora Carry Continuation Agreement- PL Area dated 27 October 1988 as varied by several deeds of assignment and which is now between Vamgas and the Seller.

Related Agreements Obligations means all the obligations and liabilities of the Seller under each Related Agreement which arise on and from the Effective Date.

Related Agreements Participant means each counterparty to a Related Agreement other than the Seller and the Buyer.

Related Body Corporate has the same meaning given to that term in section 50 of the Corporations Act.

Royalty Interests means:

- (a) 2% overriding royalty on all oil, gas and associated hydrocarbons produced from the Petroleum Tenements to International Oil Lease Service Corp pursuant to a royalty agreement a copy of which is set out in annexure B of the Nockatunga JOAs; and
- (b) the royalty on oil, gas and condensate from the Petroleum Tenements in favour of Banner Petroleum Corporation pursuant to the terms of a royalty agreement, a copy of which forms annexure C of the Nockatunga JOAs.

Security Interest means an interest created or otherwise arising in or over property under a bill of sale, mortgage, charge, lien, pledge, finance lease or

trust by way of security for the payment of a debt or any other monetary obligation or the performance of any other obligation and includes, but is not limited to, any agreement to grant or create any of the above, but does not include a retention of title provision under a goods or services supply contract.

Transfer Documents means all transfer forms and other documents required under the Queensland Petroleum Legislation in order to effect the transfer of the Seller's registered interests in the Petroleum Tenements to the Buyer.

Warranties means the warranties and representations of the Sellers set out in **schedule 1**.

Warranty Claim means a Claim for breach of a Warranty.

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) "includes" means includes without limitation;
- (e) no rule of construction will apply to a clause to the disadvantage of a party merely because that party put forward the clause or would otherwise benefit from it;
- (f) a reference to:
 - (i) a person includes a partnership, joint venture, unincorporated association, corporation and a government or statutory body or authority;
 - (ii) a person includes the person's legal personal representatives, successors, assigns and persons substituted by novation;
 - (iii) any legislation includes subordinate legislation under it and includes that legislation and subordinate legislation as modified or replaced;
 - (iv) an obligation includes a warranty or representation and a reference to a failure to comply with an obligation includes a breach of warranty or representation;
 - (v) a right includes a benefit, remedy, discretion or power;
 - (vi) time is to local time in Brisbane;
 - (vii) "\$" or "dollars" is a reference to Australian currency;
 - (viii) this or any other document includes the document as novated, varied or replaced and despite any change in the identity of the parties;

-
- (ix) writing includes any mode of representing or reproducing words in tangible and permanently visible form, and includes fax transmissions;
 - (x) this document includes all schedules and annexures to it; and
 - (xi) a clause, schedule or annexure is a reference to a clause, schedule or annexure, as the case may be, of this document;
 - (g) if the date on or by which any act must be done under this document is not a Business Day, the act must be done on or by the next Business Day; and
 - (h) where time is to be calculated by reference to a day or event, that day or the day of that event is excluded.

1.3 Headings

Headings do not affect the interpretation of this document.

2 Sale of Assets

2.1 Agreement to sell and purchase

The Seller agrees to sell the Nockatunga Sale Interest to the Buyer, and the Buyer agrees to buy that interest from the Seller, free from any Encumbrance or third party interests (other than those arising under the Related Agreements and the Royalty Interests), for the Purchase Price, and otherwise on the terms and conditions of this document.

2.2 Title, property and risk

The title to, property in and risk of the Nockatunga Sale Interest:

- (a) until the Effective Date, remains solely with the Seller; and
- (b) passes to the Buyer on and from the Effective Date.

2.3 Purchase Price allocation

The Purchase Price is allocated to the Nockatunga Sale Interest in accordance with **schedule 3**.

3 Crude Oil Purchase Agreement

3.1 Notice to terminate

Within two Business Days of the date of this Agreement the Seller must give to IOR 6 months' written notice terminating the Crude Oil Purchase Agreement in accordance with **clause 15.1** of that agreement (**Termination Notice**).

3.2 Entitlement to sell

The Seller shall be entitled to sell to its own account under the Crude Oil Purchase Agreement its share of all crude oil produced from the Production Area prior to the Effective Date including any crude oil held in stock or inventory immediately prior to the Effective Date.

3.3 Assignment

- (a) Within two Business Days of the Execution Date, the Seller will notify IOR of its intention to assign its rights and obligations under the Crude Oil Purchase Agreement to the Buyer. The Seller and Buyer shall negotiate in good faith with IOR for the Buyer to take an assignment of the Seller's rights and obligations under the Crude Oil Purchase Agreement with effect on and from the Effective Date for the balance of the period of the Termination Notice still to run from the Effective Date (**Balance Termination Period**).
- (b) The terms and conditions of such assignment must be acceptable to both the Seller and the Buyer acting reasonably but the Buyer must account to the Seller for the proceeds of sale of the share of production relating to the Nockatunga Sale Interest, produced prior to the Effective Date, whether or not actually sold until after that date.
- (c) If such assignment is effected then the Buyer shall indemnify the Seller against all liability arising under the Crude Oil Purchase Agreement on and from the Effective Date for the Balance Termination Period.
- (d) If an assignment under **clause 3.3(a)** is effected then the Seller shall indemnify the Buyer against all liability under the Crude Oil Purchase Agreement relating to the period up to the Effective Date.

3.4 Preservation of Seller under Crude Oil Purchase Agreement

If an assignment of the Crude Oil Purchase Agreement is not effected in accordance with **clause 3.3**, then on and from the Effective Date for the Balance Termination Period:

- (a) the Buyer shall cause that proportion of crude oil production from the Production Area (as defined under the Crude Oil Purchase Agreement) which occurs on and from the Effective Date and which would have been to the Seller's account if not for the sale effected under this Agreement, to be provided to IOR on behalf of the Seller; .
- (b) all moneys received by the Seller under the Crude Oil Purchase Agreement for the sale of the crude oil referred to in subclause (a) shall be accounted to the Buyer, but all moneys received by the Seller under the Crude Oil Purchase Agreement for the sale of crude oil which had been produced from the Production Area prior to the Effective Date (even if held in stock or inventory at that date) shall be to the Seller's account;
- (c) the Seller shall be acting as agent for the Buyer with respect to the sale of crude oil under the Crude Oil Purchase Agreement; and
- (d) on seven Business Days notice to the Buyer, the Seller may agree with IOR to the earlier termination of the Crude Oil Purchase Agreement prior to the expiration of the Balance Termination Period.

3.5 Release by Seller

Subject to the Buyer satisfying its obligations under **clause 3.4**, the Seller agrees to release the Buyer in respect of any loss, claim, liability and expense suffered or incurred by the Seller relating to its obligations under the Crude Oil Purchase Agreement during the Balance Termination Period.

4 Conduct prior to Completion

4.1 Decisions under Related Agreements

- (a) On and from the Execution Date until the Effective Date, the Seller will carry on business in respect of the Nockatunga Sale Interest in the ordinary and normal course and do everything reasonably possible to preserve the value of the Nockatunga Sale Interest. In particular, the Seller must not do any of the following without the prior written consent of the Buyer:
 - (i) make or participate in any material decision under any Related Agreement. For the purposes of this clause a decision will be of a material nature if it would involve the incurrence by the Seller of a liability in excess of \$50,000;
 - (ii) permit the creation of any Encumbrance over the Nockatunga Sale Interest; or
 - (iii) cancel any debts or waive any Claims or rights of substantial value in relation to the Nockatunga Sale Interest, except as permitted by this agreement.
- (b) Nothing in this **clause 4** will prevent the Seller from incurring expenditure or undertaking actions in accordance with Existing JOA Approvals. However the Seller will be entitled to vote against, refuse or otherwise deny any proposal or decision under any of the Related Agreements which would involve the incurrence by the Seller of expenditure, outside the Existing JOA Approvals, on or before the Effective Date.

5 Completion

5.1 Time and place

Completion will occur between the hours of 9.00 am and 4.00 pm on the Completion Date at the offices of Corrs Chambers Westgarth, Level 35, Waterfront Place, 1 Eagle Street, Brisbane, Queensland or any other time or place agreed to in writing by the Buyer and the Sellers.

5.2 Buyer's obligations

At Completion the Buyer must:

- (a) pay the Purchase Price by the transmission of cleared funds to the bank account nominated by the Seller, such nomination to be made in writing not less than 48 hours prior to the Completion Date;

and

- (b) execute all Transfer Documents which it has not already signed; and
- (c) deliver to the Seller, duly executed by the Buyer and Vamgas, the Deed of Release, Assignment and Assumption.

5.3 Seller's obligations

At Completion the Seller must deliver to the Buyer the Transfer Documents, duly executed by the Seller.

5.4 Interdependence of obligations

The obligations of the parties in respect of Completion are to be interdependent. All actions at Completion are taken to take place simultaneously and no delivery or payment will be taken to have been made until all deliveries and payments have been made.

5.5 Assignment and release of Related Agreements

On the Completion Date, each of the Buyer, the Seller and Vamgas shall execute and be bound by the Deed of Assignment, Assumption and Release with the intent that on and from the Completion Date the Seller will assign its rights under the Related Agreements and the Buyer will assume the Related Agreements Obligations and the Seller's obligations in respect of the Royalty Interests.

6 Regulatory Approvals

6.1 Conditions subsequent

The transfer of the Nockatunga Sale Interest from the Seller to the Buyer is subject to and conditional upon the obtaining of the Regulatory Approvals within 18 months of the Completion Date.

6.2 Obtaining Regulatory Approvals

As soon as practicable after Completion, the Seller shall apply for the Regulatory Approvals and each party shall do all things within its power (including executing documents) necessary to obtain the Regulatory Approvals.

6.3 Action on non-approval

If:

- (a) any of the Regulatory Approvals are not obtained within the timeframe referred to in **clause 6.1** or such later date as the parties may reasonably agree (**Non-Approved Dealing**); and
- (b) the Seller and the Buyer fail after genuine negotiations to preserve to the Buyer's reasonable satisfaction (confirmed in writing) its beneficial interest in that part of the Nockatunga Sale Interest relating to the Non-Approved Dealing within a period of 20 Business Days after the date referred to in **clause 6.1**,

then the parties agree that:

- (c) this agreement automatically terminates, whereupon all monies paid by a party under this agreement must be refunded to that party by the party that received the monies and the parties will do all things necessary to place the parties in the same position as they would have been had this agreement not been entered into and Completion had not occurred, including re-assigning the Nockatunga Sale Interest to the Sellers.

7 Time of Transfer

7.1 Completion Date

- (a) The parties acknowledge and agree that subject to Completion occurring the transfer of the Nockatunga Sale Interest shall be deemed to take effect from the Effective Date, subject to the operation of **clause 8**.
- (b) The parties agree to waive the requirements of clause 17.4 of the PL Area JOA and clause 17.6 of the Coal Seam Gas JOA.

8 Adjustments for Sale Interests

8.1 Adjustments

The Parties agree to further payments which shall not affect the Purchase Price, following Completion at the end of the Adjustment Period on the following basis:

- (a) the Seller is entitled to all revenue and proceeds of production from the Nockatunga Sale Interest, as determined in accordance with the Related Agreements, in respect of the period prior to the Effective Date which includes such production which is held in stock or inventory immediately prior to the Effective Date;
- (b) the Buyer is entitled to all revenue and proceeds of production from the Nockatunga Sale Interest, as determined in accordance with the Related Agreements, which is produced on and from the Effective Date;
- (c) the Seller will remain responsible for cash calls in relation to the Nockatunga Sale Interest issued to the Seller prior to the Execution Date in respect of expenditure incurred and works performed prior to the Effective Date, and which remain unpaid at Completion; and
- (d) subject to **clause 8.5**, the Seller will remain responsible for all other liabilities and expenses in respect of the Nockatunga Sale Interest relating to the period prior to the Effective Date.

8.2 Reconciliation and payment of adjustments

The Buyer and the Seller must undertake a reconciliation of adjustments in accordance with **clauses 8.1, 8.3 and 8.4**, during the Adjustment Period and:

- (a) in the event the additions in favour of the Seller pursuant to **clause 8.3** exceed the deductions in favour of the Buyer pursuant to **clause 8.4**, then the Buyer must pay the amount owing to the Seller not later than the end of the Adjustment Period;

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- (b) in the event the deductions in favour of the Buyer exceed the additions in favour of the Seller, then the Seller must pay the amount owing to the Buyer not later than the end of the Adjustment Period.

To enable reconciliation by each Party of the adjustments due and owing, the Seller and the Buyer must, not later than seven days prior to expiry of the Adjustment Period, provide written notice to the other party of the amount of all adjustments claimed and payable, together with detailed particulars and supporting calculations to enable the amounts to be verified.

8.3 Payment by the Buyer

Further to **clause 8.1**, the Seller shall be entitled to receive, and the Buyer shall be obliged to pay to the Seller an amount in respect of:

- (a) any cash call, liability, payment or expense paid by the Seller in relation to the Nockatunga Sale Interest relating to the period on and from the Effective Date; and
- (b) any revenue or proceeds of production received by or payable to the Buyer in respect of the Nockatunga Sale Interest in relation to production prior to the Effective Date, including from the sale of that production which was unsold but in stock or inventory immediately prior to the Effective Date.

8.4 Payment by the Seller

Further to **clause 8.1**, and subject to **clause 8.5** the Buyer shall be entitled to receive, and the Seller shall be obliged to pay to the Buyer an amount in respect of:

- (a) any cash call in respect of the Nockatunga Sale Interest issued prior to the Execution Date relating to work done or liability incurred or relating to the period prior to the Effective Date and remaining unpaid as at the Effective Date; and
- (b) any payment in respect of the Royalty Interests relating to the period prior to the Effective Date and remaining unpaid as at the Effective Date.

8.5 Drilling Costs Claims

On and from Completion each of Vamgas and the Buyer release and indemnify the Seller from all and any liability for the Drilling Costs Claims.

8.6 Dispute on Adjustments

- (a) Any dispute between the parties concerning the adjustments of income and expenditure on the Nockatunga Sale Interest shall be resolved by first referring the matter to senior managers with capacity to bind each of the Seller and the Buyer or their nominees.

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- (b) If those persons cannot resolve the dispute within 10 Business Days then the matter shall be referred for determination to a Brisbane based partner of a major accounting firm in Australia appointed by the parties, of if they cannot agree, as appointed by the President for the time being of the Institute of Chartered Accountants Queensland.
 - (c) That appointee shall act as an expert.
 - (d) The parties may make written submissions to the expert and must provide the other party with a copy of those submissions.
 - (e) The decision of the expert will be final and binding on the parties in the absence of manifest error.
 - (f) The costs of the expert will be borne equally by the Seller and the Buyer.

8.7 Income Tax

The Seller acknowledges that the Buyer will include all income and expenditure in relation to the Nockatunga Sale Interest on and after the Effective Date in its income tax return subject to the revenue and income referred to in **clauses 8.1(a)** and **8.3(b)** being included in the income of the Seller.

9 Indemnities

9.1 Assumption of Liabilities

On and from the Effective Date the Buyer shall assume and comply with all the Related Agreements Obligations.

9.2 Buyer Indemnity

The Buyer shall indemnify and keep the Seller indemnified against all Claims relating to the Related Agreements Obligations provided that this indemnity does not extend to Related Agreements Obligations which relate to the period before the Effective Date, which obligations will remain the liability of the Seller, but this indemnity does apply to the Drilling Costs Claims.

9.3 Seller Indemnity

The Seller shall indemnify and keep the Buyer indemnified against all Claims relating to the Prior Related Agreements Obligations under the Related Agreements.

10 Royalty Interests

- (a) On and from Completion the Buyer assumes and must pay, discharge, indemnify and hold the Seller harmless against, the Seller's obligations accruing on and from the Effective Date in respect of each of the Royalty Interests. The Buyer must execute any documentation required by the Seller to assume and become bound by the Royalty Interests to the extent of the Nockatunga Sale Interest, with effect from the Effective Date.

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- (b) The Seller shall indemnify and keep the Buyer indemnified against all Claims for unpaid or unsatisfied liability in respect of the Royalty Interests incurred by the Seller up to the Effective Date.

11 Termination

11.1 Termination by Buyer

If:

- (a) the Seller fails to effect Completion on or before the Completion Date, other than solely due to the Buyer's default;
 - (b) the Seller fails to comply with any term of this document that is capable of remedy and following notice from the Buyer fails to remedy the non-compliance within seven days of such notice;
 - (c) the Seller fails to comply with any material term of this document that is incapable of remedy;
 - (d) the Seller is insolvent;
 - (e) an order is made for the winding up of the Seller; or
 - (f) a Warranty is breached or is otherwise false or inaccurate in a way which could or does result in a material Loss to the Buyer;
- the Buyer may, on or before Completion, and without prejudice to any other remedy available to it, terminate this document by notice to the Seller.

11.2 Termination by Seller

If:

- (a) the Buyer fails to effect Completion on the Completion Date, other than solely due to the Seller's default;
 - (b) the Buyer fails to comply with any term of this document that is capable of remedy and following notice from the Seller fails to remedy the non-compliance within seven days of such notice;
 - (c) the Buyer fails to comply with any material term of this document that is incapable of remedy;
 - (d) the Buyer is insolvent; or
 - (e) an order is made for the winding-up of the Buyer or administration in insolvency of the property of the Buyer;
- the Seller may on or before Completion, and without prejudice to any other remedy available to it, terminate this document by notice to the Buyer.

12 Warranties, representations and indemnities

12.1 Buyer's warranties

The Buyer warrants that it has full corporate power and authority to enter into this agreement and that all necessary corporate action has been taken to enable it to enter into and perform this agreement.

12.2 Seller's warranties

The Seller warrants upon the date of this document and as at the Completion Date as to the matters set out in **schedule 1**.

12.3 Exclusion of other warranties

The Buyer acknowledges that other than as set out in **schedule 1** the Seller makes no warranties or representations (express or implied) in respect of the Nockatunga Sale Interest. Without limiting the foregoing the Buyer expressly acknowledges that no warranty is given by the Seller in relation to:

- (a) any geological, geophysical, engineering, economic, fiscal or other interpretations or evaluations by the Seller or any other party in connection with the Nockatunga Sale Interest;
- (b) future matters, including future or forecast costs, revenues or profit;
- (c) reserves, resources or life of field; or
- (d) markets.

12.4 Buyer's acknowledgements

The Buyer acknowledges that it purchases the Nockatunga Sale Interest subject to and with the full understanding of the rights, liabilities and obligations that may arise under the Related Agreements on the basis that it and its Related Bodies Corporate hold the balance of interests in the Petroleum Tenements and under the Related Agreements.

12.5 Warranties subject to other disclosures

The Buyer acknowledges and agrees that the Seller has disclosed or is deemed to have disclosed against the Warranties and the Buyer is aware of, and will be treated as having actual knowledge of, all facts, matters and circumstances that:

- (a) are provided for or described in this document and the Disclosure Material;
- (b) are disclosed in, or otherwise evident from the information contained in all documents and information made available by or on behalf of the Seller to the Buyer or its representative advisers which were contained within the Data Room;
- (c) would have been disclosed to the Buyer had it conducted searches of records available for public inspection maintained by the Australian Securities and Investments Commission, Queensland Mines and Energy,

the High Court of Australia, the Federal Court of Australia, the Supreme Court of Queensland and the National Native Title Tribunal; or

- (d) were, or would reasonably have been known to the Buyer as of the date of this document having regard to its knowledge and its opportunity to make enquiries of the Seller and having regard to its existing interests under the Related Agreements and in the Petroleum Tenements.

The Warranties are given subject to the disclosures or the deemed disclosures as described in this clause. The Seller will have no liability under the Warranties to the extent that disclosure is made or deemed to have been made against the Warranties under this clause.

12.6 Exclusion of other Warranties

Subject to any law to the contrary and except as provided in the Warranties, all terms, conditions, warranties and statements, whether express, implied, written, oral, collateral, statutory or otherwise are excluded and the Seller disclaims all liability in relation to these to the maximum extent permitted by law.

12.7 Limitation of Liability Seller

- (a) The Seller is not liable under a Claim for breach of Warranty unless the amount finally agreed or adjudicated to be payable in respect of a Claim:
- (i) exceeds \$50,000; and
 - (ii) either alone or together with the amount finally agreed or adjudicated as payable in respect of all other Claims for breach of Warranty against the Seller exceeds \$100,000.
- (b) The maximum liability of the Seller for:
- (i) breach of the Warranty as to title to the Nockatunga Sale Interest is the Purchase Price; and
 - (ii) all breaches of other Warranties and for all other breaches of this agreement by the Seller is limited to the Liability Cap.
- (c) Further the Seller is not liable under any Claim relating to a breach of Warranty or other failure to comply with this document unless notice of the Claim (including reasonable details of the circumstances giving rise to the Claim) is given to the Seller within 12 months after the Completion Date.
- (d) Where the Buyer discovers a breach of Warranty prior to Completion then its only remedy shall be to terminate this document in accordance with **clause 11.1(f)** (whether or not the breach could or does result in a material loss to the Buyer). The Buyer shall have no right to claim damages from the Seller.
- (e) The Seller is not liable for any Warranty Claim to the extent that:
- (i) the Warranty Claim is solely as a result of or in consequence of any voluntary act, voluntary or negligent omission, transaction or

arrangement of or on behalf of the Buyer after Completion (unless the act, omission, transaction or arrangement occurs pursuant to an express right under this document); or

- (ii) the Warranty Claim is as a result of or in respect of any legislation not in force at the Execution Date, including legislation which takes effect retrospectively; or
- (iii) the Warranty Claim is increased as a result of action taken or not taken as the case may be, by the Seller after consultation with and with the prior written approval of the Buyer.

12.8 Warranty benefit

The Warranties are given for the benefit of the Buyer and may not be relied on by any other person.

12.9 Punitive damages and consequential loss

The Buyer will not be entitled to make a Warranty Claim for any exemplary or punitive loss, or any indirect or consequential loss. In this clause, "indirect or consequential loss" means special damages under the principle known as the second limb of *Hadley v Baxendale*. For the avoidance of doubt, this clause does not prevent the Buyer from recovering general damages under the principle known as the first limb of *Hadley v Baxendale*.

13 Guarantee and indemnity

13.1 Guarantee

In consideration of the Buyer entering into this document at the request of the Guarantor (the receipt and good value of which is acknowledged by the Guarantor):

- (a) the Guarantor guarantees to the Buyer the due and punctual payment, performance and observance by the Seller of all of its liabilities and obligations to the Buyer under or in connection with this agreement, whether monetary or non-monetary, present or future, actual or contingent (the **Guaranteed Obligations**); and
- (b) the Guarantor indemnifies the Buyer against all liability, loss, damage, cost and expense which the Buyer may sustain or incur and all actions, proceedings, claims or demands made against the Buyer as a result of any default by the Seller in the payment, performance and observance of the Guaranteed Obligations;

PROVIDED that the maximum liability of the Guarantor under this **clause 13** shall not exceed the maximum liability of the Seller under this agreement.

13.2 Survival

The liability of the Guarantor under this **clause 13** will not be released or discharged (in whole or in part) by:

- (a) any time, concession, waiver or other indulgence being given by the Buyer to the Seller (or any surety) for or in relation to the observance or performance of the Sellers' obligations under this document;

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- (b) the liquidation, administration, bankruptcy or insolvency of the Guarantor or the Seller; or
 - (c) by anything done or omitted to be done by the Seller or by anything else which, but for this **clause 13**, might operate to release wholly or partially or discharge or otherwise exonerate the Guarantor from its liability under this guarantee and indemnity.

13.3 Continuing Guarantee

The guarantee and indemnity given under this **clause 13**:

- (a) is a continuing guarantee and indemnity and will remain in force until the whole of the obligations of the Seller have been duly performed and satisfied in full;
- (b) is irrevocable; and
- (c) constitutes a separate and independent obligation of the Guarantor.

13.4 Remedy

The Buyer may enforce the guarantee and indemnity given under this **clause 13** without first making any demand or taking any action or proceedings to enforce its rights or remedies against the Seller.

13.5 Reinstatement

The obligations of the Guarantor under this **clause 13** will continue to be effective or will be reinstated if at any time any amount payable or paid by the Seller to the Buyer under this document is avoided or any payment by the Seller to the Buyer must be replaced or restored, either in whole or in part, by the Buyer for any reason whatsoever and the liability of the Guarantor will extend to those payments as if those payments had not been made.

14 GST

14.1 Construction

In this **clause 14**:

- (a) words and expressions which are not defined in this document but which have a defined meaning in GST Law have the same meaning as in the GST Law;
- (b) **GST Law** has the same meaning given to that expression in the *A New Tax System (Goods and Services Tax) Act 1999*; and
- (c) references to GST payable and input tax credit entitlement include GST payable by, and the input tax credit entitlement of, the representative member for a GST group of which the entity is a member.

14.2 Consideration GST exclusive

Unless otherwise expressly stated, all prices or other sums payable or consideration to be provided under this document are exclusive of GST.

14.3 Payment of GST

- (a) Notwithstanding **clause 14.3(b)**, if GST is payable on any supply made by a Party (or any entity through which that Party acts) (**Supplier**) under or in connection with this document, the recipient will pay to the Supplier an amount equal to consideration in respect of the taxable supply (exclusive of GST) multiplied by the rate of goods and services tax.
- (b) The parties agree that the sale of the Nockatunga Sale Interest by the Seller to the Buyer constitutes the supply of a going concern pursuant to section 38-325 of *A New Tax System (Goods and Services Tax) Act 1999*. The Buyer warrants that it is registered for GST purposes under the GST Law and shall remain registered until Completion.

14.4 Timing of GST payment

The recipient will pay the amount referred to in **clause 14.3** in addition to and at the same time that the consideration for the supply is to be provided under this document.

14.5 Tax invoice

The Supplier must deliver a tax invoice or an adjustment note to the recipient before the Supplier is entitled to payment of an amount under **clause 14.3**. The recipient can withhold payment of the amount until the Supplier provides a tax invoice or an adjustment note, as appropriate.

14.6 Adjustment event

If an adjustment event arises in respect of a taxable supply made by a Supplier under this document, the amount payable by the recipient under **clause 14.3** will be recalculated to reflect the adjustment event and a payment will be made by the recipient to the Supplier or by the Supplier to the recipient as the case requires.

14.7 Reimbursements

Where a Party is required under this document to pay, reimburse or indemnify the other Party for any loss, expense or outgoing, the amount to be paid, reimbursed or indemnified by the first Party will be the sum of:

- (a) the amount of the expense or outgoing less any input tax credits in respect of the expense or outgoing to which the other Party is entitled; and
- (b) if the payment or reimbursement is subject to GST, an amount equal to that GST.

15.1 Confidentiality

Subject to **clause 15.2**, the Parties must maintain absolute confidentiality concerning the existence and terms of this document and no public announcement or communication relating to the negotiations of the Parties or the existence, subject matter or terms of this document may be made or authorised by or on behalf of a Party without the prior written approval of the other party.

15.2 Permitted disclosures

A Party may make any disclosure otherwise prohibited pursuant to **clause 15.1**:

- (a) to the extent necessary to any professional adviser, financial adviser, banker, insurance broker, insurer, financier or auditor where that person is obliged to keep the information confidential;
- (b) subject to **clause 15.3**, to the extent necessary to comply with any applicable law, the terms of any licence or authority, or any requirement of any regulatory body (including ASIC or a stock exchange);
- (c) to the Securities Exchange Commission of the United States and any other United States regulatory authorities to the extent necessary to comply with any US laws or regulations applying to the Seller or its holding companies or ultimate parent company;
- (d) to any of its officers or employees, or the officers or employees of a Related Body Corporate, to whom it is necessary to disclose the information;
- (e) to the extent necessary to obtain the consent of any third party to any term of, or to any act pursuant to, this document including disclosure to Related Agreements Participants;
- (f) to the extent necessary to enforce its rights or to defend any Claim or action under this document;
- (g) to a Related Body Corporate of the party, provided that Related Body Corporate first undertakes to keep the information confidential;
- (h) in the case of the Buyer to any potential bona fide assignee of its interests or rights provided the assignee undertakes to keep the information to be disclosed confidential; or
- (i) where the information the subject of the disclosure has come into the public domain other than through a breach of this document by the party seeking to make the disclosure.

15.3 Disclosure required by law

In relation to any disclosure that a Party is required to make in order to comply with any applicable law, the terms of any licence or authority, or any

requirement of any regulatory body (including ASIC or a stock exchange), the party making the disclosure must:

- (a) disclose no more than is strictly required; and
- (b) in advance of making the disclosure, advise the other Party of the text of the proposed disclosure and provide the other Party with a reasonable opportunity of making comment upon its form and content before making the disclosure.

This clause does not apply to disclosures permitted under **clause 15.2(c)**.

16 Notices

16.1 General

Any notice, demand, certification, consent or other communication in this document (**Notice**):

- (a) must be given in writing and in the English language; and
- (b) may be given by an authorised representative of the sender.

16.2 Method of service

In addition to any means authorised by law any communication may be given by:

- (a) being personally served on a Party;
- (b) being left at the Party's current address for service;
- (c) being sent to the Party's current postal address for service by pre-paid ordinary mail; or
- (d) by facsimile to the Party's current numbers for service.

16.3 Address for service

- (a) The addresses and numbers for service are initially:

Sellers and Company:

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

Postal address: GPO Box 2766 Brisbane Queensland 4001.

Facsimile: 07- 3832 6411

Attention: Operations and Joint Venture Manager

Buyer and Vamgas

Address: Ground Floor, Santos Centre, 60 Flinders Street, Adelaide,
South Australia 5000

Postal address GPO Box 2455, Adelaide, South Australia 5001.

Facsimile: 08 8116 7578

Attention: Manager – Business Development – Eastern Australia.

(b) A Party may from time to time change its address or numbers for service by notice to the other Party.

16.4 Service by post

A communication given by post will be deemed received on the:

- (a) third Business Day after posting to a party's postal address if posted in the country in which it is delivered; or
- (b) tenth Business Day after posting to a party's postal address if not posted in the country in which it is to be delivered.

16.5 Service by facsimile

A communication sent by facsimile will be deemed received when the sender's facsimile machine produces a transmission report stating that the facsimile was sent to the addressee's facsimile number.

16.6 Form received

A communication sent by facsimile will be deemed given in the form transmitted unless the message is not fully received in a legible form and the addressee immediately notifies the sender of that fact.

16.7 Service after hours

If a communication to a Party is received by it:

- (a) after 5:00 pm; or
- (b) on a day which is not a Business Day,

it will be deemed to have been received on the next Business Day.

17 Costs and stamp duty**17.1 Legal costs**

Subject to any express provision in this document to the contrary, each Party will bear its own legal and other costs and expenses relating directly or indirectly to the preparation of, and performance of its obligations under, this document.

17.2 Stamp duty

The Buyer will, as between the Parties, be liable for and duly pay all stamp duty (including any fine or penalty) on or relating to this document and any document executed under it.

17.3 Registration fee

The Buyer shall bear all registration fees relating to the obtaining of Regulatory Approvals.

18 Miscellaneous**18.1 Amendment**

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

18.2 Waiver and exercise of rights

- (a) A single or partial exercise or waiver of a right relating to this document will not prevent any other exercise of that right or the exercise of any other right.
- (b) A Party will not be liable for any loss, cost or expense of any other party caused or contributed to by the waiver, exercise, attempted exercise, failure to exercise or delay in the exercise of a right.

18.3 Rights cumulative

Subject to any express provision in this document to the contrary, the rights of a Party under this document are cumulative and are in addition to any other rights of that party.

18.4 Approvals and consent

Subject to any express provision in this document to the contrary, a party 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.

18.5 Further assurance

Each Party will promptly execute all documents and do all things that any other Party from time to time reasonably requires of it to effect, perfect or complete the provisions of this document and any transaction contemplated by it.

18.6 Governing law and jurisdiction

- (a) This document is governed by and is to be construed in accordance with the laws in force in Queensland.
- (b) Each Party irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts of Queensland and any courts which have jurisdiction to hear appeals from any of those courts and waives any right to object to any proceedings being brought in those courts.

18.7 Assignment

A Party may not dispose of or create an Encumbrance over any right under this document without the prior written consent of the other Party.

18.8 No merger

No provision of this document, including any representation or warranty, merges on or by virtue of Completion.

18.9 Counterparts

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

18.10 Time of essence

Time is of the essence as regards any date or period determined under this document save only for the extent that any date or period may be altered by mutual agreement between the Parties whereupon time is of the essence as regards such date or period as so altered.

18.11 Computation of time

Where time is to be reckoned by reference to a day or event, that day or the day of that event is excluded.

18.12 Effect of execution

- (a) This document is not binding on any Party unless it or a counterpart has been duly executed by, or on behalf of, each person named as a Party to the document.
- (b) Each person who executes this document on behalf of a party warrants that he or she holds all due and necessary authority to bind that party, and that he or she has no notice of the revocation of that authority or of any fact or circumstance that might affect his or her authority to execute this document on behalf of the relevant party.

18.13 Entire understanding

- (a) This document embodies the entire understanding and agreement between the Parties as to the subject matter of this document.
- (b) All previous negotiations, understandings, representations, warranties, memoranda or commitments in relation to, or in any way affecting, the subject matter of this document are merged in and superseded by this document and will be of no force or effect whatever and no Party will be liable to any other Party in respect of those matters.
- (c) No oral explanation or information provided by any party to another will:
 - (i) affect the meaning or interpretation of this document; or
 - (ii) constitute any collateral agreement, warranty or understanding between any of the parties.

Schedule 1

Warranties of Seller

- 1 The Seller is the legal and beneficial owner of the Nockatunga Sale Interest free of Encumbrances and other adverse third party interests other than the Royalty Interests and other than those Encumbrances, interests and rights arising under the Related Agreements.
- 2 The Seller is not in default under any of the Related Agreements and is not aware of any circumstances that may give rise to a default under any of the Related Agreements.
- 3 The Seller is not party to any investigation, prosecution or litigation in connection with the Nockatunga Sale Interest and has no knowledge of any disputes, Claims or demands between the Seller and any other person that are likely to give rise to litigation affecting the Nockatunga Sale Interest other than the Drilling Costs Claims.
- 4 The Seller has full right and power to transfer to the Buyer clear title to the Nockatunga Sale Interest;
- 5 The Seller is not in breach under the Crude Oil Purchase Agreement and is not aware of any circumstances that may give rise to a breach under the Crude Oil Purchase Agreement.

Schedule 2

Deed of Assignment, Assumption and Release

Magellan Petroleum (Eastern) Pty Ltd

Santos QNT Pty Ltd

Vamgas Pty Ltd

Deed of Assignment, Assumption and Release—Nockatunga Agreements

Contents

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Date December 22, 2009

Parties

Magellan Petroleum (Eastern) Pty Ltd ABN 16 053 726 711 of Level 10, 145 Eagle Street, Brisbane, Queensland (**MPE**)

Santos QNT Pty Ltd ABN 33 083 077 196 of Ground Floor, Santos Centre, 60 Flinders Street, Adelaide, South Australia (**SQNT**)

Vamgas Pty Ltd ABN 76 006 245 110 of Ground Floor, Santos Centre, 60 Flinders Street, Adelaide, South Australia (**Vamgas**)

Background

- A The parties are parties to several agreements concerning the exploration for and production of petroleum (including coal seam gas) with respect to the Nockatunga Tenements.
- B MPE has agreed to sell, assign and transfer to SQNT all of the right title and interest of MPE in the Nockatunga Tenements and under the Nockatunga Agreements.
- C SQNT has agreed to assume all obligations and liabilities of MPE under the Nockatunga Agreements and in respect of the Royalty Interests.
- D As a result of completion of the acquisition referred to in paragraph B SQNT and Vamgas has agreed to release MPE from any further liability or obligation under the Nockatunga Agreements, in accordance with the terms of this document.

Agreed terms

1 Interpretation

1.1 Definitions

In this document:

Assignment means the transfer by MPE to SQNT of all MPE's right, title and interest in the Nockatunga Tenements and under the Nockatunga Agreements.

ATP means an authority to prospect under either the *Petroleum Act 1923* or the *Petroleum and Gas (Production and Safety) Act 2004* of Queensland.

Carry Agreement means the Chimelle – Minora Carry Continuation Agreement—PL Area dated 27 October 1988 as varied by several deeds of assignment and which is now between Vamgas and MPE.

Claim means any claim, demand, legal proceedings, liability or cause of action whatsoever including any claim, demand, legal proceedings or cause of action based in contract (including breach of warranty), based in tort (including misrepresentation or negligence) and under common law or under statute including Part V or VI of the Trade Practices Act 1974 or like provisions in any State or Territory Legislation, and includes the Drilling Costs Claims.

Completion Date has the same meaning under the Sale and Purchase Agreement.

Drilling Costs Claims has the meaning given under the Sale and Purchase Agreement.

Effective Date means 1st January 2010.

Nockatunga Agreements means each of the Nockatunga JOAs and the Carry Agreement.

Nockatunga JOAs means each of:

- (a) Coal Seam Gas Joint Operating Agreement for ATP 267P (part) and Petroleum Leases number 33 and 51 dated 9 July 2002 between MPE, SQNT and Vamgas; and
- (b) Petroleum Lease 33 and ATP 267P (part) PL Area – Joint Operating Agreement dated 29 September 1988 between SQNT, MPE and Vamgas Pty Ltd; and

Nockatunga Tenements means each of ATP 267P, PL33, PL50, PL51, PL244 and PL245.

PL means a petroleum lease under the *Petroleum Act 1923* or *Petroleum and Gas (Production and Safety) Act 2004* of Queensland.

Royalty Interests means:

- (a) 2 % overriding royalty on all oil, gas and associated hydrocarbons produced from the Company Petroleum Tenements to International Oil Lease Service Corp pursuant to a royalty agreement a copy of which is set out in annexure B of the Nockatunga JOAs; and
- (b) the royalty on oil, gas and condensate from the Company Petroleum Tenements in favour of Banner Petroleum Corporation pursuant to the terms of a royalty agreement, a copy of which forms annexure C of the Nockatunga JOAs.

Sale and Purchase Agreement means the agreement between the parties pursuant to which SQNT agreed to purchase all of MPE's interests in the Nockatunga Tenements and under the Nockatunga Agreements.

1.2 Construction

Unless expressed to the contrary, in this document:

- (d) words in the singular include the plural and vice versa;
- (e) any gender includes the other genders;

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- (f) if a word or phrase is defined its other grammatical forms have corresponding meanings;
 - (g) “includes” means includes without limitation;
 - (h) no rule of construction will apply to a clause to the disadvantage of a party merely because that party put forward the clause or would otherwise benefit from it;
 - (i) a reference to:
 - (i) a person includes a partnership, joint venture, unincorporated association, corporation and a government or statutory body or authority;
 - (ii) a person includes the person’s legal personal representatives, successors, assigns and persons substituted by novation;
 - (iii) any legislation includes subordinate legislation under it and includes that legislation and subordinate legislation as modified or replaced;
 - (iv) an obligation includes a warranty or representation and a reference to a failure to comply with an obligation includes a breach of warranty or representation;
 - (v) a right includes a benefit, remedy, discretion or power;
 - (vi) time is to local time in Brisbane;
 - (vii) “\$” or “dollars” is a reference to Australian currency;
 - (viii) this or any other document includes the document as novated, varied or replaced and despite any change in the identity of the parties;
 - (ix) writing includes any mode of representing or reproducing words in tangible and permanently visible form, and includes fax transmissions;
 - (x) this document includes all schedules and annexures to it; and
 - (xi) a clause, schedule or annexure is a reference to a clause, schedule or annexure, as the case may be, of this document;
 - (j) if the date on or by which any act must be done under this document is not a Business Day, the act must be done on or by the next Business Day; and
 - (k) where time is to be calculated by reference to a day or event, that day or the day of that event is excluded.

1.3 Headings

Headings do not affect the interpretation of this document.

2 Assignment and Assumption

2.1 Assignment

- (a) MPE hereby transfers and assigns to SQNT with effect from the Effective Date all of the right, title and interest of MPE in the Nockatunga Agreements.
- (b) In the event that the Sale and Purchase Agreement terminates or is rescinded for any reason, this deed will cease to have any force or effect whatsoever subject to any rights and liabilities of a party which have accrued prior to the date this deed ceases to have effect.

2.2 Assumption

SQNT agrees that on and from the Effective Date it will observe and perform all of the obligations of MPE and assume all of the liabilities of MPE in respect of the Nockatunga Agreements and the Royalty Interests, and be bound by all of the terms, conditions, restrictions, covenants and obligations of MPE in respect of the Nockatunga Agreements and the Royalty Interests from the Effective Date.

3 Release

3.1 Consent and waiver

Vamgas consents to the Assignment and waives all and any rights of pre-emption and rights of first refusal which it may have in respect of the Assignment.

3.2 Nockatunga JOAs

On and from the Effective Date, SQNT and Vamgas release MPE from all and any Claims arising under or in respect of the Nockatunga JOAs in respect of the period on and from the Effective Date.

3.3 Carry Agreement

Each of Vamgas and MPE releases each other from all and any Claims arising under or in respect of the Carry Agreement.

3.4 Drilling Costs Claims

Without limiting **clauses 3.2 and 3.3**, Vamgas and SQNT hereby release MPE from the Drilling Costs Claims and each shall indemnify and keep indemnified MPE against the Drilling Costs Claims.

4 Royalty Interests

4.1 Release of MPE

Each of Vamgas and SQNT acknowledge and agree that on and from the Effective Date MPE is released and discharged from all liability in respect of

the Royalty Interests other than any unpaid or unsatisfied liability incurred by MPE before the Effective Date.

4.2 Indemnity by SQNT

SQNT hereby indemnifies and keeps indemnified MPE against all liability in respect of the Royalty Interests which it may incur at any time on or after the Effective Date other than in respect of any liability which accrued or fell due on MPE's share of production from the Nockatunga Tenements prior to the Effective Date.

4.3 Indemnity by MPE

MPE hereby indemnifies and keeps indemnified SQNT against all liability in respect of the Royalty Interests which accrue or fall due on MPE's share of production from the Nockatunga Tenements prior to the Effective Date.

5 Miscellaneous

5.1 Amendment

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

5.2 Waiver and exercise of rights

- (c) A single or partial exercise or waiver of a right relating to this document will not prevent any other exercise of that right or the exercise of any other right.
- (d) A Party will not be liable for any loss, cost or expense of any other party caused or contributed to by the waiver, exercise, attempted exercise, failure to exercise or delay in the exercise of a right.

5.3 Rights cumulative

Subject to any express provision in this document to the contrary, the rights of a Party under this document are cumulative and are in addition to any other rights of that party.

5.4 Approvals and consent

Subject to any express provision in this document to the contrary, a party 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.

5.5 Further assurance

Each Party will promptly execute all documents and do all things that any other Party from time to time reasonably requires of it to effect, perfect or complete the provisions of this document and any transaction contemplated by it.

5.6 Governing law and jurisdiction

- (a) This document is governed by and is to be construed in accordance with the laws in force in Queensland.

-
- (b) Each Party irrevocably and unconditionally submits to the non exclusive jurisdiction of the courts of Queensland and any courts which have jurisdiction to hear appeals from any of those courts and waives any right to object to any proceedings being brought in those courts.

5.7 Counterparts

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

5.8 Effect of execution

This document is not binding on any Party unless it or a counterpart has been duly executed by, or on behalf of, each person named as a Party to the document.

5.9 Entire understanding

- (a) This document embodies the entire understanding and agreement between the Parties as to the subject matter of this document.
- (b) All previous negotiations, understandings, representations, warranties, memoranda or commitments in relation to, or in any way affecting, the subject matter of this document are merged in and superseded by this document and will be of no force or effect whatever and no Party will be liable to any other Party in respect of those matters.
- (c) No oral explanation or information provided by any party to another will:
- (i) affect the meaning or interpretation of this document; or
 - (ii) constitute any collateral agreement, warranty or understanding between any of the parties.

5.10 Legal costs

Each party will bear its own legal and other costs and expenses relating directly or indirectly to the preparation of, and performance of its obligations under this document.

5.11 Stamp duty

SQNT will, as between the Parties, be liable for and duly pay all stamp duty (including any fine or penalty) on or relating to this document and any document executed under it.

Executed as a deed.

Executed by Magellan Petroleum)
(Eastern) Pty Ltd in accordance with)
section 127 of the Corporations Act)
2001 in the presence of:)

/s/ Mervyn V. Cowie
Director

Mervyn V. Cowie
Name of Director (print)

Executed for and on behalf of Santos)
QNT Pty Ltd by being duly signed)
sealed and delivered by its duly)
appointed Attorney in the presence of:)

/s/ Tiffany Jane Travers
Witness

Tiffany Jane Travers
Name of Witness (print)

Executed for and on behalf of)
Vamgas Pty Ltd by being duly signed)
sealed and delivered by its duly)
appointed Attorney in the presence of:)

/s/ Tiffany Jane Travers
Witness

Tiffany Jane Travers
Name of Witness (print)

/s/ Bruce McInnes
Secretary/Director

Bruce McInnes
Name of Secretary/Director (print)

/s/ Peter Christoper Wasow
Attorney

Peter Christopher Wasow
Name of Attorney (print)

/s/ Peter Christoper Wasow
Attorney

Peter Christopher Wasow
Name of Attorney (print)

Schedule 3

Purchase Price Allocation

The Parties agree that the Purchase Price is to be apportioned among the individual interests comprising the Nockatunga Sale Interest as follows:

<u>INTEREST</u>	<u>PRICE ALLOCATION</u>
Legal and beneficial interest in the property, plant and equipment arising under the Related Agreements	\$ 5,199,999
ATP 267P	\$ 1,000,000
PL 33, PL 50, PL 51, PL 244, PL 245	\$ 100,000
Related Agreements	\$ 1
PURCHASE PRICE	\$ 6,300,000

Executed as an agreement

Executed by **Magellan Petroleum**)
(Eastern) Pty Ltd)

/s/ Bruce McInnes
Company Secretary/Director

Bruce McInnes
Name of Company Secretary/Director (print)

Executed for and on behalf of)
Magellan Petroleum Australia)
Limited by its duly authorised)
attorney in the presence of:)

/s/ Paul Steven Careless
Witness

Paul Steven Careless
Name of Witness (print)

Executed for and on behalf of **Santos**)
QNT Pty Ltd by its duly authorised)
attorney in the presence of:)

/s/ Wendy Roxbee
Witness

Wendy Roxbee
Name of Witness (print)

Executed for and on behalf of **Vamgas**)
Pty Ltd by its duly authorised)
attorney in the presence of:)

/s/ Wendy Roxbee
Witness

Wendy Roxbee
Name of Witness (print)

/s/ Mervyn V. Cowie
Director

Mervyn V. Cowie
Name of Director (print)

/s/ Mervyn V. Cowie
Attorney

Mervyn V. Cowie
Name of Attorney (print)

/s/ Mark Macfarlane
Signatory
Name:
Title: VP Eastern Australia

/s/ Mark Macfarlane
Signatory
Name:
Title: VP Eastern Australia

EXHIBIT 31.1

RULE 13a-14(a) CERTIFICATIONS

I, William H. Hastings, 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (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 16, 2010

/s/ William H. Hastings

William H. Hastings
President and Chief Executive Officer

EXHIBIT 31.2

RULE 13a-14(a) CERTIFICATIONS

I, William E. Begley, Jr., 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (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 16, 2010

/s/ William E. Begley, Jr.

William E. Begley, Jr.
Chief Financial Officer

EXHIBIT 32.1

SECTION 1350 CERTIFICATIONS

In connection with the Quarterly Report of Magellan Petroleum Corporation (the "Company") on Form 10-Q for the period ended December 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William H. Hastings, 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, as amended; 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 16, 2010

By: /s/ William H. Hastings

William H. Hastings

President and Chief Executive Officer

EXHIBIT 32.2

SECTION 1350 CERTIFICATIONS

In connection with the Quarterly Report of Magellan Petroleum Corporation (the "Company") on Form 10-Q for the period ended December 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William E. Begley, Jr., President and Chief Executive 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, as amended; 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 16, 2010

By: /s/ William E. Begley, Jr.

William E. Begley, Jr.

Chief Financial Officer