

**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 March 31, 2010

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 April 28, 2010 was 52,335,977.

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FORM 10-Q
March 31, 2010

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MAGELLAN PETROLEUM CORPORATION
FORM 10-Q
PART I - FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	<u>March 31,</u> <u>2010</u>	<u>June 30,</u> <u>2009</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 37,593,345	\$ 34,688,842
Accounts receivable — Trade (net of allowance for doubtful accounts of \$152,133 and \$90,102 at March 31, 2010 and June 30, 2009, respectively)	3,382,038	5,346,111
Accounts receivable — working interest partners	581,394	500,404
Marketable securities	—	997,306
Inventories	822,782	847,159
Deferred income taxes	763,597	563,853
Assets held for sale	453,752	—
Other assets	879,698	598,509
Total current assets	<u>44,476,606</u>	<u>43,542,184</u>
Deferred income taxes	5,180,172	5,708,448
Securities available-for-sale (at fair value)	256,798	903,924
Deposit – Evans Shoal	13,788,000	—
Property and equipment, net:		
Oil and gas properties (successful efforts method)	124,424,465	117,617,555
Land, buildings and equipment	3,587,866	2,962,649
Field equipment	5,938,234	868,504
	<u>133,950,565</u>	<u>121,448,708</u>
Less accumulated depletion, depreciation and amortization	<u>(102,329,822)</u>	<u>(103,919,971)</u>
Net property and equipment	31,620,743	17,528,737
Goodwill	4,020,706	4,020,706
Other assets	138,056	—
Total assets	<u>\$ 99,481,081</u>	<u>\$ 71,703,999</u>

See accompanying notes.

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MAGELLAN PETROLEUM CORPORATION
FORM 10-Q
PART I - FINANCIAL INFORMATION - ITEM 1 FINANCIAL STATEMENTS
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)

	March 31, 2010	June 30, 2009
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 1,790,172	\$ 2,688,342
Accrued liabilities	1,731,284	1,639,284
Demand notes payable	500,000	—
Current portion of note payable	451,586	—
Fair value of derivative contract	220,952	—
Income taxes payable	—	2,054,052
Total current liabilities	<u>4,693,994</u>	<u>6,381,678</u>
Long term liabilities:		
Deferred income taxes	1,176,731	1,923,907
Notes payable	343,941	—
Other long term liabilities	483,533	70,232
Asset retirement obligations	<u>11,136,121</u>	<u>9,815,262</u>
Total long term liabilities	<u>13,140,326</u>	<u>11,809,401</u>
Commitments and contingencies	—	—
Equity:		
Equity attributable to Magellan Petroleum Corporation:		
Common stock, par value \$.01 per share: Authorized 200,000,000 shares, outstanding 52,335,977 and 41,500,325, respectively	523,358	415,001
Capital in excess of par value	91,063,534	73,311,075
Accumulated deficit	(20,735,183)	(22,192,919)
Accumulated other comprehensive income	<u>8,885,270</u>	<u>1,979,763</u>
Total equity attributable to Magellan Petroleum Corporation	79,736,979	53,512,920
Non-controlling interest in subsidiaries	<u>1,909,782</u>	—
Total equity	<u>81,646,761</u>	<u>53,512,920</u>
Total liabilities and equity	<u>\$ 99,481,081</u>	<u>\$ 71,703,999</u>

See accompanying notes.

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MAGELLAN PETROLEUM CORPORATION
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ITEM 1 FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	THREE MONTHS ENDED MARCH 31,		NINE MONTHS ENDED MARCH 31,	
	2010	2009	2010	2009
REVENUES:				
Oil sales	\$ 1,947,505	\$ 1,707,287	\$ 7,890,129	\$ 9,184,879
Gas sales	2,024,487	3,291,615	12,985,167	10,600,544
Other production related revenues	1,164,953	523,611	2,856,704	1,348,058
Total revenues	<u>5,136,945</u>	<u>5,522,513</u>	<u>23,732,000</u>	<u>21,133,481</u>
COSTS AND EXPENSES:				
Production costs	1,823,303	1,951,335	7,243,205	6,218,141
Exploration and dry hole costs	225,204	1,385,552	882,260	2,652,929
Salaries and employee benefits	1,281,819	386,450	4,032,120	1,200,435
Depletion, depreciation and amortization	704,428	1,130,134	3,351,564	5,691,415
Auditing, accounting and legal services	387,260	602,058	1,164,334	1,291,857
Accretion expense	161,828	118,206	546,179	396,482
Shareholder communications	77,951	138,414	380,125	351,586
Other administrative expenses	1,953,959	776,278	5,976,356	2,069,528
(Gain) loss on sale of assets	(5,693,784)	211	(6,828,059)	12,072
Impairment loss	—	—	1,604,417	—
Total costs and expenses	<u>921,968</u>	<u>6,488,638</u>	<u>18,352,501</u>	<u>19,884,445</u>
Operating income (loss)	4,214,977	(966,125)	5,379,499	1,249,036
Warrant expense	(1,897,753)	—	(4,276,472)	—
Investment and other income	327,187	273,641	2,862,118	1,362,185
Income (loss) before income taxes	2,644,411	(692,484)	3,965,145	2,611,221
Income tax (provision) benefit	<u>(1,463,723)</u>	<u>1,083,101</u>	<u>(2,485,529)</u>	<u>(1,237,487)</u>
Net income	1,180,688	390,617	1,479,616	1,373,734
Less net income attributable to non-controlling interest in subsidiaries	<u>(18,243)</u>	<u>—</u>	<u>(21,880)</u>	<u>—</u>
Net income attributable to Magellan Petroleum Corporation	<u>\$ 1,162,445</u>	<u>\$ 390,617</u>	<u>\$ 1,457,736</u>	<u>\$ 1,373,734</u>
Average number of shares outstanding				
Basic	<u>51,989,866</u>	<u>41,500,325</u>	<u>51,100,029</u>	<u>41,500,325</u>
Diluted	<u>54,464,150</u>	<u>41,500,325</u>	<u>52,442,981</u>	<u>41,500,325</u>
Net Income per basic and dilutive share attributable to Magellan Petroleum Corporation common shareholders	<u>\$ 0.02</u>	<u>\$ 0.01</u>	<u>\$ 0.03</u>	<u>\$ 0.03</u>

See accompanying notes

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MAGELLAN PETROLEUM CORPORATION
FORM 10-Q
PART I - FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	NINE MONTHS ENDED	
	March 31,	
	2010	2009
OPERATING ACTIVITIES:		
Net income	\$ 1,479,616	\$ 1,373,734
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss/(gain) from disposal of assets	(6,828,059)	12,072
Gain from sale of investments	(2,065,369)	—
Depletion, depreciation and amortization	3,351,564	5,691,415
Accretion expense	546,179	396,482
Deferred income taxes	766,939	(1,168,693)
Stock-based compensation and change in warrant valuation	6,132,081	11,372
Write off of exploration permits	—	358,294
Exploration and dry hole costs	—	5,677
Impairment loss	1,604,417	—
Changes in operating assets and liabilities:		
Accounts receivable	3,662,662	2,608,049
Other assets	(88,641)	(171,926)
Inventories	658,657	77,334
Accounts payable and accrued liabilities	(2,653,481)	2,607,001
Income taxes payable	(2,694,542)	(2,377,600)
Net cash provided by operating activities	3,872,023	9,423,211
INVESTING ACTIVITIES:		
Proceeds from sale of assets	7,247,339	48,279
Additions to property and equipment	(1,976,654)	(1,968,626)
Oil and gas exploration activities	(214,096)	(224,844)
Proceeds from sale of securities available for sale	9,615,215	—
Purchase of securities available for sale	(7,259,082)	—
Proceeds from sale of securities	494,511	—
Marketable securities matured or sold	7,194,090	1,705,689
Marketable securities purchased	(6,196,784)	(2,398,694)
Deposit for purchase of Evans Shoal	(13,788,000)	—
Purchase of controlling interest – Nautilus Poplar LLC	(7,309,113)	—
Cash acquired – purchase of Nautilus Poplar LLC	314,727	—
Purchase of working interests in oil and gas properties	(4,090,170)	—
Net cash used in investing activities	(15,968,017)	(2,838,196)
FINANCING ACTIVITIES:		
Debt principal payments	(235,392)	—
Proceeds from issuance of stock	10,000,000	—
Net cash provided by financing activities	9,764,608	—
Effect of exchange rate changes on cash and cash equivalents	5,235,889	(10,907,529)
Net increase (decrease) in cash and cash equivalents	2,904,503	(4,322,514)
Cash and cash equivalents at beginning of period	34,688,842	34,615,228
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 37,593,345	\$ 30,292,714
Cash Payments:		
Income taxes	4,413,136	4,436,995
Interest	38,864	—
Supplemental Schedule of Noncash Investing and Financing Activities:		
Unrealized holding loss	(25,703)	—
Revision to estimate of asset retirement obligations	1,421	(995,621)
Write off of exploration permits	—	358,294
Accounts payable related to property and equipment	15,246	15,436

See accompanying notes

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MAGELLAN PETROLEUM CORPORATION
FORM 10-Q
PART I - FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(unaudited)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	March 31,		March 31,	
	2010	2009	2010	2009
Net income	\$1,180,688	\$ 390,617	\$1,479,616	\$ 1,373,734
Foreign currency translation adjustments	1,854,137	(371,881)	7,337,570	(17,329,439)
Unrealized loss on derivative contract, net of deferred tax	(220,952)	—	(220,952)	—
Unrealized holding loss, net of deferred tax	(20,060)	—	(247,667)	—
Total comprehensive income (loss)	2,793,813	18,736	8,348,567	(15,955,705)
Less net income attributable to non-controlling interest in subsidiary	(18,243)	—	(21,880)	—
Add back unrealized loss on derivative contract attributable to non-controlling interest in subsidiary	36,556	—	36,556	—
Comprehensive income (loss) attributable to Magellan Petroleum Corporation	\$2,812,126	\$ 18,736	\$8,363,243	\$(15,955,705)

See accompanying notes

MAGELLAN PETROLEUM CORPORATION
FORM 10-Q
PART I - FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(unaudited)

	Common Stock	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total
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	7,524,371	—	—	—	7,611,328
Purchase of subsidiary Nautilus acquisition (Note 3)	17,000	2,363,000	—	—	1,924,458	4,304,458
Warrants reclassified (Note 2)	—	6,401,765	—	—	—	6,401,765
Stock and stock option compensation	4,400	1,463,323	—	—	—	1,467,723
Net income	—	—	1,457,736	—	21,880	1,479,616
Comprehensive income:						
Foreign currency translation adjustments	—	—	—	7,337,570	—	7,337,570
Unrealized holding gains, net of deferred tax	—	—	—	(247,667)	—	(247,667)
Unrealized loss on derivative contract, net of deferred tax and non-controlling interest	—	—	—	(184,396)	(36,556)	(220,952)
March 31, 2010	<u>\$523,358</u>	<u>\$91,063,534</u>	<u>\$(20,735,183)</u>	<u>\$ 8,885,270</u>	<u>\$ 1,909,782</u>	<u>\$81,646,761</u>

See accompanying notes

MAGELLAN PETROLEUM CORPORATION
FORM 10-Q
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 March 31, 2010, MPAL’s major assets are two petroleum production leases covering the Mereenie oil and gas field (35% working interest), one petroleum production lease covering the Palm Valley gas field (52% working interest) and 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. Santos Limited, a publicly owned Australian company, owns a 48% interest in the Palm Valley field and a 65% interest in the Mereenie field. Santos Ltd. is the operator of the Mereenie fields.

On March 25, 2010, MPAL executed an agreement with Santos Limited (“Santos”) to purchase Santos’ 40% interest in the Evans Shoal natural gas field (NT/P48), located in the Bonaparte Basin offshore Northern Australia. Under the agreement, Magellan is obligated to pay Santos time-staged cash consideration equal to (AUS) \$100 million (U.S. \$91 million) for its interest in Evans Shoal. Magellan would also pay additional contingent payments to Santos of (AUS) \$50 million (U.S. \$45.5 million) upon a favorable partner vote on any final investment decision to develop Evans Shoal and (AUS) \$50 million (U.S. \$45.5 million) upon first stabilized gas production from NT/P 48. Closing and completion of the purchase is subject to regulatory and other approvals and is expected to occur in the second half of calendar 2010. See Note 4 for further discussion.

On March 9, 2010, the Company entered into a Purchase and Sale Agreement with Hunter Energy LLC under which the Company purchased Hunter’s 25.05% average working interests in the East Poplar Unit and Northwest Poplar field. In a separate transaction the Company also purchased a 1.25% interest in the same fields, from a different owner. Magellan, itself and through its subsidiaries, now owns an 83.68% average working interests in the East Poplar Unit and Northwest Poplar field. See Note 3 for further discussion of these acquisitions.

On October 15, 2009, the Company acquired an approximate 83.5% controlling member 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.

During the quarter ended December 31, 2009, the Company entered into agreements to sell all of 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 (AUS) \$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. See Note 5 for further discussion.

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 nine months ended March 31, 2010 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 Financial Accounting Standards Board (“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 for the year ending June 30, 2010.

MAGELLAN PETROLEUM CORPORATION
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PART I - FINANCIAL INFORMATION

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

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. This valuation requires management to make significant estimates and assumptions, especially with respect to the oil and gas properties.

Accounting for derivative instruments

The Company's results of operations and operating cash flows are impacted by the fluctuations in the market prices of crude oil. To mitigate a portion of the exposure to adverse market changes, the Company will periodically enter into various derivative instruments. The purpose of the derivative instrument is to provide a measure of stability to the Company's cash flow in meeting financial obligations while operating in a volatile crude oil market environment. The derivative instrument reduces the Company's exposure on the hedged production volumes to decreases in commodity prices and limits the benefit the Company might otherwise receive from any increases in commodity prices on the hedged production volumes.

The Company recognizes all derivative instruments as assets or liabilities in the balance sheet at fair value. The accounting treatment for changes in fair value, as specified in ASC 815 "Derivatives and Hedging," is dependent upon whether or not a derivative instrument is designated as a hedge. For derivatives designated as cash flow hedges, changes in fair value, to the extent the hedge is effective, are recognized in accumulated other comprehensive income on the accompanying balance sheet until the hedged item is recognized in earnings as crude oil revenue. If the hedge has an ineffective portion, that particular portion of the gain or loss would be immediately reported in earnings (see Note 6).

Goodwill

The aggregate amount of goodwill at March 31, 2010 and June 30, 2009 was \$4,020,706. At March 31, 2010, goodwill consisted of \$4,020,706 related to the fiscal 2006 acquisition of the 44.87% of MPAL that we did not own at the time. 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.

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

MAGELLAN PETROLEUM CORPORATION
FORM 10-Q
PART I - FINANCIAL INFORMATION

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

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 Warrant Agreement contained 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. Since the provisions permitted the warrant holder to avoid bearing some of the risks and rewards normally associated with equity share ownership, the warrants were classified as liabilities and marked to market each reporting date with the change in value flowing through earnings.

On March 11, 2010, YEP and the Company agreed to amend the Warrant Agreement to remove certain anti-dilution provisions. As a result, the Warrants were reclassified as equity and no revaluations are required subsequent to March 11, 2010.

On March 11, 2010, the date of the modified Warrant Agreement, the fair value of the warrants was \$6,401,765 based on the Black-Scholes valuation models using the following assumptions:

	<u>March 11, 2010</u>
Risk free interest of credit	2.11%
Expected life	4.31 yrs
Expected volatility (based on historical price)	52%
Expected dividend	\$ 0

For the three and nine months ended March 31, 2010, non-cash charges of \$1,897,753 and \$4,276,472, respectively, were recorded in the consolidated statement of income.

Note 3 Acquisitions

Acquisition of controlling member interest in Nautilus Poplar LLC

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 on the date of the acquisition), 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 purchase was accounted for under the acquisition method of accounting. Under this 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 for the changes in the estimated fair value. The results of Nautilus' operations have been included in the consolidated financial statements since October 15, 2009.

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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	<u>\$ 9,689,113</u>
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash	\$ 314,727
Accounts receivable	968,847
Other current assets	551,234
Oil properties	13,607,499
Other non-current assets	<u>387,943</u>
Total assets acquired	15,830,250
Accounts payable	886,165
Other current liabilities	1,645,037
Asset retirement obligations	1,064,000
Other non-current liabilities	<u>621,477</u>
Total liabilities acquired	4,216,679
Total identifiable net assets	11,613,571
Less non controlling interest	<u>(1,924,458)</u>
Net assets acquired by Magellan Petroleum Corporation	<u>\$ 9,689,113</u>

The preliminary allocation has been revised since December 31, 2009 for a tax election taken by Nautilus under Internal Revenue Service Code section 754. As a result of this election, the book and tax basis of Nautilus' oil and gas properties attributable to MPC will be equal, thereby reducing the deferred taxes on oil & gas properties and the related goodwill.

The results of operations of Nautilus included in the consolidated statement of operations of Magellan for the period ended March 31, 2010 was net income of \$132,246 on revenues of \$1,642,858.

Acquisition of working interest in Poplar Fields

On March 9, 2010, the Company entered into a Purchase and Sale Agreement with Hunter Energy LLC under which the Company assumed Hunter's 25.05% average working interests in those Montana fields. On March 8, 2010, the Company also acquired a 1.25% average working interest in the same fields from Nautilus Technical Group (NTG).

Magellan itself and through its subsidiaries, now owns an 83.68% average working interests in these Montana fields, after consideration of its controlling interest in Nautilus.

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Nautilus will continue to serve as the operator of the Poplar Fields.

A working interest in an oil and gas property is considered a business for reporting purposes. As such, the purchases were accounted for under the acquisition method of accounting. Therefore, 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 for changes in the estimated fair value. The effective date for revenue and expense recognition for these properties is April 1, 2010. As such, no revenues or expense related to the newly acquired working interests is included in the statement of income for the periods ended March 31, 2010.

The following table presents the allocation of the acquisition costs of each transaction, based upon preliminary fair values.

	<u>25.05% Avg.</u>	<u>1.25% Avg.</u>	<u>Total</u>
	<u>Working Int.</u>	<u>Working Int.</u>	
Purchase price/cash consideration	\$3,852,670	\$ 237,500	\$4,090,170
Recognized amounts of identifiable assets acquired and liabilities assumed:			
Oil properties	3,123,497	201,116	3,324,613
Oil and gas equipment	1,116,667	55,719	1,172,386
Total identifiable net assets	4,240,164	256,835	4,496,999
Asset retirement obligations	387,494	19,335	406,829
Total net identifiable assets acquired	\$3,852,670	\$ 237,500	\$4,090,170

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The following pro forma financial information represents the combined results for the Company including, Nautilus and the working interests purchased on March 8th and 9th, in the Poplar Fields for the three and nine months ended March 31, 2010 and 2009, as if the acquisitions had occurred on July 1, 2009:

	<u>Three months ended</u> <u>March 31, 2010</u>	<u>Three months ended</u> <u>March 31, 2009</u>	<u>Nine months ended</u> <u>March 31, 2010</u>	<u>Nine months ended</u> <u>March 31, 2009</u>
Total Revenue	\$ 5,459,728	\$ 6,099,072	\$ 25,367,202	\$ 24,394,112
Costs and expenses	<u>1,080,282</u>	<u>7,180,113</u>	<u>19,764,834</u>	<u>23,153,629</u>
Operating income (loss)	4,379,446	(1,081,041)	5,602,368	1,240,483
Other (expense) income - net	<u>(1,570,566)</u>	<u>273,641</u>	<u>(1,414,025)</u>	<u>1,368,364</u>
Income (loss) before taxes	2,808,880	(807,400)	4,188,343	2,608,847
Income tax (provision) benefit	<u>(1,463,723)</u>	<u>1,083,101</u>	<u>(2,485,529)</u>	<u>(1,237,487)</u>
Net income (loss)	1,345,157	275,701	1,702,814	1,371,360
Less non-controlling interest in subsidiaries (income) loss	<u>(18,243)</u>	<u>30,454</u>	<u>15,089</u>	<u>57,089</u>
Net income attributable to Magellan Petroleum Corporation	<u>\$ 1,326,914</u>	<u>\$ 306,155</u>	<u>\$ 1,717,903</u>	<u>\$ 1,428,449</u>
Average number of shares outstanding				
Basic	<u>51,989,866</u>	<u>43,200,325</u>	<u>51,760,102</u>	<u>43,200,325</u>
Diluted	<u>54,464,150</u>	<u>43,200,325</u>	<u>53,154,684</u>	<u>43,200,325</u>
Net Income (loss) per basic share attributable to Magellan Petroleum Corporation common shareholders	<u>\$ 0.03</u>	<u>\$ 0.01</u>	<u>\$ 0.03</u>	<u>\$ 0.03</u>
Net Income (loss) per dilutive share attributable to Magellan Petroleum Corporation common shareholders	<u>\$ 0.02</u>	<u>\$ 0.01</u>	<u>\$ 0.03</u>	<u>\$ 0.03</u>

Note 4 Evans Shoal Agreement

On March 25, 2010, MPAL entered into an agreement with Santos Limited (Santos) to purchase Santos' 40% interest in the Evans Shoal natural gas field (NT/P48), located in the Bonaparte Basin offshore Northern Australia.

Under the agreement, Magellan is obligated to pay Santos time-staged cash consideration equal to (AUS) \$100 million (U.S. \$91 million equivalent) for its interest in Evans Shoal on or before December 25 2010. Magellan would also pay additional contingent payments to Santos of (AUS) \$50 million (U.S.\$45.5 million) upon a favorable partner vote on any final investment decision to develop Evans Shoal and (AUS) \$50 million (U.S.\$45.5 million) upon first stabilized gas production from NT/P 48. Closing and completion of the purchase is subject to regulatory and other approvals and is expected to occur in the second half of 2010.

The Company is currently working toward initiatives including but not limited to; new equity financing options, private investment and or partner contributions to meet the financial commitments related to this agreement. The first segment of the transaction was a cash deposit of (AUS) \$15 million (U.S. \$13.8 million) which is included in the consolidated balance sheet at March 31, 2010. In certain circumstances the Company could lose its rights to the deposit. However, the Company believes this is unlikely.

Note 5 Sale of Cooper Basin Assets and Assets held for Sale

During the quarter ended December 31, 2009, the Company entered into agreements to sell all of 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 Australian \$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.

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The Nockatunga, Kiana and Aldinga oil fields and certain exploration licenses were sold in the nine months ended March 31, 2010. The Company recorded a gain of approximately \$5.7 million (\$4.0 million net of tax) and \$6.8 million (\$4.8 million net of tax) for the three and nine months ended March 31, 2010, related to the sale of these assets.

The sale of the remaining Cooper Basin Assets, which includes certain exploration licenses, is expected to be completed prior to June 30, 2010. These assets are included in assets held for sale.

The Company also recorded an impairment loss in the quarter ended December 31, 2009 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 an impairment loss in the statement of income.

Assets held for sale at March 31, 2010 consists of the following:

	<u>March 31, 2010</u>
Oil and gas properties	\$ 648,217
Deferred income taxes	(194,465)
Assets held for sale	<u>\$ 453,752</u>

Note 6 Derivative Contract

In February 2010, Nautilus (Note 3), entered into a derivative contract with BP Corporation of North America, Inc. (Counterparty). The contract with the Counterparty consists of two components. The first component is a swap on 3,000 bbls per month for the months of February 2010 through January 2011. The terms of the contract call for monthly settlements on 3,000 bbls based on the calculated difference of the average daily WTI NYMEX price for the respective month and a fixed price of \$64 per bbl. The second component of the contract is an option on 1,950 bbls per month for the months of February 2010 through January 2011. The terms of the contract call for a monthly settlements on the 1,950 bbls whereby the counterparty will pay 65% of the differential between the fixed price of \$64 and the average daily WTI NYMEX price for the respective month only to the extent that WTI-NYMEX pricing is in excess of the fixed price of \$64. On the second contract there is no exposure to the Company when pricing of the WTI-NYMEX is below \$64.

The Company has elected hedge accounting and has declared the transactions to be a cash flow hedge. For derivatives designated as cash flow hedges, changes in fair value, to the extent the hedge is effective, are recognized in Accumulated Other Comprehensive Income on the accompanying balance sheet until the hedged item is recognized in earnings as crude oil revenue. If the hedge has an ineffective portion, that particular portion of the gain or loss would be immediately reported in earnings. The Company elected to utilize the Hypothetical-Derivative Method for evaluating the hedged item for ineffectiveness. Under this method, the amount of ineffectiveness, if any, recorded in crude oil revenue is the excess of the cumulative change in the fair value of the hedged item over the cumulative change in the fair value of the perfect hypothetical hedge.

The following crude oil contracts were in place as of March 31, 2010, and qualified as cash flow hedges:

<u>Period</u>	<u>Type of Contract</u>	<u>Crude oil Volume per Day</u>	<u>Price per bbl</u>	<u>Fair Value Asset (Liability)</u>
February 2010—January 2011	Swap/option	3,000/1950 bbl	\$ 64.00	\$(220,952)

For the three and nine months ended March 31, 2010, the Company has recognized in other comprehensive income changes in fair value of \$220,952 on the contracts that have been designated as cash flow hedges on forecasted sales of crude oil. For the three and nine months ended March 31, 2010, the Company recognized \$31,230, respectively, in net losses from hedging activities, included in oil sales. No ineffectiveness was recorded on the derivative instruments for the three and nine months ended March 31, 2010, as the cumulative change in the fair value of the hedged item did not exceed the cumulative change in the hypothetical hedge.

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See Note 13 – Fair Value Measurements.

Note 7 Stock Based Compensation

Non-employee options

During the nine months ended March 31, 2010, 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/consultant under the Company’s 1998 Stock Incentive Plan. No options were issued to non-employees during the three months ended March 31, 2010.

Since these options were issued to a non-employee, the Company determines their fair value 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 derived term for PBO’s.

The fair value of the time based options at March 31, 2010 was determined to be \$463,960 based on the Black-Scholes valuation model using the following assumptions:

	<u>March 31, 2010</u>
Risk free interest rate	3.62%
Expected life	8.83 yrs
Expected volatility (based on historical price)	62%
Expected dividend	\$ 0

The expected life of the time-based options is the remaining contractual term. The Company recorded non-cash charges of \$110,162 and \$212,648 related to these time based options for the three and nine months ended March 31, 2010, respectively. Unrecognized compensation for these options was \$251,312 as of March 31, 2010. The time-based stock options vest in equal annual installments over the vesting period, which is also the requisite service period.

During the quarter ended March 31, 2010, the PBOs of the director/consultant vested upon the attainment of the market condition.

Due to the attainment of the market condition, the Company changed from a valuation approach that was appropriate for the market-conditioned based options to the Black-Scholes method, which is consistent with the treatment of other similar instruments issued by the Company.

The fair value of the PBOs was measured on the date vesting occurred, March 2, 2010. Based on the Black-Scholes valuation model, the fair value was determined to be \$178,738. The Company recorded non-cash charges of \$110,492 and \$178,738 during the three and nine months ended March 31, 2010, respectively, related to the PBOs. The variables and assumptions used in this calculation at March 2, 2010, were as follows:

	<u>March 2, 2010</u>
Risk free interest rate	3.20%
Expected life	9.0 yrs
Expected volatility (based on historical price)	63%
Expected dividend	\$ 0

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During the nine months ended March 31, 2010, the Company granted to employees 783,333 time-based options, and 266,667 PBOs.

Vesting criteria of these PBOs is determined by the Company's board of directors, after receiving a recommendation by the compensation, governance and nominating committee. The PBOs had vesting conditions not probable of being met at March 31, 2010, accordingly no expense has been recognized for the three and nine months ended March 31, 2010 for these PBOs.

The Company determined the fair value of these options at the date of grant using the Black-Scholes option pricing model. 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>October 1, 2009</u>	<u>December 15, 2009</u>	<u>February 10, 2010</u>	<u>February 10, 2010</u>
Risk free interest rate	2.43%	2.62%	2.77%	2.56%
Expected life	5.75 yrs	5.75 yrs	6.00 yrs	5.44 yrs
Expected volatility (based on historical price)	62%	63%	61%	63%
Expected dividend	\$ 0	\$ 0	\$ 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 nine months ended March 31, 2010:

<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	
PBO and time based options awarded	Jul. 2019	387,500	1.20	\$ 247,280
Time based options awarded	Oct. 2019	150,000	1.40	115,868
Time based options awarded	Dec. 2019	100,000	1.72	95,725
PBO's awarded (1)	Feb. 2010	177,778	1.63	116,378
PBO's awarded (1) (2)	Feb. 2010	88,889	—	—
Time based options awarded (1)	Feb. 2010	533,333	1.63	511,874
March 31, 2010		<u>4,680,000</u>	\$1.30 weighted average	

- (1) Effective May 3, 2010, these options were forfeited upon termination of the employee and there was no option expense recorded for these options for the three and nine months ended March 31, 2010.
- (2) Per the terms of these options, they will be assigned an exercise price at the time of vesting. Without an exercise price no fair value has been determined and as such they are not included in the weighted average price per share. If the exercise price had been the stock price on the date granted of \$1.63, the weighted average price above would change to \$1.33.

The company recorded employee option compensation expense of \$571,113 and \$1,186,751 for the three and nine months ended March 31, 2010 which is reflected in the consolidated statements of income. Unrecognized compensation expense was \$822,783 as of March 31, 2010 related to employee options.

On March 31, 2010, the Company granted 700,000 options to its Directors, one of whom is also a consultant. All of these options are subject to shareholder approval at the annual shareholders' meeting to be held in the fall of 2010. As this approval is pending,

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there is no grant date for accounting purposes and, consequently, there was no financial statement impact during the three and nine months ended March 31, 2010. The options have an exercise price of 2.24, vest evenly over 3 years beginning April 1, 2011 and expire on April 1, 2020.

On March 31, 2010, the Company also granted to its directors and consultant director 350,000 non-vested shares of Company Common Stock which vest over 3 years. Of these share 141,666 vest on April 1, 2010 and 104,167 vest April 1, 2011 and 2012. Option expense of \$174,872 was recorded for the three and nine months ended March 31, 2010 and is included in the statements of income for the periods then ended. The expense is being recognized over the requisite service period using the accelerated method. Unrecorded compensation expense for these non-vested shares was \$609,127 as of March 31, 2010.

Note 8 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 was the dilutive effect of stock options and warrants which were computed using the treasury stock method and the non-vested shares (Note 7).

During the three and nine month periods ended March 31, 2010, the Company issued 800,000 and 1,437,500 stock options, respectively, 4,347,826 warrants and 350,000 non-vested shares (see Note 2 – Equity Investment and Note 7 – Stock Based Compensation).

For the three and nine month periods ended March 31, 2010, the Company had 7,715,326 and 5,477,826 options and warrants outstanding respectively, that had an exercise price below the average stock price for the periods that resulted in 2,308,363 and 1,220,600 incremental dilutive shares for the respective periods. The Company also had 350,000 non-vested shares of company stock for the three and nine months ended March 31, 2010, that resulted in 165,921 and 122,352 incremental dilutive shares for the periods respectively. There were no other potentially dilutive items at March 31, 2010.

During the three and nine month periods ended March 31, 2009, 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 three and nine month period ended March 31, 2009. At March 31, 2009, 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 March 31, 2009.

Note 9 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 wholly owned 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.

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

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	March 31,		March 31,	
	2010	2009	2010	2009
Revenues:				
MPC	\$ —	\$ 29	\$ —	\$ 146
Nautilus	903	—	1,643	—
MPAL	4,234	5,494	22,089	20,987
Total consolidated revenues	<u>\$ 5,137</u>	<u>\$ 5,523</u>	<u>\$ 23,732</u>	<u>\$ 21,133</u>
Operating (Loss) income:				
MPC	\$ 188	\$ (1,312)	\$ (3,446)	\$ (2,728)
Nautilus	120	—	131	—
MPAL	3,907	346	8,694	3,977
Total operating income (loss)	<u>\$ 4,215</u>	<u>\$ (966)</u>	<u>\$ 5,379</u>	<u>\$ 1,249</u>
Net (Loss) income:				
MPC	\$ (1,706)	\$ (1,307)	\$ (6,235)	\$ (2,741)
Nautilus	110	—	132	—
MPAL	2,777	1,698	7,583	4,115
Consolidated net income (loss)	<u>\$ 1,181</u>	<u>\$ 391</u>	<u>\$ 1,480</u>	<u>\$ 1,374</u>
Less net income attributable to non-controlling interest in subsidiaries	<u>(18)</u>	<u>—</u>	<u>(22)</u>	<u>—</u>
Consolidated net income attributable to Magellan Petroleum Corporation	<u>\$ 1,162</u>	<u>\$ 391</u>	<u>\$ 1,458</u>	<u>\$ 1,374</u>
Assets:				
	March 31, 2010	June 30, 2009		
MPC	\$ 72,077	\$ 68,349		
Nautilus	15,439	—		
MPAL (1)	80,086	69,711		
Equity elimination	<u>(68,121)</u>	<u>(66,356)</u>		
Total consolidated assets	<u>\$ 99,481</u>	<u>\$ 71,704</u>		

(1) Goodwill attributable to MPAL was \$4,020,706 at March 31, 2010 and June 30, 2009.

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Note 10 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>	<u>THREE MONTHS ENDED</u>		<u>NINE MONTHS ENDED</u>	
	<u>March 31,</u>		<u>March 31,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Farmout, field monitoring and technical costs	\$ 109,997	\$ 401,513	\$662,442	\$1,098,022
Seismic data and acquisition costs (1)	111,300	942,586	215,911	1,190,936
Other (2)	3,907	41,453	3,907	363,971
Total	<u>\$225,204</u>	<u>\$ 1,385,552</u>	<u>\$882,260</u>	<u>\$2,652,929</u>

- (1) Seismic data costs related to U.K. permits in 2010 and to the Nockatunga fields in 2009.
(2) The nine month period ended March 31, 2009 includes a write off of expired U.K. permits of \$294,554 and an impairment loss related to U.K. permits of \$63,740.

Note 11 Asset Retirement Obligations

A reconciliation of the Company's asset retirement obligations for the nine months ended March 31, 2010 was as follows:

Balance at June 30, 2009	\$ (9,815,262)
Liabilities incurred (1)	(1,470,829)
Liabilities settled	—
Accretion expense	(546,179)
Revisions to estimate	1,421
Sale of assets	1,870,526
Exchange effect	<u>(1,175,798)</u>
Balance at March 31, 2010	<u>(11,136,121)</u>

- (1) \$1,064,000 relates to purchase of Nautilus and \$406,829 relates to the working interest purchased in the Poplar Field (Note 3).

Note 12 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 nine months ended March 31, 2010 is 63% compared to 47% for the period ended March 31, 2009. 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.

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Note 13 Fair Value Measurements

The Company's items to which fair value measurements apply are cash equivalents, securities available for sale, marketable securities (fixed maturity securities), and derivative contracts. 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 are classified as Level 2 within the fair value hierarchy. 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 \$22,277,546 as of March 31, 2010 and the remaining \$15,315,799 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. The fair value of cash equivalents approximates carry value due to the short term nature of those instruments. National Australia Bank, Ltd. ("NAB") holds 53% 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.

The following table presents the amounts of assets carried at fair value at March 31, 2010 and June 30, 2009 by the level in which they are classified within the valuation hierarchy:

<u>Description</u>	<u>Fair Value Measurements at March 31, 2010 Rate Using</u>	
	<u>Quoted Prices in Active Markets for Identical Assets</u>	<u>Significant Other Observable Inputs</u>
	<u>Level 1</u>	<u>Level 2</u>
Securities available for sale	\$ 256,798	—
Derivative contract (Liability)	—	\$ (220,952)

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

See Note 6 for Derivate Contract

Marketable Securities

At March 31, 2010, MPC did not have any marketable securities. At June 30, 2009, MPC had the following marketable securities which are expected to be held until maturity and are carried at amortized cost:

<u>June 30, 2009</u>	<u>Par Value</u>	<u>Maturity Date</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
<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>

MAGELLAN PETROLEUM CORPORATION
FORM 10-Q
PART I - FINANCIAL INFORMATION

ITEM 1 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)*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 March 31, 2010 and June 30, 2009:

<u>March 31, 2010</u>	<u>Maturity Date</u>	<u>Fair Value</u>
Equity securities	Not applicable	\$256,798
<u>June 30, 2009</u>	<u>Maturity Date</u>	<u>Fair Value</u>
Equity securities	Not applicable	\$903,924

During the three months ended March 31, 2010, the Company did not sell any available-for-sale equity securities. The amount of net unrealized holding losses that have been included in accumulated other comprehensive income on remaining securities available-for-sale, is \$20,061 for the three months ended March 31, 2010.

During the nine months ended March 31, 2010, the Company received proceeds of \$2,648,278, upon the sale of available-for-sale equity securities. The gain on sale was calculated on a last-in-first-out basis. Realized gains of \$2,065,369 for the nine months ended March 31, 2010, were included in earnings. The amount of unrealized holding gains for the nine months ended March 31, 2010 that has been reclassified out of accumulated other comprehensive income into earnings and included in the gain on sale is \$1,051,299. The amount of net unrealized holding losses, that have been included in accumulated other comprehensive income on remaining securities available-for-sale was \$25,703 for the nine months ended March 31, 2010.

Derivative Instruments

The fair value of our derivative contract is measured using Level 2 inputs, and is determined by either market prices on an active market for similar assets or by prices quoted by a broker or other market-corroborated prices (Note 6).

Note 14 Nondepletable Assets

At March 31, 2010 and June 30, 2009, oil and gas properties include \$4.3 million and \$6.6 million, respectively, of capitalized costs that are currently not being depleted. Components of these costs are as follows:

<u>Nondepletable capitalized costs</u>	<u>At March 31, 2010</u>		<u>At June 30, 2009</u>	
	<u>\$A</u>	<u>SUS</u>	<u>\$A</u>	<u>SUS</u>
PEL 106 – Cooper Basin (1)	\$ —	\$ —	\$1,929,470	\$1,552,838
Weald/Wessex Basin U.K. (2)	1,436,199	1,308,521	1,222,102	983,548
Nautilus	—	420,986	—	—
Exploration permits and licenses – Australia and U.K. (3)	—	2,585,826	—	4,104,491
Total		<u>\$4,315,333</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 5.
- (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.

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MAGELLAN PETROLEUM CORPORATION
FORM 10-Q
PART I - FINANCIAL INFORMATION

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

Note 15 Debt

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

	<u>March 31,</u> <u>2010</u>
Note payable to bank in monthly installments of \$36,500 plus interest, at 6.0% through 2011	\$769,720
Loans payable, varying terms through 2012, collateralized by vehicles	25,807
	<u>\$795,527</u>
Less current portion	451,586
Long-term debt, excluding current portion	<u>\$343,941</u>

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

Less than 1 year	\$451,586
Two years	\$343,941

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 March 31, 2010, 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 repayment of all principal and interest outstanding under the note.

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 March 31, 2010 and was renewed subsequent to March 31, 2010. 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, based on market rates evaluated during refinancing in April 2010.

Note 16 Related Party Transactions

The Company leases its Denver office (the office of Nautilus) from an entity owned by Thomas Wilson, a director of MPC. The lease is month to month. The total paid to related parties for the three months ended March 31, 2010 was \$18,547. The total paid to the related parties from October 15, 2009 (the date of the Nautilus acquisition – Note 3) to March 31, 2010 was \$33,608.

On October 15, 2009, the Company acquired an approximate 83.5% controlling member interest in Nautilus (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.

On March 8, 2010, the Company acquired a 1.25% average working interest in East Poplar Unit and North West Poplar fields in Roosevelt County, Montana, from Nautilus Technical Group (NTG). NTG is owned 100% by Thomas Wilson, a director and consultant for the Company.

Note 17 Contingent Liabilities

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

MPC has a standby letter of credit of \$250,000, to cover potential liabilities related to the derivative agreement between Nautilus and British Petroleum (Note 6).

The company has contingent payments related to the Evans Shoal agreement (Note 4).

MAGELLAN PETROLEUM CORPORATION
FORM 10-Q
PART I - FINANCIAL INFORMATION

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

Note 18 Subsequent Events

The Company has evaluated subsequent events and noted no additional events that require recognition or disclosure at March 31, 2010, other than those listed below.

On April 9, 2010, Nautilus renewed its note payable and demand note payable. The demand note payable was increased to \$750,000 from \$500,000 at an interest rate of 6.5%. The new note payable has a principal amount of \$769,720 and bears interest at 6%. At the time of refinancing, MPC guaranteed Nautilus' debt with the bank up to \$2,000,000.

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 Magellan Petroleum Corporation (MPC) and Magellan Petroleum Australia Limited (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 (The Company) continues to execute on its long-term strategies to gain strong positions in North American onshore oil and to develop overlooked, but very large, natural gas fields in Australia for conversion to liquids (primarily Methanol) for growing Asian markets. The story is one of execution. We are pleased to report progress despite continued challenges for our most important legacy asset – Mereenie.

During the third fiscal quarter, we consolidated our controlling position in the Poplar area of Roosevelt County, Montana, gained traction toward new gas sales at Palm Valley and Mereenie while reducing expenses there, and signed an agreement to take a significant ownership position and will seek operatorship of the Evans Shoal field, offshore Australia (details of these plans are below).

Financial statements for the third fiscal quarter reflect the initial effect of some of these recent transactions. Net income for the quarter was \$1.2 million including the effect of a non-cash Warrant revaluation charge (\$1.9 million) associated with our largest shareholder, YEP (Young Energy Prize SA), and the effect of operations-related exchange revaluations in Australia which were offset to Cash on the Balance Sheet (\$0.4 million). Amendments to the Warrant terms were agreed in the third fiscal quarter and this will be the last non-cash revaluation recorded for the YEP Warrants.

Operating income totaled \$4.2 million for the fiscal quarter, still including the downward foreign currency exchange revaluation offset to the Balance Sheet (\$0.4 million), also reflects added personnel and asset base in Montana, charges related to acquisition for further consolidation in Montana, and a \$1.3 million reduction of gas revenue from Power and Water Corporation (PWC) began reducing natural gas takes at Mereenie. This was offset by a \$5.7 million gain on the sale of properties in the Cooper Basin, Australia. Revenue from two recent Montana acquisitions will be reflected on our financial statement in the next (4th) fiscal quarter.

What happens next is clearly where our value lies. We have, in a very short time, become a Company with a substantial asset base driven by execution of project plans – versus last year a Company with a nominal asset base in business development mode. This progress bodes well for the future, but also means that our efforts must increase commensurately. There remains much further work to do but we are showing strong progress on a number of fronts. Magellan will continue to draw upon the business relationships and lengthy experience of its management team in pulling together partnerships and creating value for shareholders. In summary, this quarter;

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- We agreed to purchase a significant interest in an already discovered, Evans Shoal natural gas field, offshore Australia. The Evans Shoal field is unique in its fit with the Companies strategies and plans, its low cost development potential relative to other major projects, and its sheer size. On March 25, 2010, MPAL executed an agreement with Santos Limited (Santos) to purchase Santos' 40% interest in the Evans Shoal natural gas field (NT/P48), located in the Bonaparte Basin offshore Northern Australia. Under the agreement, Magellan is obligated to pay Santos time-staged cash consideration equal to (AUS) \$100 million (U.S. \$91 million equivalent) for its interest in Evans Shoal. Magellan will also pay additional contingent payments to Santos of (AUS) \$50 million (U.S.\$45.5 million) upon a favorable partner vote on any final investment decision to develop Evans Shoal and (AUS) \$50 million (U.S.\$45.5 million) upon first stabilized gas production from NT/P 48. Closing and completion of the purchase is subject to regulatory and other approvals and is expected to occur in the second half of calendar 2010. As part of the transaction, MPAL would seek to replace Santos as the operator of Evans Shoal under the Joint Operating Agreement.
- We further consolidated interests at the East Poplar Unit and the Northwest Poplar fields in Roosevelt County, Montana by entering into a Purchase and Sale Agreement with Hunter Energy LLC under which MPC purchased Hunter's 25.05% average working interests in those Montana fields. We also gained control of Nautilus Technical Groups 1.25% working interest through settlement of prior arrangements and agreements. MPC, itself and through its subsidiaries, now controls 83.68% of the working interest there.
- Initial results of expense reduction efforts at Mereenie and Palm Valley became apparent. Operating changes at the field are active and the Field Operator is examining the sale of its interest. We are monitoring progress there and looking toward focusing on development over the western two-thirds of the field that is currently not producing.
- Natural gas takes at Mereenie were significantly reduced in the third fiscal quarter and will remain similar in the fourth fiscal quarter subject to exhaustive efforts described below on a new Sales Agreement. Under the provisions of the MSA4 Sales Agreement, given the low take levels, the Mereenie Producers have advised Power and Water Corporation (PWC) that pursuant to the terms of the Agreement, Mereenie Producer obligations to PWC under the current MSA4 Agreement will cease effective September 5, 2010. Further discussions on a new agreement, through intermediaries, with the Northern Territories Government continue. Mereenie Producers have had and continue to have the ability to provide surety of supply to the city of Darwin and its surrounding areas.
- Gas sales flow at Palm Valley continued at full nominated levels during the third quarter.

So, what can be expected over the next few quarters? Here is a summary of our current view.

- We will target completion of financing arrangements currently under active negotiation, both private and public. Proceeds from this effort will augment current cash balances and speed the development planning for Evans Shoal and redevelopment programs in Roosevelt County, Montana.
- In Australia, Magellan will:
- Continue and/or conclude efforts to secure new gas sales agreements for our onshore fields. This process is important.

We have had success with a follow-on agreement for Palm Valley post-2012 and are receiving feedback that a new agreement for Mereenie may be possible soon subject to further discussions in May.

Begin development work and seek operatorship at Evans Shoal. This will involve further seismic analysis, particularly transition work in shallow water areas, and planning / co-owner input toward the drilling of at least two delineation/test wells there in early 2011.

The Evans Shoal resource is very large with estimated unproved natural gas resource in excess of 6.5 to 8 TCF (trillion cubic feet), including CO₂ content and gas condensate resource totaling just less than 50 million barrels. Value from this resource is dependent upon completion, submission, and approval of a development plan and upon further drilling which we believe will support the field's potential.

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The field has had a complete 3D seismic program covering 2,150 square kilometers or 1336 square miles within the permit. Seismic analysis has confirmed the field's structural closure to cover in excess of 320 square kilometers or 199 square miles. The Evans Shoal acquisition will give us and our co-owners a development opportunity with regard to Asia's growing liquefied natural gas and methanol markets.

- Conclude initiatives with regard to ongoing feasibility work with methanol producers. We have been approached several large companies to add to our current discussions under a previously noted Exclusivity Agreement with a single methanol producer. We are working now to amend the Exclusivity Agreement and initiate those discussions in the near term.

Initiate work on the exploration permit over Area NT09-1. This Block offsets and is contiguous with the Evans Shoal gas field.

In March 2010, Magellan accepted an offer from the Commonwealth – Northern Territory Offshore Petroleum Joint Authority for the grant of an exploration permit for petroleum over Area NT09-1, offshore Northern Territory. The Area is located 220 kilometers (137 miles) northwest of Darwin.

The permit covers 6,305 square kilometers (2,435 square miles). It is seen as a good fit with Magellan's stated gas development strategy. We believe an important structural closure exists within this License area and are anxious to initiate a technical work program to study the area's potential. Commercially, any gas that can be found in NT09-1 will yield incremental economics for development through Evans Shoal and will offset our neighbors at Caldita to the north.

- In Montana, Magellan will:
 - Begin work with an intermediary to farm-out a share of our 23,000 ac. Bakken position within the Poplar Fields. There has been strong external interest in a farm-in program. This work is now ongoing and we expect to report results within three months.
 - Drill at least two targeted development wells (North American summer 2010) to test wettability development strategies for the Tyler and Nisku oil formations. We will also gain benefit from these wells by testing all of the producing formations on the way to the deeper Nisku formation for reservoir quality, producing capacity given new drilling technology, and for other pertinent reservoir properties.
 - Conclude Single Well Tracer tests for residual oil saturation within the Mississippian Charles formation(s). This will allow us to determine the applicability of tertiary oil recovery strategies – including, but not limited to, CO₂ flooding.
 - Initiate work on a shallow natural gas development program involving a large industrial buyer wishing to restart operations in Canada.
- In the United Kingdom, Magellan will;
 - Initiate and complete the first of a two-well drilling program at the Markwells Wood 1. The Markwells Wood well offsets a producing oil field (Horndean) which is producing in excess of its material balance.

Northern Petroleum, operator of PEDL 126 in the Weald Basin of Southern England, has issued a written advisory stating that it intends to spud the Markwells Wood exploration well, onshore United Kingdom, in June 2010. To achieve cost efficiencies, the intent is to drill Markwells Wood-1 in PEDL 126 and the Havant-1 on a prospect in PEDL 155 & PEDL 256 as a sequential drilling operation. Unfortunately construction of the Havant drill site, which commenced in late 2009, has been impacted by one of the worst winters in over a hundred years in the U.K., causing delays to previous intentions for the drilling program. However, drilling progress, as mentioned, is expected this summer.

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.

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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 March 31, 2010.

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 63% on March 31, 2010, compared to 47% for the period ended March 31, 2009.

Goodwill

Our goodwill is related to the fiscal 2006 acquisition of the 44.87% of MPAL that we did not own at the time. 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 30.

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.

Accounting for Derivative instruments

The Company's results of operations and operating cash flows are impacted by the fluctuations in the market prices of crude oil. To mitigate a portion of the exposure to adverse market changes, the Company has entered into a derivative contract related to oil prices (See Note 3) and may periodically enter into various derivative instruments. The purpose of the derivative instrument is to provide a measure of stability to the Company's cash flow in meeting financial obligations while operating in a volatile crude oil market environment. The derivative instrument reduces the Company's exposure on the hedged production volumes to decreases in commodity prices and limits the benefit the Company might otherwise receive from any increases in commodity prices on the hedged production volumes.

The Company recognizes all derivative instruments as assets or liabilities in the balance sheet at fair value. The accounting treatment for changes in fair value, as specified in ASC 815 "Derivatives and Hedging," is dependent upon whether or not a derivative instrument is designated as a hedge. For derivatives designated as cash flow hedges, changes in fair value, to the extent the hedge is effective, are recognized in Accumulated Other Comprehensive Income on the accompanying balance sheet until the hedged item is recognized in earnings as crude oil revenue. If the hedge has an ineffective portion, that particular portion of the gain or loss would be immediately reported in earnings. For the fair value of Nautilus' hedge agreement, see Note 3.

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LIQUIDITY AND CAPITAL RESOURCES

Liquidity and Capital Resources

At March 31, 2010, the Company on a consolidated basis had approximately \$37.6 million of cash and cash equivalents. 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 \$22.3 million as of March 31, 2010 and the remaining \$15.3 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 53% 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 \$1.9 million during the nine months ended March 31, 2010 compared to a \$3.6 million decrease in those balances during the nine months ended March 31, 2009. The factors favorably impacting our liquidity and capital resources during the nine months ended March 31, 2010 included cash provided by operating activities of \$3.9 million, proceeds of \$10.0 million from the issuance of stock, net proceeds of \$2.4 million from the sale of securities available for sale, proceeds of approximately \$495,000 from the sale of a subsidiary and proceeds of \$7.3 million from the sale of the Aldinga and Nockatunga oil fields and certain exploration licenses in the Cooper Basin (see Note 5). Our cash position was also favorably affected by a \$5.2 million effect of exchange rate changes on cash and cash equivalents. We expended cash of \$7.3 million to acquire an approximately 83.5% controlling interest in Nautilus Poplar (see Note 3), \$4.1 million to acquire a 25.05% average working interest in Montana fields, made principal payments of \$235,000 on debt and expended approximately \$2.2 million in property and equipment expenditures. In addition, a \$13.8 million deposit was made for the purchase of 40% interest in the Evans Shoal natural gas field.

Cash provided by operating activities for the nine months ended March 31, 2010 decreased \$5.6 million from the nine months ended March 31, 2009. Cash from revenues increased approximately \$3.7 million over the prior year. Australian oil and gas sales volume decreases resulting from natural declines and significantly reduced sales to PWC were bolstered by oil sales volumes from Nautilus Poplar. Gas sales also benefited from a 57% net increase in price per mcf, offset by a 14% net decrease in price per barrel in Australia. In addition, accounts receivable decreased due to reduced billings at March 31, 2010 relating to the cessation of Mereenie gas sales to PWC in mid/late February, 2010 creating a net increase in collections over the prior year. Cash from revenues benefited also from a 19% increase in the average exchange rate. Operating cash outflows increased approximately \$9.0 million over the prior year due to the pay down of accounts payable of \$5.3 million as well as a \$993,000 employee termination costs, increased salaries of \$375,000 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 \$348,000, increased director fees of \$257,000 related to the addition of two new directors, increased office rent of \$211,000, increased consulting costs of \$313,000, increased auditing, accounting and legal services of \$256,000 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. Operating costs were also negatively affected by the 19% increase in the average exchange rate. 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 \$16.1 million resulting from a strengthened Australian dollar offset by a \$1.7 million foreign exchange transaction loss.

The Company invested \$2.2 million in oil and gas exploration activities, which includes additions to property and equipment, during the nine months ended March 31, 2010 and 2009, respectively.

Effect of exchange rate changes

The value of the Australian dollar relative to the U.S. dollar increased 14% to \$0.92 at March 31, 2010 compared to a value of \$0.80 at June 30, 2009.

As to MPC (Unconsolidated)

On March 7, 2010, MPAL loaned \$4,000,000 to MPC.

On February 18, 2010, MPC extended credit of \$1 million to Nautilus. As of March 31, 2010, Nautilus has borrowed \$475,000.

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.

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At March 31, 2010, MPC, on an unconsolidated basis, had working capital of \$4.9 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, other than those obligations related to the Evans Shoal agreement, discussed below.

On October 15, 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.

In Montana, the company has completed a consolidation of interest in the East Poplar Unit and North West Poplar Fields, in Roosevelt County Montana. On March 9, 2010, the Company entered into a purchase and sale agreement with Hunter Energy LLC, under which the Company purchased Hunters 25.05% average working interest in those Montana fields, for \$3.9 million. In a separate transaction the Company also purchased a 1.25% interest in the same fields for from a different owner, for \$240,000. See Note 3 to the condensed consolidated financial statements.

As to MPAL

At March 31, 2010, MPAL had working capital of \$35.1 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 nine months ended March 31, 2010. 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 under the provisions of the Mereenie sales Agreement No. 4 (MSA 4). These sales took place into mid/late February, 2010 at which point volumes from the Blacktip field, PWC's other gas supplier, began to flow in earnest. PWC's most recent advisory to the Mereenie Producers (Magellan and Santos) states that Mereenie gas was no longer required. Under the provisions of that same MSA4 Sales Agreement, the Mereenie Producers have advised PWC that pursuant to the terms of the Agreement, Mereenie Producer obligations to PWC under the current MSA4 Agreement will cease effective on September 5, 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 continue to be substantially, which will 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 previously discussed, on March 25, 2010, MPAL executed an agreement with Santos Limited (Santos) to purchase Santos' 40% interest in the Evans Shoal natural gas field (NT/P48), located in the Bonaparte Basin offshore Northern Australia. Under the agreement, Magellan is obligated to pay Santos time-staged cash consideration equal to (AUS) \$100 million (U.S. \$91 million equivalent) for its interest in Evans Shoal on or before December 25, 2010. Magellan would also pay additional contingent payments to Santos of (AUS) \$50 million (U.S.\$45.5 million) upon a favorable partner vote on any final investment decision to develop Evans Shoal and (AUS) \$50 million (U.S.\$45.5 million) upon first stabilized gas production from NT/P 48. Closing and completion of the purchase is subject to regulatory and other approvals and is expected to occur in the second half of calendar 2010. Based on its available cash on hand, and the expected liquidity to be generated from the Company's Australian and U.S. operations during the remainder of 2010, the Company will need to raise additional debt or equity financing from third parties. The Company is currently working towards new equity financing options to raise sufficient funds to complete the Evans Shoal acquisition and its other requirements for capital resources over the next 12 month period, which are estimated to be approximately \$106 million. In the event the Company is unable to make the required payment on or before December 25, 2010, the Company would forfeit its (Aus) \$15 million deposit.

As in the past, MPAL expects to fund its exploration costs other than Evans Shoal 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.

As to Nautilus (Unconsolidated)

On February 18, 2010, MPC extended credit of \$1 million to Nautilus. As of March 31, 2010, Nautilus has borrowed \$475,000.

At March 31, 2010, Nautilus, on an unconsolidated basis, had negative working capital of (\$203,000). Working capital is comprised of current assets less current liabilities.

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In addition to other projects, Nautilus will begin work with an intermediary to farm-out a share of its 23,000 ac. Bakken position within the fields. There has been strong external interest in a farm-in program. This work is now ongoing and we expect to report results within three months.

The Company will also drill at least two targeted development wells (in North America during the summer of 2010) to test wettability development strategies for the Tyler and Nisku oil formations. We will also gain benefit from these wells by testing all of the producing formations on the way to the deeper Nisku formation for reservoir quality, producing capacity given new drilling technology, and for other pertinent reservoir properties.

Funding for these projects will come from the farm in arrangement, bank financing or intercompany loans.

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 March 31, 2010, in thousands:

	PAYMENTS DUE BY PERIOD				
	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Operating lease obligations	\$ 1,684	\$ 447	\$ 612	\$ 143	\$ 482
Purchase obligations (1)	7,029	7,029	—	—	—
Asset retirement obligations-undiscounted	17,482	—	4,160	9,483	3,839
Time staged and contingent payments (2)	77,350	77,350	—	—	—
Credit facilities	1,295	951	344	—	—
Total	<u>\$104,840</u>	<u>\$ 85,777</u>	<u>\$5,116</u>	<u>\$9,626</u>	<u>\$ 4,321</u>

- (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 \$43,225,000 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), \$20,461,000 (1-3 years), \$20,410,000 (3-5 years), \$2,353,000 (greater than 5 years).
- (2) Relates to the Evans Shoal agreement. As the Company progresses through the different stages of this agreement, two additional contingent payments will be due of \$45,500 in December of 2012 and 2015. (Note 4)

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THREE MONTHS ENDED MARCH 31, 2010 VS. MARCH 31, 2009
REVENUES AND OTHER INCOME

Significant changes in revenues and other income were as follows:

	THREE MONTHS ENDED		\$ Variance	% Variance
	March 31			
	2010	2009		
Oil sales	\$1,947,505	\$1,707,287	\$ 240,218	14%
Gas sales	2,024,487	3,291,615	(1,267,128)	(39)%
Other production related revenues	1,164,953	523,611	641,342	122%
Investment income	327,187	273,641	53,546	20%

OIL SALES INCREASED primarily due to the October 15, 2009 acquisition of Nautilus (see Note 3), a 21% net increase in average price per barrel in Australia and the 36% increase in the average exchange rate discussed below. These increases were partially offset by the sale of the Nockatunga assets (Note 5). 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 March 31,				% Variance BBLs	% Variance A.\$ PER BBL
	2010 SALES		2009 SALES			
	BBLs	AVERAGE PRICE A.\$ PER BBL	BBLs	AVERAGE PRICE A.\$ PER BBL		
Australia:						
Mereenie field	12,553	86.18	19,940	73.68	(37)%	17%
Cooper Basin	—	—	310	79.68	(100)%	—
Nockatunga project (1)	1,135	70.54	14,140	64.94	(92)%	9%
Total Australia	<u>13,688</u>	84.86	<u>34,390</u>	70.17	(60)%	21%

	AVERAGE PRICE U.S.\$ PER BBL	
	2010	2009
North America (1)		
East Poplar	14,198	70.77
North West Poplar	<u>6,572</u>	70.77
Total North America	<u>20,770</u>	70.77

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

GAS SALES DECREASED due to a 62% decrease in volume caused by natural declines and significantly reduced sales to PWC, partially offset by the 16% net increase in the average price per mcf and the 36% increase in the average exchange rate described below. PWC's most recent advisory to the Mereenie Producers (Magellan and Santos) states that Mereenie gas is no longer required. Unless MPAL is able to sell uncontracted gas, including reasonable endeavors gas not taken by PWC, its revenues will continue to substantially be reduced from historical levels. Consequently, future gas sales will continue to be materially lower.

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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 March 31,					
	2010 SALES		2009 SALES		% Variance	% Variance
	BCF	AVERAGE PRICE A.\$ PER MCF	BCF	AVERAGE PRICE A.\$ PER MCF		
Australia: Palm Valley	.236	2.26	.282	2.25	(16)%	—
Australia: Mereenie	.242	6.58	.971	4.26	(75)%	54%
Total	.479	4.41	1.253	3.79	(62)%	16%

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 36% Australian foreign exchange rate increase discussed below.

INVESTMENT AND OTHER INCOME INCREASED primarily due to the 36% increase in the average exchange rate discussed below offset by a decrease in interest income.

OPERATING AND OTHER EXPENSES

Significant changes in operating and other expenses were as follows:

	THREE MONTHS ENDED March 31,			
	2010	2009	\$ Variance	% Variance
Production costs	\$ 1,823,303	1,951,335	\$ (128,032)	(7)%
Exploration and dry hole costs	225,204	1,385,552	(1,160,348)	(84)%
Salaries and employee benefits	1,281,819	386,450	895,369	232%
Depletion, depreciation and amortization	704,428	1,130,134	(425,706)	(38)%
Auditing, accounting and legal services	387,260	602,058	(214,798)	(36)%
Other administrative expenses	1,953,959	776,278	1,177,681	152%
(Gain) loss on sale of assets	(5,693,784)	211	(5,693,995)	—
Warrant expense	1,897,753	—	1,897,753	—
Income tax provision (benefit)	1,463,723	(1,083,101)	(2,546,824)	(235)%

PRODUCTION COSTS DECREASED primarily due to the sale of the Cooper Basin Assets (Note 5) partially offset by the Nautilus acquisition and the 36% increase in the average exchange rate described below.

EXPLORATION AND DRY HOLE COSTS DECREASED primarily due to prior year seismic data costs of \$1.2 million related to the Nockatunga fields, not incurred in the current year, partially offset by the 36% increase in the exchange rate described below.

SALARIES AND EMPLOYEE BENEFITS INCREASED due to non cash expenses related to employee stock options (\$571,000), the addition of new personnel at MPC (\$97,600) and the Nautilus acquisition (\$76,000) and the 36% increase in the average exchange rate described below offset by a decrease at MPAL due to a lower headcount.

DEPLETION, DEPRECIATION AND AMORTIZATION DECREASED in 2010 due to lower depletable costs mostly due to the Cooper Basin asset sale (Note 5), partially offset by the 36% increase in the average exchange rate described below.

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AUDITING, ACCOUNTING AND LEGAL COSTS DECREASED due mostly to the absence of 2009 legal fees of \$256,000 related to the YEP transactions and the warrant agreement, partially offset by current year legal costs associated with the Nautilus acquisition, fees related to the purchase valuation consulting and the 36% increase in the average exchange rate described below.

OTHER ADMINISTRATIVE EXPENSES INCREASED due primarily to the foreign exchange rate on U.S. dollar cash held by MPAL (\$419,000), increased directors' fees including the addition of a new director (\$96,000), increased consulting costs (\$371,000), increased travel costs (\$131,000), and the 36% increase in the average exchange rate described below.

(GAIN) LOSS ON THE SALE OF ASSETS INCREASED due primarily to the gain recorded in 2010 on the sale of MPAL Cooper Basin assets (\$5.7 million) (Note 5), partially offset by other field asset sales.

WARRANT EXPENSE relates entirely to the increase in the fair value of the YEP warrants (Note 2). These warrants did not exist in 2009.

INCOME TAXES

INCOME TAX PROVISION INCREASED due to an increase in income before taxes. Additionally, a decrease in the effective tax rate used to calculate the provision (benefit) for the nine months ended March 31, 2009 from the six months ended December 31, 2008 created a negative adjustment to the provision. The decrease in the effective tax rate for the prior year was caused by a projected decrease in U.K. exploration costs used to calculate the rate. The U.K. exploration costs do not generate a tax benefit.

EXCHANGE EFFECT

THE VALUE OF THE AUSTRALIAN DOLLAR RELATIVE TO THE U.S. DOLLAR INCREASED TO \$.9192 at March 31, 2010 compared to a value of \$.6835 at March 31, 2009. This resulted in a \$1,854,137 credit to the foreign currency translation adjustments account for the three months ended March 31, 2010. The average exchange rate used to translate MPAL's operations in Australia was \$.9036 for the quarter ended March 31, 2010, which was a 36% increase compared to the \$.6647 rate for the quarter ended March 31, 2009.

NINE MONTHS ENDED MARCH 31, 2010 VS. MARCH 31, 2009

REVENUES

Significant changes in revenues were as follows:

	NINE MONTHS ENDED		\$ Variance	% Variance
	March 31,			
	2010	2009		
Oil sales	\$ 7,890,129	\$ 9,184,879	\$(1,294,750)	(14)%
Gas sales	12,985,167	10,600,544	2,384,623	22%
Other production related revenues	2,856,704	1,348,058	1,508,646	112%
Investment income	2,862,118	1,362,185	1,499,933	110%

OIL SALES DECREASED due to a 27% net decrease in Australian production due mostly to the sale of the Nockatunga assets (Note 5) and a 14% net decrease in the price per barrel received in Australia, partially offset by the Nautilus acquisition and the 19% increase in the average exchange rate discussed below.

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	NINE MONTHS ENDED March 31,					
	2010 SALES		2009 SALES		% Variance	% Variance
	BBLs	AVERAGE PRICE A.S PER BBL	BBLs	AVERAGE PRICE A.S PER BBL		
Australia:						
Mereenie field	55,678	85.21	65,128	97.00	(15)%	(12)%
Cooper Basin	1,086	83.62	2,170	104.31	(50)%	(20)%
Nockatunga project (1)	27,962	73.92	49,346	91.26	(43)%	(19)%
Total Australia	84,726	81.49	116,644	94.73	(27)%	(14)%
North America (1):						
East Poplar	21,937	68.45				
North West Poplar	8,813	68.45				
Total North America	30,750	68.45				

(1) Nockatunga and Poplar 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 57% net increase in price per mcf and the 19% increase in the average exchange rate discussed below partially offset by the net 31% decrease in volume caused by natural declines and significantly reduced sales to PWC. PWC's most recent advisory to the Mereenie Producers (Magellan and Santos) states that Mereenie gas is no longer required. Unless MPAL is able to sell uncontracted gas, including reasonable endeavors gas not taken by PWC, its revenues will continue to substantially be reduced from historical levels. Consequently, future gas sales will continue to be materially lower.

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:

	NINE MONTHS ENDED March 31,					
	2010 SALES		2009 SALES		% Variance	% Variance
	BCF	AVERAGE PRICE A.S PER MCF	BCF	AVERAGE PRICE A.S PER MCF		
Australia: Palm Valley	.768	2.25	.885	2.25	(13)%	—
Australia: Mereenie	1.938	6.53	3.031	3.69	(36)%	77%
Total	2.706	5.28	3.916	3.36	(31)%	57%

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 19% Australian foreign exchange rate increase discussed below.

INVESTMENT INCOME INCREASED primarily as a result of a \$2,065,370 realized gain on the sale of available-for-sale securities and the 19% increase in the average exchange rate discussed below, partially offset by a decrease in interest income.

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OPERATING AND OTHER EXPENSES

Significant changes in costs and expenses are as follows:

	NINE MONTHS ENDED		\$ Variance	% Variance
	March 31,			
	2010	2009		
Production costs	\$ 7,243,205	\$6,218,141	1,025,064	16%
Exploration and dry hole costs	882,260	2,652,929	(1,770,669)	(67)%
Salaries and employee benefits	4,032,120	1,200,435	2,831,685	236%
Depletion, depreciation and amortization	3,351,564	5,691,415	(2,339,851)	(41)%
Auditing, accounting and legal services	1,164,334	1,291,857	(127,523)	10%
Accretion Expense	546,179	396,482	149,697	38%
Other administrative expenses	5,976,356	2,069,528	3,906,828	189%
(Gain) Loss on sale of assets	(6,828,059)	12,072	(6,840,131)	56,661%
Impairment Loss	1,604,417	—	1,604,417	—
Warrant expense	4,276,472	—	4,276,472	—
Income tax provision	2,485,529	1,237,487	(1,248,042)	101%

PRODUCTION COSTS INCREASED due primarily to the Nautilus acquisition (\$884,000) and the 19% increase the average exchange rate described below partially offset by the sale of the Cooper Basin assets (Note 5).

EXPLORATION AND DRY HOLE COSTS DECREASED 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 \$1.2 million not incurred in the current year, partially offset by the 19% increase in the average exchange rate described below.

SALARIES AND EMPLOYEE BENEFITS INCREASED mostly due to the payment of employee termination costs (\$993,000) at MPAL, non cash expense related to employee stock options (\$1,187,000), the addition of new personnel at MPC (\$375,000), the acquisition of Nautilus (\$160,000) and the 19% increase in the average exchange rate discussed below.

DEPLETION, DEPRECIATION AND AMORTIZATION DECREASED primarily due to lower depletable costs related to the Cooper Basin asset sales (Note 5) partially offset by the 19% increase in the average exchange rate described below and the acquisition of Nautilus.

AUDITING, ACCOUNTING AND LEGAL SERVICES DECREASED due mostly to 2009 legal fees of \$256,000 related to the YEP transactions and the warrant agreement, partially offset by current year legal costs associated with the Nautilus acquisition, purchase valuation consulting fees and the 19% increase in the average exchange rate discussed below.

ACCRETION EXPENSE INCREASED primarily due to the 19% increase in the average exchange rate discussed below and the acquisition of Nautilus.

(GAIN) LOSS ON THE SALE OF ASSETS INCREASED due to the 2010 gain recorded on the sale of MPAL'S Cooper Basin assets (\$6.8 million) (Note 5).

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IMPAIRMENT LOSS INCREASED due to the impairment loss recorded on MPAL's Udacha assets (Note 5).

OTHER ADMINISTRATIVE EXPENSES INCREASED due to the foreign exchange rate on U.S. dollar cash held by MPAL (\$1,671,000), costs relating to the July 2009 closing of the YEP equity-investment (\$440,000), increased travel costs (\$348,000), increased directors' fees including the addition of three new directors (\$257,000), increased office rent (\$211,000), increased consulting costs (\$313,000), and the 19% increase in the average exchange rate described below.

WARRANT EXPENSE INCREASED due entirely to the increase in the fair value of the YEP warrants (Note 2). These warrants did not exist in 2009.

INCOME TAXES

Income tax provision increased primarily due to an increase in income before income taxes compared to the same period last year and an increase in the effective tax rate. The increase in the effective tax rate over the prior year resulted from a higher proportion of MPC losses, which do not generate a tax benefit, to total income during the current year.

EXCHANGE EFFECT

THE VALUE OF THE AUSTRALIAN DOLLAR RELATIVE TO THE U.S. DOLLAR INCREASED TO \$.9192 at March 31, 2010 compared to a value of \$.6835 at March 31, 2009. This resulted in a \$7,337,570 credit to the foreign currency translation adjustments account for the nine months ended March 31, 2010. The average exchange rate used to translate MPAL's operations in Australia was \$.8813 for the nine months ended March 31, 2010, which was an 19% increase compared to the \$.7432 rate for the nine months ended March 31, 2009.

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 \$2,209,000 and \$1,089,500 for the nine months ended March 31, 2010, respectively.

For the nine months ended March 31, 2010, oil sales represented approximately 38% of total oil and gas revenues. Based on the current nine month's sales volume and revenues, a 10% change in oil price would increase or decrease oil revenues by \$789,000. Gas sales, which represented approximately 62% of total oil and gas revenues in the current nine 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 nine months ended March 31, 2010.

At March 31, 2010, the carrying value of our investments included those classified as cash and cash equivalents was approximately \$15.3 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.

Commodity Price Risk

Our results of operations and operating cash flows are impacted by the fluctuations in the market prices of natural gas and crude oil. To mitigate a portion of the exposure to adverse market changes, we have recently entered into an oil price hedge agreement and may periodically enter into various other derivative instruments. The purpose of the derivative instrument is to provide a measure of stability to our cash flow in meeting financial obligations while operating in a volatile natural gas and crude oil market environment. The derivative instrument reduces our exposure on the hedged production volumes to decreases in commodity prices and limits the benefit we might otherwise receive from any increases in commodity prices on the hedged production volumes. The following crude oil contracts were in place as of March 31, 2010:

Period	Type of Contract	Crude Oil Volume per Day	Price per bbl	Fair Value Asset (Liability)
February 2010—January 2011	Swap/Option	3,000/1950 bbl	\$ 64.00	\$(220,952)

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For further information, see Note 6 to the consolidated financial statements.

The Company has elected to utilize hedge accounting and have designated the hedges as cash flow hedges. As a result, changes in fair value, to the extent the hedge is effective, are recognized in Accumulated Other Comprehensive Income on the accompanying balance sheet until the hedged item is recognized in earnings as crude oil revenue. If the hedge has an ineffective portion, that particular portion of the gain or loss would be immediately reported in earnings.

Even though the Company has hedged a certain portion of their production the Company's results of operations and operating cash flows are still significantly exposed to the market volatility of crude oil prices as the contracts represent only 39% of the Company's anticipated U.S. production over the contract period, in addition based on nature of the contracts entered into by the Company, by entering into a swap and an offsetting put option the actual production hedged when crude oil prices are above \$64.00 a barrel is only approximately 13.5% of the Company's anticipated U.S. crude oil production. The fair value of the Company's derivative instruments as of March 31, 2010 was a liability of \$220,952. A 10% increase in crude oil prices would result in an increase in fair value of approximately \$90,000, and a 10% decrease in the crude oil prices would result in decrease in fair value of approximately \$90,000 as of March 31, 2010. Based on the minimal amount of production hedged by the Company, the current derivative contracts in place are not anticipated to have a material impact on the future results of operations and operating cash flows of the Company.

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 Susan M. Filipos, the Company's Interim Chief Financial Officer ("CFO") and Controller, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of March 31, 2010. 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 three months ended March 31, 2010 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 3 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
MARCH 31, 2010

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 two/three new risk factors - a discussion of a recently completed acquisition and the impact that this and future acquisitions may have on us.

Other than these new risk factors, 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.

We recently entered into an agreement with Santos Limited (Santos) to purchase Santos’ 40% interest in a large gas field offshore in Australia, under which we made an initial cash deposit of (AUS) \$15 million as partial payment of the purchase price, that could be forfeited should we be unable to complete the purchase of the interest by the “completion date” specified under the agreement.

On March 25, 2010, our subsidiary MPAL entered into an agreement with Santos Limited (Santos) to purchase Santos’ 40% interest in Evans Shoal natural gas field (NT/P48), located in the Bonaparte Basin offshore Northern Australia. Under the agreement, we paid a cash deposit of (AUS) \$15 million to be credited against the (AUS) \$100 million initial purchase price for the Santos interest. If we are unable to complete the purchase of Santos’ interest by the completion date specified under the agreement (which will occur during December 2010) – either because we are unable to raise additional funding by the sale of additional equity or debt securities in the near future, or otherwise – we would likely forfeit our initial (AUS) \$15 million deposit payment to Santos, which would adversely impact our financial condition and could cause our stock price to decline. For a more complete description of the Evans Shoal agreement and gas field, see Note 4 to the consolidated financial statements included herein.

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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>
January 1-31, 2010	0	0	0	319,150
February 1-28, 2010	0	0	0	319,150
March 1-31, 2010	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 March 31, 2010, 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 5 Other Events

On May 12, 2010, the Company issued a press release discussing the Company's financial results for the fiscal quarter ended March 31, 2010. A copy of this press release is furnished herewith as [Exhibit 99.1](#) and is hereby incorporated herein by reference.

The information under this Item 5 shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

ITEM 6 Exhibits

<u>Exhibit</u>	<u>Document</u>
2.1 *	Assets Sale Deed between Magellan Petroleum Australia Limited and Santos Offshore Pty Ltd., dated as of March 25, 2010.
3.1	Restated Certificate of Incorporation as filed on May 4, 1987 with the State of Delaware and Amendment of Article Twelfth 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, 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, filed as Exhibit 3.3 to the Company's quarterly report on Form 10-Q filed on February 16, 2010 and incorporated herein by reference.
3.4	Certificate of Amendment to Certificate of Incorporation related to Article Thirteenth as filed on October 15, 2009 with the State of Delaware, filed as Exhibit 3.4 to the Company's quarterly report on Form 10-Q filed on February 16, 2010 and incorporated herein by reference.

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- 3.5 Amended and Restated Bylaws, as of March 10, 2010, filed as Exhibit 3.1 to the Company's current report on Form 8-K filed on March 15, 2010 and incorporated herein by reference.
- 10.1 * Amended and Restated Warrant Agreement, dated March 11, 2010.
- 10.2 * Form of non-qualified stock option award agreement between the Company and non-employee directors, dated April 1, 2010.
- 10.3 * Form of restricted stock award agreement between the Company and non-employee directors, dated April 1, 2010 (Version A).
- 10.4 * Form of restricted stock award agreement between the Company and non-employee directors, dated April 1, 2010 (Version B).
- 10.5 Employment Agreement between the Company and Susan M. Filipos, dated as of September 28, 2009 (incorporated by reference from Exhibit 10.1 to current report on Form 8-K dated May 7, 2010).
- 10.6 Non-qualified Stock Option Award Agreement between the Company and Susan M. Filipos dated as of October 1, 2009 (incorporated by reference from Exhibit 10.2 to current report on Form 8-K dated May 7, 2010).
- 10.7 Indemnification Agreement between the Company and Susan M. Filipos dated May 3, 2010 (incorporated by reference from Exhibit 10.3 to current report on Form 8-K dated May 7, 2010).
- 31.1 * Certification of William H. Hastings, President and Chief Executive Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
- 31.2 * Certification of Susan M. Filipos, Interim Chief Financial Officer and Controller, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
- 32.1 ** 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 furnished herewith.
- 32.2 ** Certification of Susan M. Filipos, Interim Chief Financial Officer and Controller, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.1 ** Company Press Release, dated May 12, 2010.

* = filed herewith

** = furnished herewith

Evans Shoal –
Assets Sale Deed

Santos Offshore Pty Ltd
Magellan Petroleum Australia Limited

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Evans Shoal – Deed of Assets Sale

Date u 25 March 2010

Between the parties

Santos Offshore Pty Ltd

ACN 005 475 589 of Santos Centre, Ground Floor, 60 Flinders
Street, Adelaide SA 5000

(Seller)

Magellan Petroleum Australia Limited

ACN 009 728 581 of 10th Floor, 145 Eagle St, Brisbane, Queensland,
Australia 4000

(Buyer)

Recitals The Seller has agreed to sell and the Buyer has agreed to buy the Evans Shoal Interests.

This deed witnesses as follows:

1 Definitions and interpretation

1.1 Agreement components

This deed includes any schedule or attachment.

1.2 Definitions

The meanings of the terms used in this deed are set out below.

Term	Meaning
Abandoned Wells	the following wells within the area of the Evans Shoal Title: 1 Evans Shoal 1; 2 Evans Shoal 2; and 3 Evans Shoal South 1.
Accounting Standards	the accounting procedure set out in Appendix A of the Evans Shoal JOA.
Act	the <i>Offshore Petroleum and Greenhouse Gas Storage Act 2006</i> (Cth).
Adjustment Amount	has the meaning given to it in the Adjustment Statement.
Adjustment Statement	a statement the form of which is contained in Schedule 4 and is prepared and agreed or determined in accordance with clause 8.1.
Authorisation	any approval, licence, consent, authority or permit, planning consents, land use rights, natural resource use rights or other approvals, including all relevant conditions and restrictions.
Budget	has the meaning given to it in the Evans Shoal JOA.
Business	the business carried out by the Seller in relation to the Evans Shoal Interests.
Business Day	a day on which banks are open for business in Perth, Western Australia, other than a Saturday, Sunday or public holiday in Perth, Western Australia.

Term	Meaning
Buyer Group	the Buyer and each of its Related Bodies Corporate and Buyer Group Member means any member of the Buyer Group.
Buyer's Warranties	the warranties in Schedule 2.
Claim	any claim, Demand, legal proceedings, cause of action, liability, judgement, loss, cost or expense (including legal fees), including any claim, Demand, legal proceedings or cause of action: <ol style="list-style-type: none"> 1 based in contract (including breach of warranty); 2 based in tort (including misrepresentation or negligence); 3 under common law; or 4 under statute (including Part V or VI of the <i>Trade Practices Act 1974</i> (Cth)), or like provisions in any state or territory legislation.
Commissioning Gas	gas produced from the area which is subject to the Evans Shoal Title during the period of time when facilities owned, controlled or operated by or on behalf of the holders of the Evans Shoal Title are tested as part of the process of bringing such facilities into operation.
Completion	completion of the sale and purchase of the Evans Shoal Interests under clause 7.
Completion Date	the date on which Completion occurs.
Completion Payment	an amount equal to the sum of: <ol style="list-style-type: none"> 1 A\$85 million; and 2 the Estimated Adjustment Amount.
Completion Steps	the steps that each party must carry out at Completion which are set out in Schedule 3.
Control	in relation to an entity (for the purposes of this definition, the " Relevant Entity ") the power whether held directly or indirectly and by whatever means (and whether or not enforceable at law) to: <ol style="list-style-type: none"> 1 exercise or control the right to vote attached to more than 50% of the issued shares in the Relevant Entity; 2 dispose of or exercise a right of disposal in respect of more than 50% of the issued voting shares in the Relevant Entity; or 3 appoint more than one half of the number of directors to the board or other governing body of the Relevant Entity.

Term	Meaning
Corporations Act	the <i>Corporations Act 2001</i> (Cth).
Cut Off Date	the date which is 9 months after date of this deed.
Deductible	has the meaning given in clause 11.5(a).
Deed of Assignment and Assumption	<p>a deed of assignment and assumption between the parties to the Evans Shoal JOA and the Buyer pursuant to which:</p> <ol style="list-style-type: none"> 1 the Buyer is assigned the Evans Shoal Interests; and 2 the Buyer agrees to be bound by the provisions of the Evans Shoal JOA as if it were a party to the Evans Shoal JOA to the extent that it relates to the Evans Shoal Interests, substantially in the form, and to the effect, of the deed set out in Annexure 1.
Defaulting Party	has the meaning given in clause 7.2(a).
Demand	a written notice of, or demand for, an amount payable.
Deposit	A\$15 million.
Disclosure Materials	all documents and information that were at any time during the period from 21 April 2009 to 16 February 2010 contained in the data room established by Freehills and made available to the Buyer, its representatives or advisers electronic copies of which are contained in a DVD initialled by and exchanged between the Buyer and the Seller on the date of this deed.
Document List	the documents listed in Schedule 6.
Duty	any stamp, transaction or registration duty or similar charge imposed by any Governmental Agency and includes any interest, fine, penalty, charge or other amount imposed in respect of any of them.
Effective Date	1 January 2010.
Encumbrance	<p>an interest or power:</p> <ol style="list-style-type: none"> 1 reserved in or over an interest in any asset including any retention of title; or 2 created or otherwise arising in or over any interest in any asset under a bill of sale, mortgage, charge, lien, pledge, trust or power, <p>by way of security for the payment of a debt, any other monetary obligation or the performance of any other obligation, and includes any agreement to create any of the above and any caveat over a Title.</p>

Term	Meaning
Escrow Agent	JPMorgan Chase Bank, N.A., acting through its Sydney branch.
Escrow Agreement	an agreement entitled “Escrow Agreement” between the Escrow Agent, the Buyer and the Seller relating to the holding of the Deposit entered into prior to the execution of this deed.
Estimated Adjustment Amount	A\$450,000.
Evans Shoal Interests	<ol style="list-style-type: none"> 1 a 40% Participating Interest in the Evans Shoal JOA; and 2 a 40% legal and beneficial interest in the Evans Shoal Title.
Evans Shoal JOA	an agreement entitled “Operating Agreement Covering: Exploration Permit NT/P 48” entered into on or about 3 June 1996 a copy of which is contained in Schedule 5.
Evans Shoal Project	any project for the exploration, appraisal, development and production of natural gas or other petroleum from within the area which is the subject of the Evans Shoal Title (and other areas) and the proposal to develop, construct and operate facilities for the gathering and processing of that natural gas or other petroleum on and around the relevant location, and related activities, including the construction, operation and maintenance of pipelines and other ancillary services and facilities.
Evans Shoal Title	Exploration Permit NT/P 48 administered under the Act and any other title granted in substitution for, or derived from, such Exploration Permit (such as a petroleum production license or a petroleum retention lease (as defined in the Act), and includes any renewal or extension of such Exploration Permit or other such title).
Evans Shoal Transfer	the transfer by the Seller to the Buyer of a 40% legal and beneficial interest in the Evans Shoal Title.
Excess Amount	has the meaning given to it in clause 8.3(a)(1).
Expert	an independent person agreed between the Seller and the Buyer. If agreement on the identity of the independent person is not reached within 10 Business Days, the Seller and the Buyer must promptly request the President for the time being of the Institute of Chartered Accountants in Australia or his or her nominee to determine the identity of such independent person (such person being a partner of KPMG, PricewaterhouseCoopers or Deloitte & Touche Tohmatsu with not less than 10 years relevant experience who does not act as auditor or adviser to either party).

Term	Meaning
FIRB	has the meaning given to it in clause 2.5(b)(1).
FID or Final Investment Decision	a decision made by or on behalf of a holder of the Evans Shoal Title to proceed with the development, funding and implementation of the Evans Shoal Project for the commercial and economic discovery and production of gas within the area which is the subject of the Evans Shoal Title.
FID Payment	A\$50 million.
First Production	30 days of cumulative production of gas (but not including the production of Commissioning Gas) from an area within the area which is the subject of the Evans Shoal Title.
First Production Payment	A\$50 million.
Fundamental Claim	a Claim in relation to a Fundamental Warranty.
Fundamental Warranties	the Seller's Warranties set out in parts 1, 2 and 3 and clauses 4.1, 4.2(c), 4.2(d) and 6 of Schedule 1 and Fundamental Warranty shall be construed accordingly.
Governmental Agency	any government or governmental, administrative, monetary, fiscal or judicial body, department, commission, authority, tribunal, agency or entity in any part of the world.
Holding Company	in relation to an entity (for the purposes of this definition, the " Relevant Entity "), an entity which Controls the Relevant Entity.
Immediately Available Funds	cash, bank cheque or telegraphic or other electronic means of transfer of cleared funds into a bank account nominated in advance by the payee.

Term	Meaning
Insolvent	<p>in relation to a party:</p> <ol style="list-style-type: none"> 1 an order is made or an effective resolution is passed for the winding up or dissolution without winding up (otherwise than for the purposes of reconstruction or amalgamation) of the party, and such order or resolution is not set aside or withdrawn within 5 Business Days of being made or passed; 2 a receiver, receiver and manager, judicial manager, liquidator, administrator or like official is appointed over the whole or a substantial part of the undertaking or property of the party, and such appointment is not set aside or terminated within 5 Business Days of occurring; 3 a holder of an Encumbrance takes possession of the whole or any substantial part of the undertaking and property of the party; or 4 anything analogous or having a substantially similar effect to any of the events specified above happens under the law of any applicable jurisdiction.
Interest Rate	the interbank overnight cash rate quoted on Bloomberg RBA 9 / RBA 13 at 11am.
Interpretative Information	all information contained in the documents listed on the Document List which are highlighted in green, including and without limitation, any opinions, estimates, projections, business plans, budgets, forecasts, financial models, operating models, cost estimates, estimates of value, estimates of quantity or quality of hydrocarbons, estimates of quantity or quality of reserves, estimates of quantity or quality of resources, estimates of geological conditions or estimates of engineering conditions, which are contained in such highlighted documents.
Joint Accounts	in respect of the Joint Operations, the document contained in Schedule 7 Error! Reference source not found..
Joint Operations	has the meaning given to it in the Evans Shoal JOA.
Joint Operations Records	<p>copies of all:</p> <ol style="list-style-type: none"> 1 work programmes, budgets, authorisations for expenditure, books of account and records; 2 operating and technical committee minutes; 3 geological and geophysical information, including cores, cuttings and samples; 4 feasibility studies and reserves reports; 5 seismic data and interpretations in all forms; 6 correspondence with Governmental Agencies, and correspondence with other parties to the Evans Shoal JOA; and 7 data maps, notes and drawings, <p>which relate to the Joint Operations or to the Evans Shoal Interests held by any of the Seller Group Members and which are in the possession or under the control of a Seller Group Member.</p>

Term	Meaning
Loss	losses, liabilities, damages, costs, charges and expenses and includes Taxes and Duties.
Material Adverse Effect	<p>a material and adverse effect on the financial condition or market value of the Evans Shoal Project or the Evans Shoal Interests taken as a whole; provided, however, that no change or effect resulting from any of the following shall be deemed, either alone or in combination, to constitute a Material Adverse Effect:</p> <ol style="list-style-type: none"> 1 any generally applicable change in applicable laws or accounting procedures or interpretation of any thereof; 2 any announcement regarding the transactions contemplated by this deed; 3 actions or any inactions taken by any Seller Group Member in compliance with its obligations under this deed; 4 changes in conditions generally affecting the industry in which the Evans Shoal Interests relate; 5 general economic, political or financial market conditions (including changes in interest rates, foreign exchange rates, commodity prices and Tax rates); 6 any failure to meet internal projections or forecasts, provided that the underlying cause of any such failure may be taken into consideration in making such determination; and 7 any expenses incurred in connection with the negotiation, documentation and execution of this deed and the consummation of the transaction provided for by this deed, <p>and provided, further, that Material Adverse Effect shall not include any change or effect, either alone or in combination with other similar changes, having an adverse effect of 5% or less of the Purchase Price.</p>
Notifying Party	has the meaning given in clause 7.3(a).
Operating Committee	has the meaning given to it in the Evans Shoal JOA.
Operator	has the meaning given to it in the Evans Shoal JOA.
OGA	Osaka Gas Australia Pty Ltd (ABN 49 093 246 381) of Level 3, Parmelia House, 191 St Georges Terrace, Perth WA 6000.
Party	any of the signatories to this deed and any respective successors or permitted assigns.

Term	Meaning
Participant Deed	the deed of amendment, waiver and consent between the Seller, Shell and others dated 28 August 2007.
Participating Interest	has the meaning given to it in the Evans Shoal JOA.
PCA	Petronas Carigali (Australia) Pty Ltd (ACN 125 954 403) of Level 36, QV1 Building, 250 St George's Terrace, Perth WA 6000.
Programme	has the meaning given to it in the Evans Shoal JOA.
Prohibition Order	has the meaning given in clause 7.2(c).
PRRT Act	the <i>Petroleum Resource Rent Tax Act 1987</i> (Cth).
Purchase Price	an amount equal to: <ol style="list-style-type: none"> 1 the Deposit; plus 2 the Completion Payment; minus 3 the Excess Amount (if any); plus 4 the Shortfall Amount (if any); plus or minus 5 any other adjustments made under this deed.
Raw Data	all information contained in the documents and files listed on the Document List and which are highlighted in yellow on the Document List.
Related Body Corporate	an entity which, in relation to an entity (for the purposes of this definition, the " Relevant Entity "), is: <ol style="list-style-type: none"> 1 a Holding Company of the Relevant Entity; 2 a Subsidiary of the Relevant Entity; or 3 a Subsidiary of the Relevant Entity's Holding Company.
Sale	the sale and purchase of the Evans Shoal Interests pursuant to this deed.
Santos	Santos Limited (ACN 007 550 923) of Ground Floor, Santos Centre, 60 Flinders Street Adelaide, South Australia, 5000, Australia.
Seller Group	the Seller and each of its Related Bodies Corporate and Seller Group Member means any member of the Seller Group.

Term	Meaning
Seller's Warranties	the warranties in Schedule 1.
Shell	Shell Development (Australia) Pty Ltd (ABN 14 009 663 576) of Level 28, QV1 Building, 250 St George's Terrace, Perth WA 6000.
Shortfall Amount	has the meaning given to it in clause 8.3(a)(2).
Specified Executives	<p>1 in respect of a Buyer Group Member, the following executives of the Buyer Group :</p> <ul style="list-style-type: none"> • William Hastings, Chief Executive Officer; • Jeff Tounge, Outside Partners Manager; • Hugh Roberts, Country Manager; and • Tom Wilson, Director. <p>2 in respect of the Seller, the following executives of Santos:</p> <ul style="list-style-type: none"> • David Knox, Chief Executive Officer; • Stuart Jones, Exploration Manager, Western Australia and Northern Territory Business Unit; • John Anderson, Vice President, Western Australia and Northern Territory Business Unit; • David Slocombe, Commercial Manager, Western Australia and Northern Territory Business Unit; and • Eddy Glavas, Finance Manager, Western Australia and Northern Territory Business Unit.
Statement Dispute Notice	has the meaning given in clause 8.1(b).
Subsidiary	a body corporate (the " first body ") in respect of which another body corporate either directly or indirectly through one or more interposed entities (each of which would be a " Subsidiary " under this definition) Controls the first body.
Tax	any tax, levy, charge, impost, fee, deduction, goods and services tax, petroleum resource rent tax, compulsory loan or withholding, which is assessed, levied, imposed or collected by any Governmental Agency and includes any interest, fine, penalty, charge, fee or any other amount imposed on, or in respect of any of the above but excludes Duty and, for the avoidance of doubt, excludes any royalties for the production of hydrocarbons (whether statutory or otherwise).

Term	Meaning
Technical Services Agreement	an agreement entitled “Technical Services Agreement” pursuant to which the Seller will provide services to the Buyer in respect of the Evans Shoal Interests a form of which is contained in Annexure 2.
Third Party	any person or entity (including a Governmental Agency) other than a Seller Group Member or a Buyer Group Member.
Third Party Claim	any claim, Demand, legal proceedings or cause of action made or brought by a Third Party.
Transaction Agreements	the following documents: <ol style="list-style-type: none"> 1 this deed; 2 the Deed of Assignment and Assumption; and 3 the Technical Services Agreement.

1.3 Interpretation

In this deed headings and words in bold are inserted for convenience and do not affect the interpretation of this deed and unless the contrary intention appears:

- (a) a reference to this deed or another instrument includes any variation or replacement of any of them;
- (b) a reference to a statute, ordinance, code or other law includes regulations and other instruments under it and consolidations, amendments, re-enactments or replacements of any of them;
- (c) the singular includes the plural and vice versa;
- (d) the word ‘person’ includes a firm, a body corporate, an unincorporated association or an authority;
- (e) a reference to a person includes a reference to the person’s executors, administrators, successors, substitutes (including persons taking by novation) and assigns;
- (f) if a period of time is specified and dates from a given day or the day of an act or event, it is to be calculated exclusive of that day;
- (g) a reference to a day is to be interpreted as the period of time commencing at midnight and ending 24 hours later;
- (h) if an act prescribed under this deed to be done by a party on or by a given day is done after 5.00pm on that day, it is taken to be done on the next day;
- (i) if an event must occur on a stipulated day which is not a Business Day then the stipulated day will be taken to be the next Business Day;
- (j) a reference to time is a reference to Perth, Western Australia time;

- (k) a reference to any thing (including any amount) is a reference to the whole and each part of it and a reference to a group of persons is a reference to any one or more of them;
- (l) an agreement, representation or warranty on the part of two or more persons binds them individually and severally, but not jointly;
- (m) a reference to a part, clause, party, attachment, exhibit or schedule is a reference to a part and clause of, and a party, attachment, exhibit and schedule to, this deed and a reference to this deed includes any attachment, exhibit and schedule;
- (n) a document in the 'agreed form' means a document in the form approved by the Buyer and the Seller and initialled by a representative of each of them for the purposes of identification; and
- (o) a reference to US\$ is to the currency of the United States of America . A reference to A\$ is to the currency of Australia.

1.4 Inclusive expressions

Specifying anything in this deed after the words 'including', 'includes' or 'for example' or similar expressions does not limit what else is included unless there is express wording to the contrary.

1.5 Reasonable endeavours

Any provision of this deed which requires a party to use "reasonable endeavours" or "all reasonable endeavours", or to take all steps reasonably necessary to procure that something is performed, does not include any obligation:

- (a) to pay any significant sum of money or to provide any significant financial compensation, valuable consideration or any other incentive to or for the benefit of any person, except for payment of any applicable fee for the lodgement or filing of any relevant application with any Government Agency or fees to any professional advisers; or
- (b) to commence any legal action or proceeding against any person, to procure that that thing is done or happens, except where that provision expressly specifies otherwise.

2 Conditions for Completion

2.1 Conditions precedent

Clauses 3 (Sale and Purchase) and 7 (Completion) (other than clause 3.3) do not become binding on the Parties and are of no force or effect unless and until each of the following conditions have been satisfied or waived in accordance with clause 2.6:

- (a) **Foreign Investment Review Board approval:**
 - (1) the Buyer has received a written notice under the *Foreign Acquisitions and Takeovers Act 1975* (Cth), by or on behalf of the Treasurer of the Commonwealth of Australia stating that the Commonwealth Government does not object to the transactions contemplated by this deed, either unconditionally or on conditions that do not have, or are not reasonably expected to have, a Material Adverse Effect; or

- (2) following notice of the proposed acquisition of the Evans Shoal Interests having been given by the Buyer to the Treasurer under the *Foreign Acquisitions and Takeovers Act 1975* (Cth), the Treasurer of the Commonwealth of Australia becomes precluded from making an order in relation to the subject matter of this deed and the transactions contemplated by it under the *Foreign Acquisitions and Takeovers Act 1975* (Cth); or
 - (3) if an interim order is made under the *Foreign Acquisitions and Takeovers Act 1975* (Cth) in respect of the transactions contemplated by this deed, the subsequent period for making a final order prohibiting the transactions contemplated by this deed elapses without a final order being made; or
 - (4) the Buyer has received written confirmation from FIRB, in a form reasonably acceptable to the Buyer and the Seller, to the effect that FIRB does not consider the transactions contemplated by this deed to be transactions that the Treasurer of the Commonwealth of Australia is authorised to make an order under the *Foreign Acquisitions and Takeovers Act 1975* (Cth).
- (b) **Approval of dealing:** the dealings effected by this deed have been approved by the relevant Governmental Agency in accordance with Part 4.6 of the Act (and if such approval is granted on terms and conditions, such terms and conditions are reasonably acceptable to the Buyer, having regard to the common terms and conditions on which an approval of that nature is usually granted) and such Governmental Agency has confirmed that, subject only to payment of the relevant registration fee, such dealings will be registered in accordance with Part 4.6 of the Act.

2.2 Conditions to Completion

The following conditions must be satisfied or waived in accordance with clause 2.6 before Completion may take place:

- (a) **Waiver of rights:**
 - (1) the Seller has given notice to Shell, PCA and OGA under Article 12.3A of the Evans Shoal JOA of the transfer by the Seller to the Buyer of the Evans Shoal Interests; and
 - (2) Shell, PCA and OGA have consented to the transfer by the Seller to the Buyer of the Evans Shoal Interests and Shell, PCA and OGA have waived their rights under Articles 12.3.A, 12.3.B and 12.3.C of the Evans Shoal JOA in respect of this transfer;
- (b) **Transfers:** the Buyer and each registered holder of the Evans Shoal Title have executed the Evans Shoal Transfer; and
- (c) **Deed of Assignment and Assumption:** each party to the Evans Shoal JOA and the Buyer have executed the Deed of Assignment and Assumption.

2.3 Waiver under Evans Shoal JOA

The Parties agree and acknowledge that the consent and waiver given by Shell, PCA and OGA under clause 2.2(a) will not affect the rights and obligations of the Seller, Shell, PCA or OGA under Article 12 (other than Article 12.3) nor the other provisions of the Evans Shoal JOA.

2.4 Notice

Each party must promptly notify the others in writing if it becomes aware that any condition in clause 2.1 and 2.2 has been satisfied or has become incapable of being satisfied.

2.5 Reasonable endeavours

- (a) The Buyer and the Seller must each use all reasonable endeavours to ensure that the conditions in clause 2.1 and 2.2 are satisfied as expeditiously as possible and in any event on or before the Cut Off Date.
- (b) For the purpose of clause 2.5(a) and subject to the earlier receipt of written confirmation satisfying clause 2.1(a)(4), the Buyer will only be taken to have used all reasonable endeavours in relation to the condition in clause 2.1(a) if it has:
 - (1) provided the Seller with a draft copy of its proposed application to the Foreign Investments Review Board (**FIRB**), the commercially sensitive information within which may be redacted in the copy provided to the Seller, by no later than 14 days after the date of this deed;
 - (2) consulted with the Seller on the proposed application to the FIRB; and
 - (3) submitted an application to the FIRB by no later than 21 days after the date of this deed.
- (c) For the purpose of clause 2.5(a), the Buyer will only be taken to have used all reasonable endeavours in relation to the condition in clause 2.1(b) if it has:
 - (1) provided the Seller with a draft copy of its proposed application to the relevant Government Agency, the commercially sensitive information within which may be redacted in the copy provided to the Seller, by no later than 14 days after the date of this deed;
 - (2) consulted with the Seller on the proposed application to the relevant Government Agency; and
 - (3) submitted an application to the relevant Government Agency by no later than 21 days after the date of this deed.
- (d) For the purpose of clause 2.5(a), the Seller will be taken to have used all reasonable endeavours in relation to clauses 2.2(a), 2.2(b) and 2.2(c) if it has sent a letter in the form set out in **Error! Reference source not found.**Schedule 8 to each of Shell, PCA and OGA and used its reasonable endeavours to persuade the addressees of the letter to execute the Evans Shoal Transfer and Deed of Assignment and Assumption, provided that this does not require the Seller to institute legal proceedings or incur any third party costs.
- (e) The Seller will provide all reasonable assistance and information to the Buyer as is necessary to satisfy the condition in clauses 2.1(a) and 2.1(b).
- (f) The Buyer is responsible for the preparation and submission of all documentation in relation to the satisfaction of the condition in clauses 2.1(b) and 2.2(a).
- (g) The Seller will provide all reasonable assistance and information to the Buyer as is necessary to satisfy the conditions in clauses 2.1(b) and 2.2(a).
- (h) Each party must keep the other party informed of the progress towards satisfaction of its obligations under clause 2.5.

2.6 Waiver

The conditions in clauses 2.1 and 2.2 are for the benefit of the Buyer and the Seller and may only be waived by written agreement between the Buyer and the Seller.

2.7 Cut Off Date

(a) If:

- (1) any of the conditions in clauses 2.1 and 2.2 are not satisfied or waived in accordance with clause 2.6 by the Cut Off Date, provided that the relevant party has satisfied its obligations under clause 2.5, or
- (2) if Completion has not occurred by the Cut Off Date because a Prohibition Order under clause 7.2 is subsisting, either party may, unless that party has failed to comply with its obligations under clause 2.5, by written notice to the other:
 - (3) terminate this deed immediately; or
 - (4) with the prior written deed of the other party, extend the Cut Off Date.

(b) If the Parties agree to extend the Cut Off Date in accordance with clause 2.7(a)(4), and:

- (1) any of the conditions in clauses 2.1 and 2.2 are not satisfied or waived in accordance with clause 2.6 by the extended Cut Off Date;
- (2) any of the conditions in clause 2.1 and 2.2 become incapable of satisfaction; or
- (3) the Seller and the Buyer agree in writing that any of the conditions in clause 2.1 and 2.2 cannot be satisfied,

provided that the relevant party has satisfied its obligations under clauses 2.3 and 2.5, then either the Seller or the Buyer may, by not less than 5 Business Days' notice to the other Party, terminate this deed before Completion (unless the Parties agree otherwise).

(c) If:

- (1) the conditions contained in clauses 2.1(a), 2.1(b), 2.2(a) and 2.2(c) are satisfied or waived in accordance with clause 2.6 by the Cut-Off Date, or if the Cut-Off Date has been extended, in accordance with clause 2.7(a), the Cut-Off Date agreed by the Parties;
- (2) the condition in clause 2.2(b) is not satisfied or waived in accordance with clause 2.6 by the Cut Off Date, or if the Cut-Off Date has been extended, in accordance with clause 2.7(a), the Cut-Off Date agreed by the Parties; and
- (3) having regard to the opinion of an independent Senior Counsel, there is a reasonable expectation that the relevant condition or conditions will be satisfied within 90 days of the Cut Off Date, or if the Cut-Off Date has been extended, in accordance with clause 2.7(a), the Cut-Off Date agreed by the Parties,

a party cannot issue a notice under clause 2.7(a)(3) or 2.7(b) in respect of the non-satisfaction of such condition or conditions until the first to occur of:

- (4) a final resolution of any Court process in relation to the failure of any registered holder of the Evans Shoal Title or a party to the Evans Shoal JOA to execute the documents necessary to satisfy those conditions which results in such party being under no obligation to execute the documents necessary to satisfy the conditions; and

- (5) the expiry of 90 days from the Cut-Off Date, or if the Cut-Off Date has been extended, in accordance with clause 2.7(a), the Cut-Off Date agreed by the Parties.

3 Sale and purchase

3.1 Sale

Subject to clause 2.1, on the day for Completion determined under clause 7.1 the Seller must sell, and the Buyer must buy, the Evans Shoal Interests free and clear of all Encumbrances for the Purchase Price.

3.2 Purchase Price

- (a) The Purchase Price will be paid as follows:
- (1) the Deposit (including all interest thereon) will be released to the Seller at Completion in accordance with clause 3.3(e)(1);
 - (2) the Completion Payment will be paid by the Buyer to the Seller on Completion in accordance with clause 3.4 and clause 7; and
 - (3) the Excess Amount or the Shortfall Amount, if any, will be paid by the relevant party to the other party in accordance with clause 8.3.

3.3 Payment of the Deposit

- (a) On or before the execution of this deed, the Buyer and the Seller must jointly instruct the Escrow Agent to open an interest bearing trust account with JP Morgan Chase Bank, N.A., acting through its Sydney branch:
- (1) for the benefit of the Buyer and the Seller;
 - (2) for the purpose of holding the Deposit in accordance with this deed and the Escrow Agreement; and
 - (3) the costs of which are to be shared equally between the Parties,
- (Deposit Account).**
- (b) On execution of this deed, the Buyer must pay the Deposit into the Deposit Account in Immediately Available Funds.
- (c) The Buyer and the Seller must instruct the Escrow Agent to withdraw the Deposit and accrued interest on the earlier of Completion or termination of this deed and pay it to the person entitled to it under clause 3.3(d) or 3.3(e) as applicable.
- (d) The Buyer is entitled to the Deposit (and all interest on the Deposit) if:
- (1) the Buyer terminates this deed pursuant to clause 2.7(a) and either of the following applies:
 - (A) the termination arises as a result of a condition in clause 2.1 not being satisfied; or
 - (B) the termination arises as a result of a condition in clause 2.2 not being satisfied and the Seller has failed to comply with its obligations under clause 2.5;
 - (2) the Buyer terminates this deed pursuant to clause 6.2(a) or 7.3; or
 - (3) the Seller terminates this deed pursuant to clause 6.1(b).

- (e) The Seller shall become the owner of and is entitled to keep the Deposit (and all interest on the Deposit) as the Seller's exclusive property and as the Seller's sole right and remedy free of any rights of the Buyer in the event that:
 - (1) Completion occurs; or
 - (2) the Buyer is not otherwise entitled to the Deposit under clause 3.3(d).
- (f) The Buyer and the Seller each irrevocably undertakes to ensure that it gives all necessary instructions to the Escrow Agent to withdraw the Deposit Amount and pay it to the Buyer or the Seller as is required under this clause 3.3.

3.4 Payment of Completion Payment

Subject to clause 7.4, on Completion the Completion Payment will be due and payable to the Seller in Immediately Available Funds without counter-claim or set-off.

3.5 FID Payment

- (a) Subject to FID having occurred, the FID Payment will be due and payable by the Buyer to the Seller in Immediately Available Funds without counter-claim or set-off within 30 days of notification of the occurrence of FID pursuant to clause 3.5(b).
- (b) The Buyer must notify the Seller of the occurrence of FID within 3 days of it occurring.

3.6 Payment of First Production Payment

- (a) Subject to First Production having occurred, the First Production Payment will be due and payable by the Buyer to the Seller in Immediately Available Funds without counter-claim or set-off within 30 days of notification of the occurrence of First Production pursuant to clause 3.6(b).
- (b) The Buyer must notify the Seller of the occurrence of First Production within 3 days of it occurring.

3.7 Title and risk

Subject to Completion taking place and the terms of this deed:

- (a) the sale and purchase of the Evans Shoal Interests will be deemed to have taken place with effect on and from the Effective Date provided that, for the avoidance of doubt, title will not pass unless and until Completion occurs; and
- (b) the risk and benefit of the Evans Shoal Interests will be the Buyer's on and from the Effective Date.

3.8 Exclusivity

The Seller covenants and agrees not to sell or agree to sell the Evans Shoal Interest to a party other than the Buyer unless and until this deed is terminated in accordance with clauses 2.7, 6.1, 6.2(a) or 7.3(b).

4 Allocation of liabilities

4.1 Losses arising before Effective Date

Subject to clause 4.3, the Seller retains and must pay, perform or discharge, and must indemnify the Buyer against, all Loss in respect of the Evans Shoal Interests which accrues or relates to any period before the Effective Date.

4.2 Losses arising on and after Effective Date

With effect from the Completion, the Buyer is liable for and must assume and pay, perform or discharge, and must indemnify the Seller against, all Loss in respect of the Evans Shoal Interests which accrues or relates to any period on or after Effective Date.

4.3 Environmental Loss

With effect from the Completion, the Buyer is liable for and must assume and pay, perform or discharge, and indemnify the Seller against, all Loss relating to:

- (a) damage to the environment in connection with the operation of the Evans Shoal Interests;
- (b) environmental clean-up relating to the Evans Shoal Interests;
- (c) remediation, rehabilitation and reclamation in relation to the Evans Shoal Interests; and
- (d) contamination of or from, or pollution from, any part of the Evans Shoal Interests,

whether arising before, on or after the Effective Date, excluding, in each case, to the extent the Loss relates to or arises in connection with, or from, an Abandoned Well that is not or has not been re-entered or re-used after the Completion Date.

5 Period before Completion

5.1 Carrying on of Business

Between the date of this deed and the earlier of Completion and termination of this deed, the Seller must use reasonable endeavours to ensure that:

- (a) the Business is conducted materially in the ordinary course;
- (b) the Seller pays all amounts due under the Evans Shoal JOA in relation to the Evans Shoal Interests held by it;
- (c) no Encumbrances are created over any of the Evans Shoal Interests;
- (d) no amendments or variations are made to the Evans Shoal JOA; and
- (e) other than in accordance with, or as provided for in, the Programme or the Budget applicable as at the date of this deed (**Current Programme** and **Current Budget**) without the prior written consent of the Buyer, which consent shall not be unreasonably withheld or delayed, the Seller will not give its consent or approval under the Evans Shoal JOA, and will ensure that its representative on the Operating Committee does not consent or approve at any meeting of the Operating Committee, to:
 - (1) the Operator acquiring or agreeing to acquire an asset of the Joint Operations for a price greater than A\$250,000;

- (2) the Operator disposing or agreeing to dispose of an asset of the Joint Operations having a written down value of greater than A\$250,000;
- (3) the Operator creating an Encumbrance over any of the assets of the Joint Operations with a written down value in excess A\$250,000;
- (4) the Operator entering into a contract or arrangement in respect of the Joint Operations requiring the payment of more than A\$250,000 in any 12 month period;
- (5) any material amendment of the Current Programme or the Current Budget;
- (6) any transfer, assignment, farm-out or sole risk operations under the Evans Shoal JOA; or
- (7) the conduct of the Joint Operations in a way that is not materially contemplated by the Evans Shoal JOA, the current Programme or the current Budget.

5.2 Permitted acts

Nothing in clause 5.1 restricts the Seller from doing anything:

- (a) that is contemplated in a Transaction Agreement;
- (b) to reasonably and prudently respond to an emergency or disaster (including a situation giving rise to a risk of personal injury or damage to property) in respect of the Business or the Evans Shoal Interests;
- (c) that is necessary for the Seller to meet its legal or contractual obligations;
- (d) subject to the provisions of clause 5.1, that is in the ordinary course of business; or
- (e) approved by the Buyer, such approval not to be unreasonably withheld or delayed.

5.3 Seismic exploration activity

Between the date of this deed and the earlier of Completion or termination of this deed the Seller agrees to use its reasonable endeavours to recommend to the other participants of the Evans Shoal JOA that:

- (a) the currently budgeted seismic reprocessing activity planned as part of the Joint Operations for 2010 be revised to a new seismic acquisition program to acquire 40km of 2D seismic data over part of the shallow Tassie Shoals area of the Evans Shoal Title (**Revised Activity**); and
- (b) if the Revised Activity is approved by the other participants of the Evans Shoal JOA pursuant to the Evans Shoal JOA, the Revised Activity be carried out as part of the Joint Operations.

5.4 Access

Between the date of this deed and the earlier of Completion or termination of this deed:

- (a) the Seller will inform the Buyer as soon as practicable after the Operator has provided any data or report to the participants of the Evans Shoal JOA under Article 4.4 of the Evans Shoal JOA that the Operator has provided such data or report to the participants; and
- (b) the Seller must give the Buyer during normal working hours on any Business Day reasonable access, under the supervision of the Seller at all times, to all information within its possession or under its control relating to the Evans Shoal

Interests (including the data or report referred to in clause 5.4(a)) subject to the following:

- (1) the Buyer must not unreasonably interfere with the business or operations of the Seller Group; and

- (2) the Buyer may, at its own cost, make copies of such information, provided that if this deed is terminated prior to Completion, all such copies must be returned or destroyed by the Buyer.

5.5 Competing offers

From the date of this deed to the earlier of Completion and termination of this deed, the Seller must, and must ensure that its representatives, not:

- (a) solicit, encourage or invite third parties to make, or negotiate or discuss with third parties the making of; or
(b) accept,

any expression of interest, proposal or offer to the Seller or its representatives which may lead to a transaction which if completed would involve a party other than the Buyer acquiring the Evans Shoal Interests.

5.6 Technical Services Agreement

The Parties agree to enter into the Technical Services Agreement on the date of this deed.

6 Termination

6.1 Termination by the Seller

The Seller may terminate this deed at any time before Completion by notice in writing to the Buyer if:

- (a) the Buyer becomes Insolvent;
- (b) the following has occurred:
- (1) a breach of a Seller's Warranty has occurred and remains subsisting and that breach:
- (A) if not waived at Completion, constitutes grounds for a Claim where the reasonable estimate of Loss is not less than A\$10 million; and
- (B) did not arise from a deliberate act of the Seller with the intention of creating a right to terminate under this clause 6.1(b)
- (Material Breach);**
- (2) the Seller has notified the Buyer that a Material Breach has occurred (**Material Breach Notice**); and
- (3) if within 3 days of the Material Breach Notice the Buyer issues a written notice (**Consultation Notice**) to the Seller stating that it wishes to discuss the matter, for a period of 10 days after the date of the Consultation Notice the representatives of the Buyer have been reasonably available to meet and discuss with the Seller the impact of the Material Breach and the Seller has used its reasonable endeavours to address the issues arising from the Material Breach.

- (c) a breach of a Buyer's Warranty occurs before Completion, and following the lesser of:
 - (1) 30 days after the date on which the Seller has given a written notice of the breach of the Buyer's Warranty (**Seller Notice Date**) to the Buyer; and
 - (2) the number of days between the Seller Notice Date and the date immediately before Completion, the breach remains subsisting and is not waived at Completion or in the Seller's reasonable opinion is not likely to cease to subsist at Completion and would have or would be reasonably be expected to have a Material Adverse Effect; or
- (d) the Buyer fails to make the Completion Payment without having a termination right under clause 6.2.

6.2 Termination by the Buyer

- (a) The Buyer may terminate this deed at any time before Completion by notice in writing to the Seller if:
 - (1) a breach of a Seller's Warranty occurs before Completion, and following the lesser of:
 - (A) 30 days after the date on which the Buyer has gives a written notice of the breach of the Seller's Warranty (**Buyer Notice Date**); and
 - (B) the number of days between the Buyer Notice Date and the date immediately before Completion, the breach remains subsisting and is not waived at Completion and constitutes grounds for a Claim where the reasonable estimate of Loss is not less than A\$10 million; or
 - (2) the Seller becomes Insolvent.
- (b) In the event that the Buyer exercises its rights under clause 6.2(a), the Buyer acknowledges and agrees that:
 - (1) it does not have the right to make any Claims against the Seller under this deed or otherwise; and
 - (2) it must irrevocably release the Seller from any Claims it may otherwise have in the future in relation to such matters.
- (c) In the event that the Buyer does not exercise its rights under clause 6.2(a) and Completion occurs or the Buyer is deemed not to have exercised its rights under clause 6.2(a) and Completion occurs, the Buyer acknowledges and agrees that:
 - (1) the aggregate amount of all Claims it may make against the Seller under this deed or otherwise in relation to the relevant breach of a Seller's Warranty of which the Buyer was aware at the time of Completion which gave rise to the Buyer's rights under clause 6.2(a) (**Completion Breach**) is limited to A\$10 million; and
 - (2) to the extent that the aggregate amount of all Claims it makes in relation to a Completion Breach exceeds \$A10 million, it must irrevocably release the Seller from any such excess Claim amount.
- (d) The right of the Buyer to terminate this deed pursuant to clause 6.2(a) if any of the events referred to in clauses 6.2(a)(1) and 6.2(a)(2) occurs is without prejudice to the ability of the Parties to agree amendments to the Transaction Agreements to address such event. In the event that such agreement is breached, clause 6.2(c) will operate subject to the terms of such agreement.

6.3 Effect of termination

If this deed is terminated under clause 2.7, clause 6 or clause 7.3(b), then:

- (a) the Parties will procure that each Transaction Agreement (if permitted by the terms of that contract) that has already been executed is terminated in accordance with its terms;
- (b) the Parties must meet and agree on all actions and payments that may be required to restore the Parties to the position they would have been in if this deed had never been entered into, which must include:
 - (1) reversing the Evans Shoal Transfer by transferring the interests transferred under it to the Seller; and
 - (2) the withdrawal of all filings, applications and other submissions made pursuant to this deed and lodgement of any Authorisations for approvals and registration with the relevant Governmental Agency in accordance with the Act;
- (c) each party is released from its obligations to further perform its obligations under this deed and the Transaction Agreements, except those expressed to survive termination;
- (d) subject to the provisions of clause 3.3(e), each party retains the rights it has against the others in respect of any breach of this deed occurring before termination; and
- (e) the rights and obligations of each party under each of the following clauses and schedules will continue independently from the other obligations of the Parties and survive termination of this deed:
 - (1) clause 1 (Definitions and interpretation);
 - (2) clause 3.3 (Payment of the Deposit);
 - (3) clause 6 (Termination);
 - (4) clause 14 (Confidentiality and announcements);
 - (5) clause 15 (GST); and
 - (6) clause 17 (General).

6.4 No other right to terminate or rescind

No party may terminate or rescind this deed (including on the grounds of any breach of a Seller's Warranty or misrepresentation that occurs or becomes apparent before Completion) except as permitted under clause 2.7, clause 6 or clause 7.3(b).

7 Completion**7.1 Time and place**

Subject to clause 2, Completion must take place:

- (a) at an office used by the Seller located in Australia or such other place as the Seller and the Buyer agree; and

- (b) at 12 pm on the day which is the latest of:
- (1) 5 Business Days after the satisfaction or waiver of the conditions in clause 2.1 and 2.2;
 - (2) a Business Day designated by the Buyer by 15 Business Days prior written notice to the Seller which Business Day is not more than 9 months after the execution of this deed; and
 - (3) such other day as the Seller and the Buyer agree,
- provided that if a Material Breach Notice is issued by the Seller pursuant to clause 6.1(b) prior to the day, the day is extended by 20 days.

7.2 Completion

- (a) On or before Completion, each party must carry out the Completion Steps referable to it in accordance with Schedule 3.
- (b) Completion is taken to have occurred when each of the conditions in clause 2.1 and 2.2 have been satisfied or waived and each party has performed all its obligations under this clause 7 and Schedule 3.
- (c) Completion shall not occur in the event that as at the Completion Date, any Governmental Agency has enacted, issued, promulgated or enforced or entered any statute, rule, regulation, executive order, decree, injunction, temporary restraining order or any other order of any nature (each a Prohibition Order) to the effect that the transactions contemplated by this deed and the Transaction Agreements may not be lawfully completed in accordance with this deed and the Transaction Agreements and such Prohibition Order is subsisting at the Completion Date.

7.3 Notice to complete

- (a) If a Seller or the Buyer (**Defaulting Party**) fails to satisfy its obligations under clause 7.2 and Schedule 3 on the day and at the place and time for Completion determined under clause 7.1 then the other party (**Notifying Party**) may give the Defaulting Party a notice requiring the Defaulting Party to satisfy those obligations within a period of 5 Business Days from the date of the notice and declaring time to be of the essence.
- (b) If the Defaulting Party fails to satisfy those obligations within those 5 Business Days the Notifying Party may, without limitation to any other rights it may have, terminate this deed by giving written notice to the Defaulting Party.

7.4 Completion simultaneous

- (a) Subject to clause 7.4(b), the actions to take place as contemplated by this clause 7 and Schedule 3 are interdependent and must take place, as nearly as possible, simultaneously. If one action does not take place, then without prejudice to any rights available to any party as a consequence:
 - (1) there is no obligation on any party to undertake or perform any of the other actions;
 - (2) to the extent that such actions have already been undertaken, the Parties must do everything reasonably required to reverse those actions; and
 - (3) the Seller and the Buyer must each return to the other all documents delivered to it under clause 7.2(a) and Schedule 3 and must each repay to the other all payments received by it under clause 3.3 and 7.2(a) and Schedule 3, without prejudice to any other rights any party may have in respect of that failure.

- (b) The Buyer may, in its sole discretion, waive any or all of the actions that the Seller is required to perform under clause 1.1 of Schedule 3 and the Seller may, in its sole discretion, waive any or all of the actions that the Buyer is required to perform under clause 1.1 of Schedule 2.

8 Adjustment Statement

8.1 Adjustment Statement

- (a) Not later than 15 Business Days after the Completion Date, the Seller will provide to the Buyer:
- (1) the Adjustment Statement prepared in accordance with the Accounting Standards; and
 - (2) all relevant supporting documentation used by the Seller in the preparation of the Adjustment Statement.
- (b) If the Buyer disputes any items in the Adjustment Statement, the Buyer must notify the Seller in writing within 10 Business Days of receipt of the Adjustment Statement such notice to state the item and amount(s) in question including full particulars of any items in dispute (**Statement Dispute Notice**).
- (c) If at the end of the notice period specified in clause 8.1(b), the Seller has not received a Statement Dispute Notice in respect of the Adjustment Statement, all amounts set out in that Adjustment Statement are deemed to be agreed by the Parties.
- (d) If a Statement Dispute Notice is given under clause 8.1(b) and then, failing agreement within 15 Business Days after receipt of the Statement Dispute Notice, either party may refer the dispute to an Expert for determination by written notice to the other Party. If the matter is referred to an Expert, the Expert must be instructed to determine the dispute and the Adjustment Amount within the shortest practicable time.
- (e) The Expert will act as an expert, not as an arbitrator, in determining the dispute and the Parties must use reasonable endeavours to ensure that the Expert's determination in relation to the disputed matters is made as soon as possible.
- (f) The Expert's decision is final, conclusive and binding (except in the case of manifest error).
- (g) The cost of the Expert (if appointed) must be paid by the party against whom the determination of the Expert is made and the Parties must instruct the Expert to make a decision on this matter.
- (h) If the amounts in dispute under a Adjustment Statement are less than, in aggregate, A\$200,000, then:
- (1) the Buyer may not give any Statement Dispute Notice in respect of that Adjustment Statement; and
 - (2) the Adjustment Statement and the Adjustment Amount are deemed to be agreed by the Parties.

8.2 Access

Each party must ensure that the other party and its accountant and advisors are given reasonable access to the working papers of the party and such other supporting information used to prepare the Adjustment Statement in accordance with the Accounting Standards.

8.3 Payment of the Excess Amount or Shortfall Amount

- (a) Subject to clause 8.3(b), within 5 Business Days of the agreement or determination of the Adjustment Statement, if the Adjustment Amount is:
- (1) less than the Estimated Adjustment Amount, then the Seller must pay to the Buyer an amount equal to the difference between the Estimated Adjustment Amount and the Adjustment Amount (**Excess Amount**); and
 - (2) greater than the Estimated Adjustment Amount, then the Buyer must pay to the Seller an amount equal to the difference between the Adjustment Amount and the Estimated Adjustment Amount (**Shortfall Amount**),
- in Immediately Available Funds without counterclaim or set-off.
- (b) All amounts payable by a party under clause 8.3(a) will accrue interest on a daily basis at the Interest Rate from and including the Completion Date to and including the earlier of the date of payment or the last due date for payment (**Last Payment Date**). If any amount (including any accrued interest) remains unpaid on or after the Last Payment Date, interest under clause 17.14 will apply from and including the Last Payment Date until the date of payment with respect to that amount.

9 Post-Completion obligations

9.1 Approval and registration

- (a) Within 14 days after the Completion, the Buyer must, subject to clause 9.1(b), prepare and submit applications to the relevant Governmental Agency for approval and registration of:
- (1) the Evans Shoal Transfer in accordance with Part 4.3 of the Act; and
 - (2) the dealings effected by the Deed of Assignment and Assumption in accordance with Part 4.6 of the Act.
- (b) The Buyer shall not submit the applications referred to in clause 9.1(a), or make other written communications with the relevant Governmental Agency in connection with the approvals and registrations referred to in that clause, unless the Seller has given prior written approval to the form and content of those applications or communications (as the case may be), such approval not to be unreasonably withheld or delayed and such approval shall be deemed to have been given if the Seller has not given notice of non-approval, setting out the reasons why approval is withheld or delayed, within five Business Days of a request for approval.
- (c) The Seller must provide all assistance and information requested by the Buyer (acting reasonably) in relation to the preparation of the applications described in 9.1(a).
- (d) The Parties must cooperate with each other and do all things reasonably necessary to obtain approval and registration as soon as practicable after Completion

- (e) Without limiting the generality of clause 9.1(d):
- (1) each party must make all applications which are, and supply all information that is necessary and appropriate for the purpose of enabling approval and registration under the Act to be obtained;
 - (2) subject to clause 6.3(b), no party may withdraw or procure the withdrawal of any such application made or information supplied;
 - (3) no party may take any action that would, or would likely to, prevent or hinder approval and registration; and
 - (4) each party must supply to the other Parties copies of all applications made and all information supplied for the purpose of obtaining approval and registration.

9.2 Notice of approval and registration

The Buyer must, upon notification by the relevant Governmental Agency of approval and registration of the instruments referred to in clause 9.1(a), promptly provide the Seller evidence of that approval and registration.

9.3 Failure to obtain approval and registration

If the approvals and registrations referred to in clause 9.1 are not obtained within nine months of submission (or such later date as the Parties may agree in writing), then the Seller or (provided that it has satisfied its obligations under clause 9.1) the Buyer may, by notice to the Seller, terminate this deed without liability (save in respect of a breach of this deed occurring before termination) and if such notice is given clause 6.3 shall apply.

10 Seller's Warranties

10.1 Seller's Warranties

Subject to the qualifications and limitations in clause 11, the Seller gives the Seller's Warranties set forth in Schedule 1 in favour of the Buyer:

- (a) in respect of each Seller's Warranty which is expressed to be given on a particular date, on that date; and
- (b) in respect of each other Seller's Warranty, on the date of this deed and immediately before Completion.

10.2 Independent warranties

Each of the Seller's Warranties is to be construed independently of the others and is not limited by reference to any other Seller's Warranty.

10.3 Reliance

The Seller acknowledges that the Buyer has entered into this deed and will complete this deed in reliance on the Seller's Warranties.

10.4 Awareness

Where a Seller's Warranty is given 'so far as the Seller is aware' or with a similar qualification as to the Seller's awareness or knowledge, the Seller will be deemed to know or be aware of a particular fact, matter or circumstance only if a Specified Executive is actually aware of that fact, matter or circumstance as at the date of this deed.

11.1 Disclosure

- (a) The Buyer acknowledges and agrees that the Seller has disclosed or is deemed to have disclosed against the Seller's Warranties, and the Buyer is aware of and will be treated as having actual knowledge of, all facts, matters and circumstances that:
- (1) are provided for or described in this deed or a Transaction Agreement;
 - (2) are fully and fairly disclosed in the information contained in the Disclosure Materials;
 - (3) are disclosed against the name of the Seller or against the Evans Shoal Title on any public record of ASIC, ASX, Supreme Court of any State or Territory, Federal Court of Australia, High Court of Australia, the Department of Mines & Petroleum of Western Australia and Minerals and Energy and the Department of Regional Development, Primary Industry, Fisheries and Resources of Northern Territories; and
 - (4) are within the actual knowledge a Specified Executive of a Buyer Group Member as at the date of this deed.
- (b) The Seller's Warranties are given subject to the disclosures or deemed disclosures described in clause 11.1(a). The Seller's liability under the Seller's Warranties is reduced to the extent that disclosure is made or is deemed to have been made against the Seller's Warranties under this clause 11.1.
- (c) The Buyer must not make a Claim, and the Seller will not be and must not be found to be in breach of a Seller's Warranty if the facts, matters or circumstances giving rise to such Claim are disclosed or are deemed to have been disclosed under clause 11.1(a).
- (d) For the purposes of clause 11.1(a)(2), a fact, matter or circumstance is fully and fairly disclosed if sufficient information has been disclosed about the fact, matter or circumstance so as to make the fact, matter or circumstance and its consequences apparent to a purchaser reasonably experienced in transactions of the type contemplated by this deed.

11.2 No reliance

The Buyer acknowledges, and represents and warrants to each Seller Group Member, that:

- (a) at no time has:
- (1) any Seller Group Member or any person on its behalf, made or given; or
 - (2) any Buyer Group Member relied on, any representation, warranty, promise or undertaking in respect of the Evans Shoal Interests, including in relation to the reserves information, technical data, future operating or financial performance, project costs or otherwise except the Seller's Warranties;
- (b) no representations, warranties, promises, undertakings, statements or conduct in respect of the Evans Shoal Interests, including in relation to the future operating or financial performance, project costs or otherwise have:
- (1) induced or influenced the Buyer to enter into, or agree to any terms or conditions of, this deed;

- (2) have been relied on in any way as being accurate by a Buyer Group Member;
 - (3) have been warranted to a Buyer Group Member as being true; or
 - (4) have been taken into account by the Buyer as being important to its decision to enter into, or agree to any or all of the terms of, this deed,
- except those expressly set out in this deed (including in the Seller's Warranties);
- (c) at no time has:
 - (1) any Seller Group Member or any person on its behalf, made or given; or
 - (2) any Buyer Group Member relied on,
- any representations, warranties, promises, undertakings, statements or conduct in respect of the accuracy or completeness of the Disclosure Materials except as set forth in the Seller's Warranties contained in Part 12 of Schedule 1;
- (d) it has entered into this deed and the Transaction Agreements after satisfactory inspection and investigation of the Evans Shoal Interests, including a detailed review of all the Disclosure Materials;
 - (e) the Buyer is aware that ownership of any of the Evans Shoal Interests is highly speculative and subject to substantial risks and the Buyer is capable of bearing the high degree of economic risk and burdens of any purchase of the Evans Shoal Interests from the Seller, including the possibility of the loss of the Purchase Price, the FID Payment, the First Production Payment, all contributed capital, the loss of all anticipated Tax benefits (if any), the lack of a public market and limited transferability of the Evans Shoal Interests; and
 - (f) it has made, and it relies upon, its own searches, investigations, enquiries and evaluations in respect of the Evans Shoal interests, except to the extent expressly set out in this deed (including in the Seller's Warranties).

11.3 Opinion, estimates and forecasts

- (a) The Parties acknowledge that, except as set forth in the Seller's Warranties, no Seller Group Member is under any obligation to provide any Buyer Group Member or its advisers with any information on the future operating and financial performance, project costs in respect of the Evans Shoal Interests.
- (b) In the event that a Buyer Group Member has received any opinions, estimates, projections, business plans, budget information or other forecasts in respect of the Evans Shoal Interests, the Buyer acknowledges and agrees that:
 - (1) there are uncertainties inherent in attempting to make these estimates, projections, business plans, budgets and forecasts and the Buyer is familiar with these uncertainties;
 - (2) it is taking full responsibility for making its own evaluation of the adequacy and accuracy of all estimates, projections, business plans, budgets and forecasts furnished to it (including any financial models for the Evans Shoal Interests provided in the Disclosure Materials);
 - (3) no Seller Group Member is liable under any Claim arising out of or relating to any opinions, estimates, projections, business plans, budgets or forecasts in respect of the Evans Shoal Interests; and
 - (4) no Seller Group Member is liable under any Claim in relation to the value, quality or quantity of the hydrocarbons, the reserve or resources, or the geological or engineering conditions relating to the Evans Shoal Interests.

11.4 Nature of Evans Shoal Interests

The Evans Shoal Interests are being sold to the Buyer on an 'as is' and 'where is' basis and the Buyer has not relied on any representations, warranties, promises, undertakings, statements or conduct in respect of the Evans Shoal Interests other than the Seller's Warranties.

11.5 Maximum and minimum amounts

- (a) The Seller Group is not liable under a Claim unless the amount finally agreed or adjudicated to be payable in respect of that Claim:
- (1) exceeds 0.40% of the Purchase Price (ignoring any adjustments to the Purchase Price pursuant to this deed); and
 - (2) the amount finally agreed or adjudicated to be payable in respect of all Claims exceeds 1.5% of the Purchase Price (ignoring any adjustments to the Purchase Price pursuant to this deed) (**Deductible**),
- in which event, subject to clauses 11.5(b) and 11.5(c), the Seller is liable for all of that amount, including the Deductible.
- (b) The maximum aggregate amount that the Seller is required to pay in respect of:
- (1) Fundamental Claims is limited to the Purchase Price (ignoring any adjustments to the Purchase Price pursuant to this deed), which will increase to the Purchase Price (ignoring any adjustments to the Purchase Price pursuant to this deed) together with the FID Payment once the FID Payment has been made in accordance with clause 3.5, and which will increase again to the Purchase Price (ignoring any adjustments to the Purchase Price pursuant to this deed) together with the FID Payment and the First Production Payment once the First Production Payment has been made in accordance with clause 3.6; and
 - (2) all other Claims whenever made is limited to 20% of the Purchase Price (ignoring any adjustments to the Purchase Price pursuant to this deed),
- provided that, for the avoidance of doubt, the maximum aggregate liability on the Seller for all Claims under this deed cannot exceed 100% of the Purchase Price together with the FID Payment and the First Production Payment (ignoring any adjustments to the Purchase Price pursuant to this deed).
- (c) For the purposes of clause 11.5(a)(1):
- (1) Claims arising out of separate sets of facts, matters or circumstances will not be treated as one Claim, even if each set of facts, matters or circumstances may be a breach of the same Seller's Warranty; and
 - (2) Claims of the same or similar nature arising out of the same or similar facts, matters and circumstances will be treated as one Claim.

11.6 Time limits

The Seller is not liable under a Claim if:

- (a) the Buyer does not notify the Seller of the Claim in accordance with clause 12.1(a) within 1 year after Completion; and
- (b) within 6 months (or such longer period as may be agreed) of the date the Buyer is required to notify the Seller of the Claim under clause 12.1(a):
 - (1) the Claim has not been agreed, compromised or settled; and

- (2) the Buyer has not issued and served legal proceedings against the Seller in respect of the Claim.

11.7 Disposal of the Business

The Seller is not liable under a Claim if:

- (a) the Buyer has ceased to be a Subsidiary of the Buyer's ultimate Holding Company as at the date of this deed; or
(b) the Evans Shoal Interest has ceased to be owned and controlled by the Buyer or a Related Body Corporate of the Buyer.

11.8 Recovery under other rights and reimbursement

- (a) The Seller Group is not liable under a Claim for any Loss that a Buyer Group Member is, or would be but for this clause 11.8, entitled to recover, or be compensated for by any other means, from another source whether by way of contract, indemnity or otherwise (including under a policy of insurance or from a Governmental Agency). In this clause 11.8(a) a reference to entitlement to recover under a policy of insurance includes an entitlement which would have existed but for any change in the terms of insurance since Completion. The Buyer must notify its insurers of this clause 11.8.
- (b) If, after a Seller has made a payment in respect of a Claim, a Buyer Group Member recovers or is compensated for by any other means, any Loss which gave rise to the Claim, the Buyer must immediately pay to the Seller, as an increase in the Purchase Price, the lesser of the amount of that payment in respect of that Claim and the amount that was recovered or compensated for.

11.9 No double claims

- (a) The Seller Group is not liable under a Claim for any Loss which a Buyer Group Member recovers, or is compensated for, under a Transaction Agreement.
- (b) This clause 11.9 does not prevent the Buyer Group Member entitled to make a Claim under a Transaction Agreement from commencing that claim. However, if for any reason more than one amount is paid in respect of the same Loss, the Buyer must procure that the additional amount is immediately repaid to one or more Seller Group Members nominated by the Seller (as applicable) so as to give full effect to clause 11.9(a).

11.10 Mitigation of Loss

- (a) The Buyer must:
- (1) take, and procure that each other Buyer Group Member takes, all reasonable actions to mitigate any Loss which may give rise to a Claim; and
- (2) not omit, and procure that no other Buyer Group Member omits, to take any reasonable action which would mitigate any Loss which may give rise to a Claim.
- (b) If the Buyer does not comply with clause 11.10(a) and compliance with clause 11.10(a) would have mitigated the Loss, the relevant Seller is not liable for the amount by which the Loss would have been reduced if such compliance had occurred.

11.11 General limitations

The Seller is not liable under a Claim for any Loss to the extent that Loss:

- (a) **(contingent losses)**: is contingent, unless and until the Loss becomes an actual Loss and is due and payable;
- (b) **(pre Completion Buyer requested actions)**: arises from an act or omission before Completion that was done or made by the Seller as a result of a request, direction or instruction from the Buyer or a Buyer Group Member to the Seller to undertake the act or omission (including any act or omission of the Seller pursuant to or under the Transaction Services Agreement);
- (c) **(pre Completion actions)**: arises from an act or omission before Completion that was done or made by the Seller after the Seller has requested the consent of the Buyer to undertake the act or omission and the Buyer or a Buyer Group Member gave that consent and either:
 - (1) the Buyer Group Member was aware that the act or omission the subject of the consult would result in such Loss; or
 - (2) the act or omission the subject of the consult would reasonably be likely to result in the Loss.
- (d) **(post Completion conduct)**: arises from anything done or not done after Completion by or on behalf of a Buyer Group Member other than in the ordinary course of business and:
 - (1) in reliance on this deed, a Transaction Agreement or to satisfy an obligation of the Buyer under a Transaction Agreement (including under clause 11.9); or
 - (2) to satisfy an obligation under any legislation, regulations or judicial or governmental requirement in force as at Completion;
- (e) **(promoted claims)**: arises from a Third Party Claim that is attributable to anything done or not done after Completion by or on behalf of a Buyer Group Member which was calculated or intended to cause the Third Party Claim to be made;
- (f) **(breach of law or agreement)**: could only have been avoided by a Seller Group Member breaching its obligations at law or under a Transaction Agreement;
- (g) **(prior ownership)**: arises from an act or omission that occurred before the relevant part or entirety of the Evans Shoal Interests was owned by a Seller Group Member;
- (h) **(change of law or interpretation)**: arises from:
 - (1) the enactment or amendment of any legislation or regulations;
 - (2) a change in the judicial or administrative interpretation of the law; or
 - (3) a change in the practice or policy of any Governmental Agency,
 after Completion, including legislation, regulations, amendments, interpretation, practice or policy that has a retrospective effect;
- (i) **(change in ownership)**: would not have arisen but for a change in ownership of the Evans Shoal Interests after Completion;
- (j) **(difference in accounting policy)**: would not have arisen but for a change after Completion in any accounting policy or practice applied in relation to the Evans Shoal Interests before Completion;

- (k) **(change of Business)**: arises out of the cessation or alteration of the Business after Completion;
- (l) **(legal costs)**: is not a reasonable legal cost;
- (m) **(indirect loss)**: any indirect loss or damage, loss of profits, loss of use, loss of production, loss or denial of opportunity, loss recoverable as special damages or any other loss, whether or not in the reasonable contemplation of the parties as at the date of this deed, that does not, according to the usual course of things, arise directly out of the matter, act or omission that has given rise to the Claim;
- (n) **(exemplary or punitive damages)** constitutes exemplary or punitive damages;
- (o) **(Adjustment Statement)** has been included as a provision, allowance, reserve or accrual or is otherwise adjusted for in Adjustment Statement; or
- (p) **(remediable loss)**: is remediable, provided it is remedied to the satisfaction of the Buyer, acting reasonably, within 30 Business Days after the Seller receives written notice of the Claim in accordance with clause 12.1(a).

11.12 Buyer benefits

In assessing any Loss recoverable by the Buyer as a result of any Claim, there must be taken into account any benefit accruing to the Buyer Group (including any amount of any relief, allowance, exemption, exclusion, set-off, deduction, loss, rebate, refund, right to repayment or credit granted or available in respect of a Tax or Duty under any law obtained or obtainable by the Buyer Group and any amount by which any Tax for which the Buyer Group is or may be liable to be assessed or accountable is reduced or extinguished), arising directly or indirectly from the matter which gives rise to that Claim.

11.13 Sole remedy

- (a) It is the intention of the Parties that the Buyer's and Buyer Group's sole remedies in connection with the Sale will be as set out in this deed.
- (b) No Seller Group Member has any liability to a Buyer Group Member:
 - (1) in connection with the Sale or the matters the subject of this deed, a Transaction Agreement or the Disclosure Materials; or
 - (2) resulting from or implied by conduct made in the course of communications or negotiations in respect of the Sale or the matters the subject of this deed, a Transaction Agreement or the Disclosure Materials,
 under a Claim unless the Claim may be made under the terms of this deed or arises out of a statutory right or other claim which cannot be excluded by contract.
- (c) The Buyer must not, and must procure that each other Buyer Group Member does not, make a Claim:
 - (1) that the Buyer would not be entitled to make under this deed or which is otherwise inconsistent with the Buyer's entitlement to make a Claim under this deed;
 - (2) against any current or former director, officer or employee of any Seller Group Member; or
 - (3) against a Seller Group Member which is not a party to this deed,

and the Buyer acknowledges that to do so would be to seek to circumvent the Parties' intention expressed in clause 11.13(a).

11.14 Payments affecting Purchase Price

- (a) Any payment made by a Seller Group Member to a Buyer Group Member in respect of any Claim will be in reduction of the Purchase Price.
- (b) Any payment (including a reimbursement) made by a Buyer Group Member to a Seller Group Member in respect of any Claim will be treated as an increase of the Purchase Price.

11.15 Independent limitations

Each qualification and limitation in this clause 11 is to be construed independently of the others and is not limited by any other qualification or limitation.

12 Procedures for dealing with Claims

12.1 Notice of Claims

- (a) **(Actual Claims):** The Buyer must promptly notify the Seller if:
 - (1) it decides to make a Claim against a Seller Group Member that, either alone or together with other Claims, exceeds any applicable thresholds set out in clause 11.5(a); or
 - (2) a Third Party Claim is made which may give rise to a Claim by the Buyer against a Seller Group Member under this deed or the Transaction Agreements.
- (b) **(Potential Claims):** Without limiting clause 12.1(a), the Buyer must also reasonably promptly notify the Seller if:
 - (1) the Buyer believes that it would be entitled to make a Claim against a Seller Group Member under this deed or the Transaction Agreements but for the thresholds set out in clause 11.5(a); or
 - (2) the Buyer becomes aware of any events, matters or circumstances (including any potential threatened Third Party Claim) that are reasonably likely to give rise to a Claim against the Seller, whether alone or with any other Claim or circumstances or with the passage of time.
- (c) **(Details required):** The Buyer must include in a notice given under clause 12.1(a) or 12.1(a)(1) all relevant material details (including the amount) then known to a Buyer Group Member of:
 - (1) the Claim and if applicable, any other Claims which together with the Claim give rise to any applicable thresholds in clause 11.5(a) being exceeded;
 - (2) if applicable, the Third Party Claim; and
 - (3) the events, matters or circumstances giving rise to the Claim; and
- (d) **(Details required):** The Buyer must include in a notice given under clause 12.1(a) or 12.1(a)(1) an extract of:
 - (1) any part of a Demand that identifies the liability or amount to which the Claim relates or other evidence of the amount of the Demand to which the Claim relates; and
 - (2) if available or relevant, any corresponding part of any adjustment sheet or other explanatory material issued by a Governmental Agency that specifies the basis for the Demand to which the Claim relates or other evidence of that basis;

- (e) **(Extracts)** The Buyer must include in a notice given under clause 12.1(a) or 12.1(b) an extract of:
 - (1) any part of a Demand that identifies the liability or amount to which the Claim relates or other evidence of the amount of the Demand to which the Claim relates; and
 - (2) if available or relevant, any corresponding part of any adjustment sheet or other explanatory material issued by a Governmental Agency that specifies the basis for the Demand to which the Claim relates or other evidence of that basis.
- (f) **(Demands)**: The Buyer must provide a copy of any document referred to in clause 12.1(d) to the Seller as soon as practicable and in any event within 5 Business Days of receipt of that document by a Buyer Group Member.
- (g) **(Developments)**: The Buyer must also, on an on-going basis, keep the Seller reasonably informed of all developments in relation to the Claim notified under clause 12.1(a) or 12.1(b).
- (h) **(Compliance)**: If the Buyer does not materially comply with this clause 12 in respect of a Claim, the Seller Group is not liable under the Claim to the extent that the non compliance has increased the amount of the Claim or has prejudiced the ability to defend against or mitigate a Claim.

12.2 Third Party Claims

- (a) **(No admission)**: The Buyer must not, and must ensure that each Buyer Group Member does not:
 - (1) accept, compromise or pay;
 - (2) agree to arbitrate, compromise or settle; or
 - (3) make any admission or take any action in relation to,

a Third Party Claim which may lead to liability on the part of the Seller Group under a Claim under this deed or the Transaction Agreements without the Seller's prior written approval, which approval will not be unreasonably withheld or delayed.
- (b) **(Defence of claim)**: Following receipt of a notice under clause 12.1(a) in respect of a Claim which arises from or involves or could potentially involve a Third Party Claim for which indemnification may be sought from the Seller under this deed, the Seller may, by giving written notice to the Buyer, assume the conduct of the defence of the Third Party Claim.
- (c) **(Seller assume conduct)**: If the Seller advises the Buyer that it wishes to assume the conduct of the defence of the Third Party Claim:
 - (1) **(indemnity)** the Buyer must take, and must procure that each Buyer Group Member promptly takes, all action requested by the Seller to avoid, contest, compromise, defend or appeal the Third Party Claim, including using professional advisers nominated by the Seller or approved by the Seller for this purpose; and
 - (2) **(access)** the Buyer must provide, and must procure that each Buyer Group Member provides, the Seller with all reasonable assistance requested by it in relation to the Third Party Claim, including providing access to witnesses and documentary or other evidence relevant to the Third Party Claim, allowing it and its legal advisers to inspect and take copies of all relevant books, records, files and documents, and providing it with reasonable access to the personnel, premises and chattels of the Buyer Group Members. The Buyer's obligation under this clause is subject to the Buyer's obligations of confidentiality and the Buyer is not obliged to waive legal professional privilege.

- (d) **(Conduct of claim by the Seller):** If the Seller assumes the conduct of the defence of a Third Party Claim, in conducting any proceedings or actions in respect of that Third Party Claim, the Seller must:
- (1) act in good faith;
 - (2) liaise with the Buyer in relation to the defence of the Third Party Claim;
 - (3) provide the Buyer with reasonable access to a copy of any notice, correspondence or other document relating to the Third Party Claim; and
 - (4) act reasonably in all the circumstances.
- (e) **(Buyer assumes conduct)** If the Seller advises the Buyer that it does not wish to assume the conduct of the defence of the Third Party Claim, then the Buyer must procure that any Buyer Group Member which is conducting any proceedings or actions in respect of that Third Party Claim:
- (1) acts in good faith;
 - (2) liaises with the Seller in relation to the defence of the Third Party Claim;
 - (3) provides the Seller with reasonable access to a copy of any notice, correspondence or other document relating to the Third Party Claim; and
 - (4) acts reasonably in all the circumstances.

13 Buyer's Warranties

13.1 Buyer's Warranties

The Buyer gives the Buyer's Warranties set forth in Schedule 2 in favour of the Seller on the date of this deed and the Buyer's Warranties will be deemed to be repeated immediately before Completion.

13.2 Independent warranties

Each of the Buyer's Warranties is to be construed independently of the others and is not limited by reference to any other Buyer's Warranty.

13.3 Reliance

The Buyer acknowledges that the Seller has entered into and will complete this deed in reliance on the Buyer's Warranties.

13.4 Awareness

Where a Buyer's Warranty is given 'so far as the Buyer is aware' or with a similar qualification as to the Buyer's awareness or knowledge, the Buyer will be deemed to know or be aware of a particular fact, matter or circumstance only if a Specified Executive is actually aware of that fact, matter or circumstance as at the date of this deed.

14.1 Agreed announcement

A party may not make any other public announcement relating to this deed, including the fact that the Parties have executed this deed or a Transaction Agreement unless the other party has consented to the announcement, which consent shall not be unreasonably withheld or delayed, including the timing, form and content of that disclosure, or unless the announcement would be permitted under an exemption in clause 14.2(a)(1) or 14.2(a)(2).

14.2 Confidentiality

- (a) Each party (**recipient**) must keep secret and confidential, and must not divulge or disclose any information relating to this deed, the Transaction Agreements or the terms of the Sale other than to the extent that:
- (1) the information is in the public domain as at the date of this deed (or subsequently becomes in the public domain other than by breach of any obligation of confidentiality binding on the recipient);
 - (2) the recipient is required to disclose the information by applicable law or the rules of any regulatory body (including, without limitation, the Australian Securities and Investments Commission or the U.S. Securities Exchange Commission) or any recognised stock exchange on which its shares or the shares of any of its Related Bodies Corporate are listed or proposed to be listed (including, without limitation, the Australian Securities Exchange or the NASDAQ Stock Market), provided that the recipient acting in good faith has to the extent possible having regard to the required timing of the disclosure consulted with the provider of the information as to the form and content of the disclosure;
 - (3) the disclosure is made by the recipient to its financiers or lawyers, accountants, investment bankers, consultants or other professional advisers to the extent necessary to enable the recipient to properly perform its obligations under this deed or a Transaction Agreement or to conduct their business generally, in which case the recipient must ensure that such persons keep the information secret and confidential and do not divulge or disclose any part of that information to any other person;
 - (4) the disclosure is necessary to seek satisfaction of any of the conditions in clauses 2.1 and 2.2 provided that the relevant Governmental Agency or Third Party is made aware of the confidential nature of the information and is instructed to keep the information secret and confidential and not to divulge or disclose any part of that information to any other person;
 - (5) the disclosure is made to a Related Body Corporate of the disclosing party;
 - (6) the disclosure is required for use in legal proceedings regarding this deed or the Sale;
 - (7) the party to whom the information relates has consented in writing before the disclosure; or
 - (8) in the case of a Seller, disclosure is made on a confidential basis to a bona fide potential purchaser or subscriber of shares in a Seller or its ultimate holding company.

- (b) Each recipient must ensure that its directors, officers, employees, agents, representatives and Related Bodies Corporate comply in all respects with the recipient's obligations under this clause 14.2.

14.3 Duties

- (a) The Buyer must pay all Duty in respect of the approval and registration of this deed and the Evans Shoal Transfer with the relevant Governmental Agency in accordance with the Act and in respect of the execution, delivery and performance of:
 - (1) this deed; and
 - (2) any agreement or document entered into or signed under this deed, including any Transaction Agreement.
- (b) The Buyer must pay any fine, interest, penalty or other cost in respect of a failure to:
 - (1) pay the Duty referred to in clause 14.3(a);
 - (2) lodge for stamping an instrument referred to in clause 14.3(a);
 - (3) make out and lodge any statement of a transaction referred to in clause 14.3(a); or
 - (4) make proper disclosure to any required Governmental Agency in relation to the Duty referred to in clause 14.3(a).
- (c) The Buyer indemnifies the Seller Group against any breach of clause 14.3(a) or 14.3(b) or both.

14.4 Stamping

- (a) Following Completion, the Buyer must as soon as reasonably practicable:
 - (1) lodge this deed and the Transfer for assessment of Duty with the relevant Governmental Agency; and
 - (2) do all things necessary in connection with that assessment.

14.5 Costs and expenses

- (a) Unless otherwise provided in this deed, each party must pay its own costs and expenses in respect of the negotiation, preparation, execution, delivery and registration of this deed, each Transaction Agreement and any other agreement or document entered into or signed under this deed.
- (b) The Buyer must pay all fees and such like charges payable to a Governmental Agency in connection with the transfer, assignment or novation of any Authorisation under this deed.
- (c) Any action to be taken by the Buyer or the Seller in performing their respective obligations under this deed must be taken at each party's own cost and expense unless otherwise provided in this deed.

15.1 Supply of a going concern

- (a) Any reference in this clause 15 to a term defined or used in the *A New Tax System (Goods and Services Tax) Act 1999* (Cth) (**GST Act**) is, unless the context indicates otherwise, a reference to that term as defined or used in the GST Act.
- (b) Any amount referred to in this deed which is relevant in determining a payment to be made by one party to the other is, unless indicated otherwise, a reference to that amount expressed on a GST exclusive basis.
- (c) The Parties agree that the sale of the Evans Shoal Interests constitutes the supply of a going concern and to the understanding of the Parties is accordingly GST-free.
- (d) For the purposes of the GST Act, the Parties acknowledge that, subject to the provisions of this deed, the Seller will be supplying to the Buyer all things necessary for the continued operation of the Evans Shoal Interests and that the operation of the Evans Shoal Interests will be carried on in the ordinary course until the date of the supply.
- (e) The Buyer warrants that it is registered or required to be registered for GST and will remain so until Completion.
- (f) Notwithstanding the understanding of the Parties as expressed in clause 15.1(c), if for any reason and to any extent the sale of the Evans Shoal Interests is not accepted by the Commissioner of Taxation as a GST-free supply of a going concern:
 - (1) the Buyer must pay to the Seller an amount equal to the amount of the GST payable by the Seller in respect of the sale within 14 days after the Commissioner confirms the Seller's liability to GST in an assessment or correspondence; and
 - (2) the Seller must give the Buyer a copy of the assessment or correspondence from the Commissioner and issue a tax invoice as a precondition to payment under clause 15.1(g).
- (g) If GST is imposed on a supply made under or in connection with this deed (other than the supply constituted by the sale and purchase of the Evans Shoal Interests) the consideration for the supply is increased by an amount equal to the consideration otherwise payable for the supply (or its GST exclusive market value if applicable) multiplied by the rate at which the GST is imposed under the GST law. The additional consideration is, subject to the supplier issuing a tax invoice to the recipient, payable at the same time as the consideration to which it relates.
- (h) If a party to this deed is entitled to be reimbursed or indemnified for a loss, cost, expense or outgoing incurred in connection with this deed, then the amount of the reimbursement must be reduced by an amount equal to any input tax credit to which the party being reimbursed (or its representative member) is entitled in relation to that loss, cost, expense or outgoing.
- (i) Whenever an adjustment event occurs in relation to any taxable supply made under or in connection with this deed the supplier must determine the net amount payable in respect of GST in relation to the supply (taking into account any adjustments) and if that amount differs from the amount previously paid under either clause 15.1(f) or clause 15.1(g) as appropriate, the amount of the difference must be paid by, refunded to or credited to the recipient, as applicable and the party making the taxable supply shall issue an adjustment note to the recipient.

16.1 Income and expenses

- (a) The Buyer and the Seller agree that:
- (1) the Seller will recognise the income and expenditures attributable to the Evans Shoal Interests, for Tax purposes (other than in respect of the PRRT Act), for the period up to and including the Completion Date; and
 - (2) the Buyer will recognise the income and expenditures attributable to the Evans Shoal Interests, for Tax purposes, for the period after the Completion Date.
- (b) The Buyer and the Seller agree to file all Tax returns on this basis.

16.2 Buyer will assume Seller's PRRT entitlements

The Buyer and the Seller acknowledge and agree that, by virtue of the sale and purchase of the Evans Shoal Interests under this deed, the Buyer will assume and obtain the benefit of the Seller's entitlements under the PRRT Act in respect of the Evans Shoal Interests from the Completion Date.

16.3 Seller to provide information

- (a) The Seller must provide the Buyer with a notice pursuant to section 48(3) of the PRRT Act in respect of the Evans Shoal Interests within 60 days of Completion in accordance with the PRRT Act.
- (b) If, during the period ending 60 days after Completion the total expenditure taken to be incurred by the Buyer under section 48 of the PRRT Act in respect of the Evans Shoal Interests differs from the expenditure recorded in the transfer notice given under clause 16.3(a), the Seller must within 60 days of Completion provide the Buyer with a transfer notice, in replacement of the notice already given under clause 16.3(a), in the form required by the PRRT Act, setting out the actual total expenditure taken to be incurred by the Buyer under section 48 of the PRRT Act in respect of the Evans Shoal Interests.

17 General

17.1 Notices

- (a) Any notice or other communication (including any request, demand, consent or approval) to or by a party to this deed must be in legible writing and in English addressed as shown below (or as specified to the sender by any party by notice):

<u>Party</u>	<u>Address</u>	<u>Attention</u>	<u>Facsimile</u>	<u>Email</u>
Seller	Ground Floor, Santos Centre, 60 Flinders Street, Adelaide, South Australia 5000 Australia	James Baulderstone,	+61 8 8116 5287	James.Baulderstone@santos.com
		Company Secretary and General Counsel.	Copy to: +61 8 9333 9571	Copy to: David.Slocombe@santos.com
		Copy to: David Slocombe Commercial Manager, Western Australia and Northern Territory		
Buyer	7 Custom House Street 3rd Floor Portland, ME 04101 USA With a copy to: Bernstein Shur 100 Middle Street, Portland, ME 04101 USA	William H. Hastings, Director	+1 207 553 2250	whhastings@magellanpetroleum.com
		With a copy to: John L Carpenter, Esq.	With a copy to: +1 207 774 1127	With a copy to: jcarpenter@bernsteinshur.com

- (b) If the sender is a company, the notice or communication must be signed by an officer or under the common seal of the sender.
- (c) A notice or communication given in accordance with clause 17.1(a) can be relied on by the addressee and the addressee is not liable to any other person for any consequences of that reliance if the addressee believes it to be genuine, correct and authorised by the sender.
- (d) Any notice or other communication to or by a party to this deed is regarded as being given by the sender and received by the addressee:
 - (1) if by delivery in person, when delivered to the addressee;
 - (2) if by post, 5 Business Days from and including the date of postage;
 - (3) if by facsimile transmission, when a facsimile confirmation receipt is received indicating successful delivery; or
 - (4) if sent by email, when a delivery confirmation report is received by the sender which records the time that the email was delivered to the addressee's email address (unless the sender receives a delivery failure notification indicating that the email has not been delivered to the addressee),

but if the delivery or receipt is on a day that is not a Business Day or is after 5.00pm (addressee's time) it is regarded as received at 9.00am on the following Business Day

- (e) A facsimile transmission is regarded as legible unless the addressee telephones the sender within 2 hours after the transmission is received or regarded as received under clause 17.1(c) and informs the sender that it is not legible.

In this clause 17.1, reference to an addressee includes a reference to an addressee's officers, agents or employees.

17.2 Governing law and jurisdiction

- (a) This deed, including any dispute between one or more of the Parties arising out of, relating to, or in connection with this deed, and including disputes concerning the existence, validity, or termination thereof, is governed by, and enforced and construed in accordance with, the laws of South Australia
- (b) Each party irrevocably submits to the jurisdiction of the courts of South Australia.
- (c) The Parties irrevocably waive any objection to the venue of any legal process on the basis that the process has been brought in an inconvenient forum.

17.3 Service of process

- (a) Without preventing any other mode of service, any document in an action (including any writ of summons or other originating process or any third or other party notice) may be served on any party by being delivered to or left for that party at its address for service of notices under clause 17.1.

17.4 Prohibition and enforceability

- (a) Any provision of, or the application of any provision of, this deed that is prohibited in any jurisdiction is, in that jurisdiction, ineffective only to the extent of that prohibition.
- (b) Any provision of, or the application of any provision of, this deed that is void, illegal or unenforceable in any jurisdiction does not affect the validity, legality or enforceability of that provision in any other jurisdiction or of the remaining provisions in that or any other jurisdiction.

17.5 Waivers and variation

- (a) A provision of, or a right, discretion or authority created under, this deed may not be:
 - (1) waived except in writing signed by the party granting the waiver; and
 - (2) varied except in writing signed by the Parties.
- (b) A failure or delay in exercise, or partial exercise, of a power, right, authority, discretion or remedy arising from a breach of, or default under this deed does not result in a waiver of that right, power, authority, discretion or remedy.

17.6 Assignment

- (a) Subject to clause 17.6(b), a party may not assign its rights under this deed without the written consent of the other Party.
- (b) Following Completion, a party may assign its rights under this deed (and, for the avoidance of doubt, its rights in and to the Evans Shoal Interests) without the consent of the other Party.

17.7 Further assurances

Each party must do all things and execute all further documents necessary to give full effect to this deed and use reasonable endeavours to cause relevant Third Parties to do the same.

17.8 Approvals and consent

If the doing of any act, matter or thing under this deed is dependent on the approval or consent of a party, that party may give conditionally or unconditionally or withhold its approval or consent in its absolute discretion, unless this deed expressly provides otherwise.

17.9 Remedies cumulative

Except as provided in this deed and permitted by law, the rights, powers and remedies provided in this deed are cumulative with and not exclusive to the rights, powers or remedies provided by law independently of this deed.

17.10 Counterparts

This deed may be executed in any number of counterparts which together will constitute one instrument. A party may execute this deed by signing any counterpart.

17.11 Severability

Any provision in this deed that is invalid or unenforceable in any jurisdiction is to be read down for the purpose of that jurisdiction, if possible, so as to be valid and enforceable, and otherwise shall be severed to the extent of the invalidity or unenforceability, without affecting the remaining provisions of this deed or affecting the validity or enforceability of that provision in any other jurisdiction.

17.12 No merger

The Seller's Warranties, the Buyer's Warranties, covenants, undertakings and indemnities in this deed will not merge on Completion.

17.13 Entire agreement

This deed and the Transaction Agreements embody the entire agreement between the Parties and supersede any prior negotiation, conduct, arrangement, understanding or agreement, express or implied, with respect to the subject matter of this deed.

17.14 Default Interest

- (a) If a party fails to pay any amount payable under this deed on the due date for payment, that party must pay interest on the amount unpaid at the higher of the Interest Rate plus 2% per annum or the rate (if any) fixed or payable under any judgment or other thing into which the liability to pay the amount becomes merged.
- (b) The interest payable under clause 17.4(a):
 - (1) accrues from day to day (on the basis of a 365 day year) from and including the due date for payment up to (but excluding) the actual date of payment, before and, as an additional and independent obligation, after any judgment or other thing into which the liability to pay the amount becomes merged; and
 - (2) may be capitalised by the person to whom it is payable at monthly intervals.

17.15 Benefits held on trust

- (a) The Seller holds the benefit of each indemnity, promise and obligation in this deed expressed to be for the benefit of a director, officer or employee of a Seller Group Member, or for the benefit of a Seller Group Member which is not a party to this deed, on trust for that director, officer, employee or Seller Group Member.
- (b) The Buyer holds the benefit of each indemnity, promise and obligation in this deed expressed to be for the benefit of a director, officer or employee of a Buyer Group Member or for the benefit of a Buyer Group Member which is not a party to this deed, on trust for that director, officer, employee or Buyer Group Member.
- (c) Except where an indemnity, promise or obligation is expressly stated to be for the benefit of a Third Party, no person other than the Buyer and the Seller has or is intended to have any right, power or remedy or derives or is intended to derive any benefit under this deed.

17.16 Contra proferentem excluded

No term or condition of this deed will be construed adversely to a party solely on the ground that the party was responsible for the preparation of this deed or that provision.

17.17 Attorneys

Each of the attorneys executing this deed states that the attorney has no notice of the revocation of the power of attorney appointing that attorney.

17.18 No Immunity

Each party hereto unconditionally and irrevocably:

- (a) agrees that the execution, delivery and performance by it of this deed constitute private and commercial acts rather than public or governmental acts and waives any right to plead state action as a defence to a breach of this deed;
- (b) waives any claim to immunity (sovereign, diplomatic or otherwise) in regard to any proceedings whatsoever and wheresoever brought against it or its assets in relation to this deed or any transaction contemplated by this deed including, without limitation, immunity from service of process, immunity from jurisdiction of any court and immunity of its property from execution;
- (c) without prejudice to the generality of the foregoing, specifically waives any such right to immunity in respect of any proceedings in relation to:
 - (1) judicial proceedings for interim, interlocutory, final or ancillary or injunctive orders, whether *in personam* or *in rem* before any national court of competent jurisdiction;
 - (2) proceedings for any provisional or conservatory measures including, without limitation, attachment prior to the institution of any proceedings, or during the proceedings, for the preservation of its rights or interests; and
 - (3) judicial proceedings for the recognition and enforcement of any arbitral awards rendered by a tribunal constituted pursuant to this deed; and
- (d) consents generally in respect of the enforcement of any judgement against it in any such proceedings, to the giving of any relief or the issue of any process in connection with such proceedings including the making, enforcement or execution against or in respect of any property whatsoever (irrespective of its use or intended use and including, in the case of the United States of America, bank accounts belonging to the United States of America's central bank or other monetary authority) of any order or judgement which may be made or given in such proceedings.

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Note: Pursuant to Item 601(b)(2) of Regulation S-K, the registrant has omitted Schedules 5-8, and Annexures 1 and 2. The registrant will furnish supplementally to the Securities and Exchange Commission such Schedules and Annexures, upon request.

Seller's Warranties

1 Ownership

1.1 Ownership

At Completion:

- (a) the Seller is the legal and beneficial owner of the Evans Shoal Interests; and
- (b) the Buyer will acquire the full legal and beneficial ownership of the Evans Shoal Interests free and clear of:
 - (1) all Encumbrances; and
 - (2) any third party pre-emptive right.

1.2 No Encumbrances

The Evans Shoal Interests will at Completion be free and clear of all Encumbrances and any third party pre-emptive right.

2 Power and authority

2.1 No legal impediment

The execution, delivery and performance by the Seller of this deed:

- (a) complies with its constitution; and
- (b) does not constitute a breach or violation of any law, or a judgment or order of any court, or violate any other agreement to which the Seller is a party, or cause or result in a default under any agreement or any Encumbrance, by which it is bound and that would prevent it from entering into and performing its obligations under this deed.

2.2 Corporate Authorisations

All necessary authorisations for the execution, delivery and performance by the Seller of this deed in accordance with its terms have been obtained or will be obtained before Completion, other than the consents and approvals required under clause 2.1.

2.3 Power and capacity

The Seller has full power and capacity to enter into and perform its obligations under this deed.

2.4 Incorporation

The Seller is validly incorporated, organised and subsisting in accordance with the laws of its place of incorporation.

3 Solvency

3.1 No liquidation

The Seller has not:

- (a) gone, or is proposed to go, into liquidation;
- (b) passed a winding-up resolution or commenced steps for winding-up or dissolution; or
- (c) received a deregistration notice under section 601AB of the Corporations Act or any communication from ASIC that might lead to such notice or applied for deregistration under section 601AA of the Corporations Act.

3.2 No winding-up process

No petition or other process for winding-up or dissolution has been presented or threatened in writing against the Seller and, so far as the Seller is aware, there are no circumstances justifying such a petition or other process.

3.3 No receiver or manager

No receiver, receiver and manager, judicial manager, liquidator, administrator or like official has been appointed, or is threatened or expected to be appointed, over the whole or a substantial part of the undertaking or property of the Seller, and, so far as the Seller is aware, there are no circumstances justifying such an appointment.

3.4 Arrangements with creditors

The Seller has not entered into, or taken steps or proposed to enter into, any arrangement, compromise or composition with or assignment for the benefit of its creditors or a class of them.

3.5 No writs

No writ of execution has issued against the Seller or its property and, so far as the Seller is aware, there are no circumstances justifying such a writ.

3.6 Solvency

The Seller is able to pay its debts as and when they fall due. The Seller is not taken under applicable laws to be unable to pay its debts or has stopped or suspended, or threatened to stop or suspend, payment of all or a class of its debts.

4.1 Valid title

The Evans Shoal Title has been validly granted and is in full force and effect.

4.2 Royalties, terms and conditions

- (a) So far as the Seller is aware, all fees or royalties in respect of the Evans Shoal Title which have fallen due for payment pursuant to any agreement entered into prior to, or which otherwise relate to the period prior to, the time from which the Evans Shoal Title was owned by a Seller Group Member have been paid.
- (b) All fees or royalties in respect of the Evans Shoal Title which have fallen due for payment pursuant to any agreement entered into after, or which otherwise relate to the period after, the Evans Shoal Title was owned by a Seller Group Member have been paid.
- (c) There is currently no breach of any of the terms and conditions to which the Evans Shoal Title is subject which could result in the forfeiture or cancellation thereof.
- (d) The conditions of the Evans Shoal Title have been complied with in all material respects and there are no facts, matters or circumstances which would give rise to the cancellation, forfeiture or suspension of the Evans Shoal Title or the imposition of any new conditions under the Evans Shoal Title.
- (e) There is no joint venture or other comparable relationship established between the Seller and any other party, other than the joint venture pursuant to the Evans Shoal JOA, with respect to the Evans Shoal Title.

- (a) All cash calls due and payable by the Seller under the Evans Shoal JOA have been paid.
- (b) No Seller has received notice from any party to the Evans Shoal JOA (including any Seller Group Member) of that party's intention to withdraw from the Evans Shoal JOA.
- (c) No Seller has received any sole risk notice pursuant to the Evans Shoal JOA.
- (d) So far as the Seller is aware, each of the Evans Shoal JOA and the Participant Deed remains in full force and effect.

6.1 No material proceedings

The Seller

- (a) has not received, as at the date of this deed, any notice to the effect that the Operator of the Evans Shoal JOA is a party to any investigation; and
- (b) is not, as at the date of this deed, a party to any prosecution or litigation, in either case that will, or would reasonably be likely to, have a Material Adverse Effect on the Evans Shoal Project or the Evans Shoal Interests (**Material Proceedings**).

6.2 No threatened material proceedings

The Seller has not received, as at the date of this deed, any notice to the effect that there are Material Proceedings against the Operator are pending or threatened and the Seller is not aware of any disputes involving the Operator that will, or would reasonably be likely to, give rise to any Material Proceedings which would have a Material Adverse Effect on the Evans Shoal Interests or the Evans Shoal Project.

6.3 No judgments or awards

As at the date of this deed there is no unsatisfied judgment, order, arbitral award or decision of any court, tribunal or arbitrator against the Seller which relates to the Evans Shoal Interests or the Evans Shoal Project and which would have or would be reasonably be expected to have a Material Adverse Effect.

7 Insurance

7.1 Disclosure

The Disclosure Materials contain complete and accurate particulars of all current insurance policies and cover notes taken out in respect of the Joint Operations as at the date of this deed (**Insurances**).

7.2 No claims

There are no outstanding claims made under any Insurance or an insurance policy obtained in respect of the Joint Operations.

8 Contracts

8.1 Default by the Operator and the Seller

So far as the Seller is aware, neither the Operator or the Seller is in material default, or would be in material default but for the requirements of notice or lapse of time, under any material agreement to which it is a party (including the Evans Shoal JOA and all material agreements to which the Seller is a party in its capacity as Operator), where such default will, or would reasonably be likely to, have a Material Adverse Effect.

8.2 Default by third party

So far as the Seller is aware, no other party to any material agreement to which the Seller or the Operator is a party (including the Evans Shoal JOA) is in default, or would be in default but for the requirements of notice or lapse of time, under that agreement, where such default will, or would reasonably be likely to, have a Material Adverse Effect.

8.3 Notices

So far as the Seller is aware, as at the date of this deed neither the Operator or the Seller has received, or given, any notice of termination of any material agreement to which it is a party that will, or would reasonably be likely to, have a Material Adverse Effect.

8.4 Offers

No outstanding offer, tender or quotation has been given or made by the Operator in respect of the Joint Operations that is capable of giving rise to a contract merely by any unilateral act of a Third Party other than in the ordinary course of the Business.

9 Environment

9.1 Notices for Governmental Agencies

The Operator has not received any notice from any Governmental Agency:

- (1) for work or expenditure in relation to the Joint Operations to comply with any environmental laws or the terms of any Authorisations other than the minimum work and expenditure conditions applicable to the Evans Shoal Title;
- (2) that Joint Operations should cease or be conducted in some alternative manner so as to comply with environmental laws or the terms of any Authorisations; and
- (3) of any pending investigation or inquiry by a Governmental Agency with respect to an environmental matter.

9.2 No environmental issues

So far as the Seller is aware, there has not been and there are no existing environmental issues in respect of the Joint Operations which would, or would be reasonably likely to, give rise to any environmental Loss (including any pollution, emission or contamination or any environmental harm) that would result in a Material Adverse Effect.

10 Compliance with laws

None of the Operator and the Seller has received any notice of any failure to comply with any law that will, or would reasonably be likely to, have a Material Adverse Effect and so far as the Seller is aware there has been no such failure to comply.

11 Joint Accounts

So far as the Seller is aware, the Joint accounts have been prepared in accordance with the Accounting Standards.

- (a) The Disclosure Materials have been prepared in good faith for the purpose of informing the Buyer about the Business and the Joint Operations.
- (b) The Raw Data has been assembled in good faith by the Seller and, where acquired from test work performed by the Seller or provided by contractors to the Seller, is unaltered from that which was recorded or provided and is a true, accurate and not misleading record of the information at the time it was recorded, subject to the following qualifications:
 - (1) the limitations of the technology used in obtaining the information;
 - (2) any observational error on the part of the individual or individuals conducting the test work or experiment or on the individual or contractor in recording or collating the Raw Data; and
 - (3) the correctness of any assumption (which is expressly stated, or which forms part of good oil and gas field practice) relied upon to obtain the information.
- (c) The Interpretive Information has been assembled in good faith by the Seller and has been prepared in accordance with good oil and gas field practice but is provided subject to the qualification that the analysis and conclusions contained in the Interpretive Information will not be relied on by the Buyer on the basis that the Buyer had the opportunity, prior to entry in to this deed, to perform its own review and analysis of the Raw Data to confirm the analysis and conclusions contained in the Interpretative Information.
- (d) So far as the Seller is aware, there is no information relating to the Business or the Evans Shoal Projects that has not been made available to the Buyer before the date of this deed that will, or would reasonably be likely to, have a Material Adverse Effect.
- (e) The Seller is not aware of any of the Disclosure Materials (other than the Raw Data and the Interpretative Information) being materially incorrect, incomplete or misleading and such Disclosure Materials will or would reasonably be likely to have a Material Adverse Effect.

13 Decisions of the Operating Committee

The Disclosure Materials contain details of all resolutions of the Operating Committee since 1 January 2009 up to the date of this deed.

Buyer's Warranties

-
- (a) **(No legal impediment)** The execution, delivery and performance by the Buyer of this deed:
- (1) complies with its constitution or other constituent documents; and
 - (2) does not constitute a breach or violation of any law or judgment or order of any court, or cause or result in default under any agreement or Encumbrance, by which it is bound and which would prevent it from entering into and performing its obligations under this deed.
- (b) **(Corporate Authorisations)** All necessary action to authorise the execution, delivery and performance of this deed by the Buyer in accordance with its terms have been obtained or will be obtained before Completion, except for the consents and approvals required under clause 2.1.
- (c) **(Power and capacity)** The Buyer has full power and capacity to enter into and perform its obligations under this deed.
- (d) **(Incorporation)** The Buyer is validly incorporated, organised and subsisting in accordance with the laws of its place of incorporation.
- (e) **(No trust)** The Buyer enters into and performs this deed on its own account and not as trustee for or nominee of any other person.
- (f) **(No liquidation)** The Buyer has not:
- (1) gone, and is not proposed to go, into liquidation;
 - (2) passed a winding-up resolution or commenced steps for winding-up or dissolution; or
 - (3) received a deregistration notice under section 601AB of the Corporations Act or any communication from ASIC that might lead to such a notice or applied for deregistration under section 601AA of the Corporations Act.
- (g) **(No winding-up process)** No petition or other process for winding-up or dissolution has been presented or threatened in writing against the Buyer and, so far as the Buyer is aware, there are no circumstances justifying a petition or other process.
- (h) **(No receiver or manager)** No receiver, receiver and manager, judicial manager, liquidator, administrator or like official has been appointed, or is threatened or expected to be appointed, over the whole or a substantial part of the undertaking or property of the Buyer, and so far as the Buyer is aware, there are no circumstances justifying such an appointment.
- (i) **(Arrangement with creditors)** The Buyer has not entered into, or taken steps or proposed to enter into, any arrangement, compromise or composition with or assignment for the benefit of its creditors or a class of them.
- (j) **(No writs)** No writ of execution has issued against the Buyer or any of its assets and there are no circumstances justifying such a writ.
- (k) **(Solvency)** The Buyer is able to pay its debts as and when they fall due. The Buyer is not taken under applicable laws to be unable to pay its debts and has not stopped or suspended, or threatened to stop or suspend, payment of all or a class of its debts.

Freehills

- (l) **(Awareness)** As at the date of this deed, no Specified Executive of the Buyer Group is aware of any breach of a Seller's Warranty or of any matter, circumstance or event which will or is reasonably likely to result in a Claim.
- (m) **(Financial and technical capabilities)** At Completion, if the Buyer were to be appointed the Operator and subject to the continued operation of the Technical Services Agreement, as of such time, it would have sufficient funds, resources and operational capability to meet the obligations (financial or otherwise) of the Operator under the Evans Shoal JOA.

Completion steps

1 Completion

1.1 Seller's obligations at Completion

- (a) Subject to the Buyer complying with its obligations under clause 1.2 of this Schedule 3, at Completion the Seller must, to the extent that they have not been delivered to the Buyer already:
- (1) deliver to the Buyer
 - (A) the Evans Shoal Transfer duly executed by the registered holders of the Evans Shoal Title;
 - (B) counterparts of the Deed of Assignment and Assumption duly executed by the parties to the Evans Shoal JOA (including the Seller);
 - (2) deliver to the Buyer a copy of the document providing confirmation by Shell, PCA and OGA that they consent to the transfer of the Evans Shoal Interests to the Buyer and that they waive their rights under Articles 12.3.A, 12.3.B and 12.3.C of the Evans Shoal JOA in respect of this transfer;
 - (3) make available to the Buyer the Joint Operations Records; and
 - (4) deliver to the Buyer a certificate from a Specified Executive of the Seller certifying that no breach of a Fundamental Warranty is subsisting as at Completion.

1.2 Buyer's obligations at Completion

Subject to the Seller complying with its obligations under clause 1.1 of this Schedule 3, at Completion the Buyer must:

- (a) pay the Completion Payment to the Seller in Immediately Available Funds without counterclaim or set-off by the Buyer;
- (b) deliver to the Seller a counterpart of the Deed of Assignment and Assumption duly executed by the Buyer;
- (c) deliver to the Seller counterparts, executed by the Buyer, of those documents listed in clause 1.1(a) of this Schedule 3, that are to be executed by the Buyer or any other relevant person, other than a Seller Group Member; and
- (d) deliver to the Seller a certificate from a Specified Executive of the Buyer Group Member certifying that no breach of a Buyer's Warranty is subsisting as at Completion.

Form of Adjustment Statement

1 Any current assets of the Joint Operations at the Effective Date in respect of the Evans Shoal Interests	[A1]
2 Any expenditure in respect of Joint Operations that are a prepayment as at the Effective Date in respect of the Evans Shoal Interests	[B1]
3 Any liabilities of the Joint Operations as at the Effective Date in respect of the Evans Shoal Interests	[C1]
4 Any unpaid cash calls in respect of the Joint Operation relating to the period prior to the Effective Date in respect of the Evans Shoal Interests	[D1]
5 Adjustment Amount	[E1 = A1 + B1 – C1 – D1]

Executed as a deed

Signed sealed and delivered by
Santos Offshore Pty Ltd
By

sign here u /s/ James Baulderstone
Company Secretary

print name James Baulderstone

sign here u P.C. Wasow
Director

print name P.C. Wasow

Signed sealed and delivered by
Magellan Petroleum Australia Limited
By

sign here u /s/ Bruce McInnes
Company Secretary

print name Bruce McInnes

sign here u /s/ Robert J. Mollah
Director

print name Robert J. Mollah

THE SECURITIES REPRESENTED HEREBY MAY NOT BE TRANSFERRED UNLESS (I) SUCH SECURITIES HAVE BEEN REGISTERED FOR SALE PURSUANT TO THE SECURITIES ACT OF 1933, AS AMENDED (THE “**SECURITIES ACT**”), OR (II) THE COMPANY HAS RECEIVED AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO IT THAT SUCH TRANSFER MAY LAWFULLY BE MADE WITHOUT REGISTRATION UNDER THE SECURITIES ACT OR QUALIFICATION UNDER APPLICABLE STATE SECURITIES LAWS.

SUBJECT TO THE PROVISIONS OF SECTION 11 HEREOF, THIS WARRANT SHALL BE VOID AFTER 5:00 P.M. EASTERN TIME ON THE FIFTH ANNIVERSARY OF THE CLOSING DATE (THE “**EXPIRATION DATE**”).

No. 2

MAGELLAN PETROLEUM CORPORATION
AMENDED AND RESTATED WARRANT TO PURCHASE SHARES OF
COMMON STOCK, PAR VALUE \$0.01 PER SHARE

This Amended and Restated Warrant to Purchase Shares of Common Stock, Par Value \$0.01 Per Share (“**Warrant**”), issued by Magellan Petroleum Corporation, a Delaware corporation (the “**Company**”), to Young Energy Prize S.A., a Luxembourg corporation (“**Warrantholder**”), amends and restates in its entirety the Warrant to Purchase Shares of Common Stock, Par Value \$0.01 Per Share, issued by the Company to the Warrantholder on July 9, 2009.

For VALUE RECEIVED, the Warrantholder is entitled to purchase, subject to the provisions of this Warrant, from the Company, from and after the Closing Date (the “**Initial Exercise Date**”) and at any time not later than 5:00 P.M., Eastern time, on the Expiration Date (as defined above), at an exercise price per share equal to \$1.15 (the exercise price in effect being herein called the “**Warrant Price**”), 4,347,826 shares (“**Warrant Shares**”) of the Company’s Common Stock, par value \$0.01 per share (“**Common Stock**”). The number of Warrant Shares purchasable upon exercise of this Warrant and the Warrant Price shall be subject to adjustment from time to time as described herein. Terms not otherwise defined herein have the respective meanings ascribed to them in the Securities Purchase Agreement, dated February 9, 2009 (the “**Purchase Agreement**”), between the Company and the initial holder of this Warrant, as amended from time to time.

Section 1. Registration. The Company shall maintain books for the transfer and registration of the Warrant. Upon the initial issuance of this Warrant, the Company shall issue and register the Warrant in the name of the Warrantholder or its designee.

Section 2. Transfers. As provided herein, this Warrant may be transferred only pursuant to a registration statement filed under the Securities Act of 1933, as amended (the “**Securities Act**”), or an exemption from such registration. Subject to such restrictions, the Company shall transfer this Warrant from time to time upon the books to be maintained by the Company for that purpose, upon surrender hereof for transfer, properly endorsed or accompanied by appropriate instructions for transfer and such other documents as may be reasonably required by the Company, including, if required by the Company, an opinion of its counsel to the effect that such transfer is exempt from the registration requirements of the Securities Act, to establish that such transfer is being made in accordance with the terms hereof, and a new Warrant shall be issued to the transferee and the surrendered Warrant shall be canceled by the Company.

Section 3. Exercise of Warrant. Subject to the provisions hereof, the Warrantholder may exercise this Warrant, in whole or in part, at any time and from time to time prior to its expiration upon surrender of the Warrant, together with delivery of a duly executed Warrant exercise form, in the form attached hereto as Appendix A (the “**Exercise Agreement**”) and payment by cash, certified check, or wire transfer of funds of the aggregate Warrant Price for that number of Warrant Shares then being purchased, to the Company during normal business hours on any business day at the Company’s principal executive offices (or such other office or agency of the Company as it may designate by notice to the Warrantholder). The Warrant Shares so purchased shall be deemed to be issued to the Warrantholder or the Warrantholder’s designee, as the record owner of such shares, as of the close of business on the date on which this Warrant shall have been surrendered for exercise (or the date evidence of loss, theft, or destruction thereof and security or indemnity satisfactory to the Company has been provided to the Company in connection with such exercise), the Warrant Price shall have been paid and the completed Exercise Agreement shall have been delivered. Certificates for the Warrant Shares so purchased shall be delivered to the Warrantholder within a reasonable time, not exceeding three (3) business days, after this Warrant shall have been so exercised. The certificates so delivered shall be in such denominations as may be requested by the Warrantholder and shall be registered in the name of the Warrantholder or such other name as shall be designated by the Warrantholder, as specified in the Exercise Agreement. If this Warrant shall have been exercised only in part, then, unless this Warrant has expired, the Company shall, at its expense, at the time of delivery of such certificates, deliver to the Warrantholder a new Warrant representing the right to purchase the number of shares with respect to which this Warrant shall not then have been exercised. As used herein, “**business day**” means a day, other than a Saturday or Sunday, on which banks in New York City are open for the general transaction of business. Each exercise hereof shall constitute the re-affirmation by the Warrantholder that the representations and warranties contained in Section 3.2 of the Purchase Agreement are true and correct in all material respects with respect to the Warrantholder as of the time of such exercise.

Section 4. Compliance with the Securities Act of 1933. Except as provided in the Purchase Agreement, the Company may cause the legend set forth on the first page of this Warrant to be set forth on each Warrant, and a similar legend on any security issued or issuable upon exercise of this Warrant, unless counsel for the Company is of the opinion as to any such security that such legend is unnecessary.

Section 5. Payment of Taxes. The Company will pay any documentary stamp taxes attributable to the initial issuance of Warrant Shares issuable upon the exercise of the Warrant; provided, however, that the Company shall not be required to pay any tax or taxes which may be payable in respect of any transfer involved in the issuance or delivery of any certificates for Warrant Shares in a name other than that of the Warrantholder in respect of which such shares are issued, and in such case, the Company shall not be required to issue or deliver any certificate for Warrant Shares or any Warrant until the person requesting the same has paid to the Company the amount of such tax or has established to the Company’s reasonable satisfaction that such tax has been paid. The Warrantholder shall be responsible for income taxes due under federal, state, or other law, if any such tax is due.

Section 6. Mutilated or Missing Warrants. In case this Warrant shall be mutilated, lost, stolen, or destroyed, the Company shall issue in exchange and substitution of and upon surrender and cancellation of the mutilated Warrant, or in lieu of and substitution for the Warrant lost, stolen, or destroyed, a new Warrant of like tenor and for the purchase of a like number of Warrant Shares, but only upon receipt of evidence reasonably satisfactory to the Company of such mutilation, loss, theft, or destruction of the Warrant, and with respect to a lost, stolen, or destroyed Warrant, reasonable indemnity or bond with respect thereto, if requested by the Company.

Section 7. Reservation of Common Stock. The Company hereby represents and warrants that there have been reserved, and the Company shall at all applicable times keep reserved until issued (if necessary) as contemplated by this Section 7, out of the authorized and unissued shares of Common Stock, sufficient shares to provide for the exercise of the rights of purchase represented by this Warrant. The Company agrees that all Warrant Shares issued upon due exercise of the Warrant shall be, at the time of delivery of the certificates for such Warrant Shares, duly authorized, validly issued, fully paid, and non-assessable shares of Common Stock of the Company.

Section 8. Adjustments. Subject and pursuant to the provisions of this Section 8, the Warrant Price and number of Warrant Shares subject to this Warrant shall be subject to adjustment from time to time as set forth hereinafter.

(a) If the Company shall, at any time or from time to time while this Warrant is outstanding, pay a dividend or make a distribution on its Common Stock in shares of Common Stock, subdivide its outstanding shares of Common Stock into a greater number of shares or combine its outstanding shares of Common Stock into a smaller number of shares, or issue by reclassification of its outstanding shares of Common Stock any shares of its capital stock (including any such reclassification in connection with a consolidation or merger in which the Company is the continuing corporation), then (i) the Warrant Price in effect immediately prior to the date on which such change shall become effective shall be adjusted by multiplying such Warrant Price by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to such change and the denominator of which shall be the number of shares of Common Stock outstanding immediately after giving effect to such change, and (ii) the number of Warrant Shares purchasable upon exercise of this Warrant shall be adjusted by multiplying the number of Warrant Shares purchasable upon exercise of this Warrant immediately prior to the date on which such change shall become effective by a fraction, the numerator of which shall be the Warrant Price in effect immediately prior to the date on which such change shall become effective and the denominator of which shall be the Warrant Price in effect immediately after giving effect to such change, calculated in accordance with clause (i) above. Such adjustments shall be made successively whenever any event listed above shall occur.

(b) If any capital reorganization, reclassification of the capital stock of the Company, consolidation or merger of the Company with another corporation in which the Company is not the survivor, or sale, transfer, or other disposition of all or substantially all of the Company's assets to another corporation shall be effected, then, as a condition of such reorganization, reclassification, consolidation, merger, sale, transfer, or other disposition, lawful and adequate provision shall be made whereby each Warrantholder shall thereafter have the right to purchase and receive upon the basis and upon the terms and conditions herein specified and in lieu of the Warrant Shares immediately theretofore issuable upon exercise of the Warrant, such shares of stock, securities, or assets as would have been issuable or payable with respect to or in exchange for a number of Warrant Shares equal to the number of Warrant Shares immediately theretofore issuable upon exercise of the Warrant, had such reorganization, reclassification, consolidation, merger, sale, transfer, or other disposition not taken place, and in any such case appropriate provision shall be made with respect to the rights and interests of each Warrantholder to the end that the provisions hereof (including, without limitation, provision for adjustment of the Warrant Price) shall thereafter be applicable, as nearly equivalent as may be practicable in relation to any shares of stock, securities, or assets thereafter deliverable upon the exercise hereof. The Company shall not effect any such consolidation, merger, sale, transfer, or other disposition unless prior to or simultaneously with the consummation thereof the successor corporation (if other than the Company) resulting from such consolidation or merger, or the corporation purchasing or otherwise acquiring such assets or other appropriate corporation or entity, shall assume the obligation to deliver to the Warrantholder, at the last address of the Warrantholder appearing on the books of the Company, such shares of stock, securities, or assets as, in accordance with the foregoing provisions, the Warrantholder may be entitled to purchase, and the other obligations under this Warrant. The provisions of this paragraph (b) shall similarly apply to successive reorganizations, reclassifications, consolidations, mergers, sales, transfers, or other dispositions.

(c) An adjustment to the Warrant Price shall become effective immediately after the payment date in the case of each dividend or distribution and immediately after the effective date of each other event which requires an adjustment.

(d) In the event that, as a result of an adjustment made pursuant to this Section 8, the Warrantholder shall become entitled to receive any shares of capital stock of the Company other than shares of Common Stock, the number of such other shares so receivable upon exercise of this Warrant shall be subject thereafter to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the provisions with respect to the Warrant Shares contained in this Warrant.

(e) To the extent permitted by applicable law and the listing requirements of any stock market or exchange on which the Common Stock is then listed, the Company from time to time may decrease the Warrant Price by any amount for any period of time if the period is at least twenty (20) days, the decrease is irrevocable during the period, and the Board shall have made a determination that such decrease would be in the best interests of the Company, which determination shall be conclusive. Whenever the Warrant Price is decreased pursuant to the preceding sentence, the Company shall provide written notice thereof to the Warrantholder at least five (5) days prior to the date the decreased Warrant Price takes effect, and such notice shall state the decreased Warrant Price and the period during which it will be in effect.

Section 9. Pre-Emptive Right.

(a) If the Company shall, at any time or from time to time while this Warrant is outstanding, propose to issue or sell any new Equity Securities (as defined below) (the “**New Securities**”) in any public or private offering, the Warrantholder shall have the right, but not the obligation, to purchase its Pro Rata Portion (as defined below) of such New Securities in accordance with the terms and provisions of this Section 9.

(b) The Company shall give written notice (an “**Issuance Notice**”) of any proposed issuance or sale of New Securities to the Warrantholder prior to the issuance or sale of such New Securities. The Issuance Notice shall, to the extent practicable, set forth the material terms and conditions of the proposed issuance, including: (i) the number and description of the New Securities proposed to be issued; (ii) the proposed issuance date, if known; and (iii) the proposed purchase price per share, or range of proposed purchase prices per share, if known.

(c) For a period of ten (10) business days following the receipt of an Issuance Notice (the “**Exercise Period**”), the Warrantholder shall have the right to elect irrevocably to purchase its Pro Rata Portion of the New Securities at the same purchase price (net of any underwriting discounts or sales commissions) paid by the other purchasers of New Securities by delivering to the Company a written notice of its irrevocable election (the “**Purchase Notice**”). The Purchase Notice shall include a re-affirmation by the Warrantholder that the representations and warranties contained in Section 3.2 of the Purchase Agreement are true and correct in all material respects with respect to the Warrantholder as of the date of such Purchase Notice. The closing of any purchase by the Warrantholder shall be consummated concurrently with the consummation of the issuance or sale described in the Issuance Notice. The Warrantholder agrees to use its commercially reasonable best efforts to secure any Governmental Approvals or any other regulatory approvals or other consents applicable to it, and to comply with any laws, rules and regulations as necessary in connection with the offer, sale and purchase of the New Securities.

(d) In the event that the Warrantholder: (i) declines in writing to exercise its rights under this Section; (ii) fails to deliver a Purchase Notice to the Company that complies fully with the provisions of paragraph (c) above; or (iii) is unable to complete the purchase of its Pro Rata Portion of the New Securities because it is unable to obtain any required Governmental Approval applicable to it, then, in any such case, the Company shall be free to complete the proposed issuance or sale of New Securities described in the Issuance Notice on terms no less favorable to the Company than those set forth in the Issuance Notice (except that the amount of New Securities to be issued or sold by the Company may be reduced); provided, however, that (X) such issuance or sale is consummated within ninety (90) business days after the expiration of the Exercise Period (subject to the extension of such ninety (90) business day period for a reasonable time not to exceed forty-five (45) additional business days to the extent reasonably necessary to obtain any necessary Government Approvals, approvals required under Delaware law or NASDAQ listing rules, or any other third party approvals or consents) and (Y) for the avoidance of doubt, the price at which the New Securities are sold is at least equal to or higher than the purchase price described in the Issuance Notice. In the event the Company has not sold such New Securities within the time period described in the preceding sentence, the Company shall not thereafter issue or sell any New Securities without first again offering the Warrantholder the right to purchase its Pro Rata Portion of such New Securities in accordance with this Section.

(e) As used in this Section 9, the following terms shall have the following meanings:

(i) **“Equity Securities”** means any and all shares of the Company’s Common Stock and any securities of the Company convertible into, or exchangeable or exercisable for, such shares, and options, warrants or other rights to acquire such shares but does not include Excluded Securities.

(ii) **“Excluded Securities”** means any securities issued in connection with: (A) the grant to any consultants, employees, officers or directors of the Company pursuant of any stock option, stock award, stock appreciation right or similar right under the Company’s equity-based compensation plans or other similar compensation agreements with any of the foregoing, or the exercise, conversion or exchange of any such securities; (B) the conversion or exchange of any securities of the Company into shares of Common Stock, or the exercise of any options, warrants or other rights to acquire such shares, existing as the date hereof; (C) any acquisition by the Company of the stock, assets, properties or business of any Person; (D) any merger, consolidation or other business combination involving the Company; (E) a stock split, stock dividend, other distribution of shares of the Company’s Common Stock or any similar recapitalization transaction; (F) any firm commitment underwritten public offering of securities; (G) any issuance of warrants, options or other similar rights to purchase equity securities granted to lenders or other institutional investors in any arm’s length transaction providing debt financing to the Company or any of its subsidiaries: in each case of (A) – (G), as approved by the Company’s Board of Directors.

(iii) **“Government Approval”** means any authorization, consent, approval, waiver, exception, variance, order, exemption, publication, filing, declaration, concession, grant, franchise, agreement, permission, permit, or license of, from or with any Government Authority, the giving notice to or registration with any Government Authority or any other action in respect of any Government Authority.

(iv) **“Government Authority”** means any federal, state, local or foreign government or political subdivision thereof, or any agency or instrumentality of such government or political subdivision, or any self-regulated organization or other non-governmental regulatory authority or quasi-governmental authority (to the extent that the rules, regulations or orders of such organization or authority have the force of law), or any arbitrator, court or tribunal of competent jurisdiction.

(v) **“Person”** means an individual or corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or subdivision thereof), or other entity of any kind.

(vi) “**Pro Rata Portion**” means, with respect to the Warrantholder on any issuance date for New Securities, the number of New Securities equal to the product of (A) the total number of New Securities to be issued by the Company on such date and (B) the fraction determined by dividing (x) the then-outstanding number of Warrant Shares purchasable upon exercise of this Warrant immediately prior to such issuance by (y) the total number of shares of the Common Stock issued and outstanding immediately prior to such issuance plus the then-outstanding number of Warrant Shares purchasable upon exercise of this Warrant immediately prior to such issuance.

Section 10. Fractional Interest. The Company shall not be required to issue fractions of Warrant Shares upon the exercise of this Warrant. If any fractional share of Common Stock would, except for the provisions of the first sentence of this Section 10, be deliverable upon such exercise, the Company, in lieu of delivering such fractional share, shall pay to the exercising Warrantholder an amount in cash equal to the Market Price of such fractional share of Common Stock on the date of exercise.

Section 11. Extension of Expiration Date. If the Company fails to cause any Registration Statement covering Registrable Securities (unless otherwise defined herein, capitalized terms are as defined in the Registration Rights Agreement relating to the Warrant Shares (the “**Registration Rights Agreement**”)) to be declared effective prior to the applicable dates set forth therein, or if the effectiveness of a Registration Statement has been delayed or a Prospectus has been unavailable, and such delay or unavailability (whether alone, or in combination with any other period of delay or unavailability) continues for more than 60 days in any 12 month period, or for more than a total of 90 days, then the Expiration Date of this Warrant shall be extended one day for each day beyond the 60-day or 90-day limits, as the case may be, that such delay or unavailability continues.

Section 12. Benefits. Nothing in this Warrant shall be construed to give any person, firm, or corporation (other than the Company and the Warrantholder) any legal or equitable right, remedy, or claim, it being agreed that this Warrant shall be for the sole and exclusive benefit of the Company and the Warrantholder.

Section 13. Notices to Warrantholder. Upon the happening of any event requiring an adjustment of the Warrant Price, the Company shall promptly give written notice thereof to the Warrantholder at the address appearing in the records of the Company, stating the adjusted Warrant Price and the adjusted number of Warrant Shares resulting from such event and setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based. Failure to give such notice to the Warrantholder or any defect therein shall not affect the legality or validity of the subject adjustment.

Section 14. Identity of Transfer Agent. The Transfer Agent for the Common Stock is American Stock Transfer & Trust Company, LLC. Upon the appointment of any subsequent transfer agent for the Common Stock or other shares of the Company’s capital stock issuable upon the exercise of the rights of purchase represented by the Warrant, the Company will mail to the Warrantholder a statement setting forth the name and address of such transfer agent.

Section 15. Notices. Unless otherwise provided, any notice required or permitted under this Warrant shall be given in writing and shall be deemed effectively given as hereinafter described (i) if given by personal delivery, then such notice shall be deemed given upon such delivery, (ii) if given by telex or facsimile, then such notice shall be deemed given upon receipt of confirmation of complete transmittal, (iii) if given by mail, then such notice shall be deemed given upon the earlier of (A) receipt of such notice by the recipient or (B) three days after such notice is deposited in first class mail, postage prepaid, and (iv) if given by an internationally recognized overnight air courier, then such notice shall be deemed given one business day after delivery to such carrier. All notices shall be addressed as follows: if to the Warrantholder, at its address as set forth in the Company's books and records and, if to the Company, at the address as follows, or at such other address as the Warrantholder or the Company may designate by ten days' advance written notice to the other:

If to the Company:

Magellan Petroleum Corporation
7 Custom House Street, 3rd Floor
Portland, ME 04101
Facsimile: (207) 553-2250
Attention: William H. Hastings, President and CEO

Section 16. Registration Rights. The initial Warrantholder is entitled to the benefit of certain registration rights with respect to the shares of Common Stock issuable upon the exercise of this Warrant as provided in the Registration Rights Agreement, and any subsequent Warrantholder may be entitled to such rights.

Section 17. Successors. All the covenants and provisions hereof by or for the benefit of the Warrantholder shall bind and inure to the benefit of its respective successors and assigns hereunder.

Section 18. Governing Law; Consent to Jurisdiction; Waiver of Jury Trial. This Warrant shall be governed by, and construed in accordance with, the internal laws of the State of Delaware, without reference to the choice of law provisions thereof. The Company and, by accepting this Warrant, the Warrantholder, each irrevocably submits to the exclusive jurisdiction of the courts of Delaware for the purpose of any suit, action, proceeding, or judgment relating to or arising out of this Warrant and the transactions contemplated hereby. Service of process in connection with any such suit, action, or proceeding may be served on each party hereto anywhere in the world by the same methods as are specified for the giving of notices under this Warrant. The Company and, by accepting this Warrant, the Warrantholder, each irrevocably consents to the jurisdiction of any such court in any such suit, action, or proceeding, and to the laying of venue in such court. The Company and, by accepting this Warrant, the Warrantholder, each irrevocably waives any objection to the laying of venue of any such suit, action, or proceeding brought in such courts and irrevocably waives any claim that any such suit, action, or proceeding brought in any such court has been brought in an inconvenient forum. EACH OF THE COMPANY AND, BY ITS ACCEPTANCE HEREOF, THE WARRANTHOLDER HEREBY WAIVES ANY RIGHT TO REQUEST A TRIAL BY JURY IN ANY LITIGATION WITH RESPECT TO THIS WARRANT AND REPRESENTS THAT COUNSEL HAS BEEN CONSULTED SPECIFICALLY AS TO THIS WAIVER.

Section 19. Cashless Exercise. Notwithstanding any other provision contained herein to the contrary, the Warrantholder may elect at any time and from time to time to receive, without the payment by the Warrantholder of the aggregate Warrant Price in respect of the shares of Common Stock to be acquired, shares of Common Stock of equal value to the value of this Warrant, or any specified portion hereof, by the surrender of this Warrant (or such portion of this Warrant being so exercised) together with a Net Issue Election Notice, in the form annexed hereto as Appendix B, duly executed, to the Company. Thereupon, the Company shall issue to the Warrantholder such number of fully paid, validly issued, and nonassessable shares of Common Stock as is computed using the following formula:

$$X = \frac{Y(A - B)}{A}$$

where

X = the number of shares of Common Stock to which the Warrantholder is entitled upon such cashless exercise;

Y = the total number of shares of Common Stock covered by this Warrant for which the Warrantholder has surrendered purchase rights at such time for cashless exercise (including both shares to be issued to the Warrantholder and shares as to which the purchase rights are to be canceled as payment therefor);

A = the Market Price of one share of Common Stock as at the date the net issue election is made; and

B = the Warrant Price in effect under this Warrant at the time the net issue election is made.

Section 20. No Rights as Stockholder. Prior to the exercise of this Warrant, the Warrantholder shall not have or exercise any rights as a stockholder of the Company by virtue of its ownership of this Warrant.

Section 21. Amendment; Waiver. Any term of this Warrant may be amended or waived (including the adjustment provisions included in Section 8 of this Warrant) upon the written consent of the Company and the Warrantholder.

Section 22. Section Headings. The section headings in this Warrant are for the convenience of only and in no way alter, modify, amend, limit, or restrict the provisions hereof.

IN WITNESS WHEREOF, the Company has caused this Warrant to be duly executed, as of the 11th day of March, 2010.

MAGELLAN PETROLEUM CORPORATION

By: /s/ William H. Hastings

Name: William H. Hastings

Title: President and CEO

APPENDIX A
MAGELLAN PETROLEUM CORPORATION
WARRANT EXERCISE FORM

To Magellan Petroleum Corporation:

The undersigned hereby irrevocably elects to exercise the right of purchase represented by the within Amended and Restated Warrant (“**Warrant**”) for, and to purchase thereunder by the payment of the Warrant Price and surrender of the Warrant, _____ shares of Common Stock (“**Warrant Shares**”) provided for therein, and requests that certificates for the Warrant Shares be issued as follows:

Name: _____
Address: _____
Federal Tax ID _____
Or Social Security No.: _____

and delivered by

_____ (certified mail to the above address, or
_____ (electronically (provide DWAC Instructions: _____), or
_____ (other (specify): _____).

and, if the number of Warrant Shares shall not be all the Warrant Shares purchasable upon exercise of the Warrant, that a new Warrant for the balance of the Warrant Shares purchasable upon exercise of this Warrant be registered in the name of the undersigned Warrantholder or the undersigned’s Assignee as below indicated and delivered to the address stated below.

Note: The signature must correspond with the name of the Warrantholder as written on the first page of the Warrant in every particular, without alteration or enlargement or any change whatever, unless the Warrant has been assigned.

Dated: _____, _____

Signature: _____

Name (please print)

Address

Federal Identification or
Social Security No.

Assignee:

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APPENDIX B
MAGELLAN PETROLEUM CORPORATION
NET ISSUE ELECTION NOTICE

To Magellan Petroleum Corporation:

Date:

The undersigned hereby elects under Section 19 of this Warrant to surrender the right to purchase _____ shares of Common Stock pursuant to this Warrant and hereby requests the issuance of _____ shares of Common Stock. The certificate(s) for the shares issuable upon such net issue election shall be issued in the name of the undersigned or as otherwise indicated below.

Signature

Name for Registration

Mailing Address

MAGELLAN PETROLEUM CORPORATION
1998 STOCK INCENTIVE PLAN

NONQUALIFIED STOCK OPTION AWARD AGREEMENT

THIS NON-QUALIFIED STOCK OPTION AWARD AGREEMENT, is made as of the grant date indicated in Section 3 below (the “Grant Date”), by and between Magellan Petroleum Corporation, a Delaware corporation (the “Company”), and the undersigned individual (the “Optionee”), pursuant to the Magellan Petroleum Corporation 1998 Stock Incentive Plan, as amended to date (the “Plan”). Terms used but not defined herein shall have the same meaning as in the Plan.

WHEREAS, the Optionee is an eligible director of the Company and the Board of Directors of the Company has, acting upon a recommendation of the Compensation, Nominating and Governance Committee of the Board, approved the grant of Nonqualified Stock Options (“Options”) under the Plan to the Optionee.

NOW, THEREFORE, in consideration of the terms and conditions of this Agreement and pursuant to the Plan, the parties agree as follows:

1. **Grant of Options.** The Company hereby grants to the Optionee the right and option to purchase from the Company, at the exercise price set forth in Section 3 below, all or any part of the aggregate number of shares of common stock, par value \$0.01 per share, of the Company, as such common shares are presently constituted (the “Stock”), set forth in said Section 3.
2. **Terms and Conditions.** It is understood and agreed that the Options evidenced hereby are subject to the provisions of the Plan (which are incorporated herein by reference) and the following terms and conditions:
 - (a) **Expiration Date.** Notwithstanding anything in the Plan to the contrary, the Options evidenced hereby shall expire on the earlier of the date specified in Section 3 of the Agreement or the first anniversary of the death of the Participant in accordance with the Plan.
 - (b) **Exercise of Option.** The Options evidenced hereby shall be exercisable from time to time by (i) providing written notice of exercise ten (10) days prior to the date of exercise specifying the number of shares for which the Options are being exercised, addressed to the Company at its principal place of business, and (ii) either:
 - (A) **Cash Only Exercise** – submitting the full cash purchase price of the exercised Stock; or

-
- (B) **Cashless Exercise** – submitting appropriate authorization for the sale of Stock in an amount sufficient to provide the full purchase price in accordance with Section 5(d) of the Plan, or
- (C) **Combination** – tendering a combination of (i) and (ii) above.
- (c) **Withholding Taxes.** Without regard to the method of exercise and payment, the Optionee shall pay to the Company, upon notice of the amount due, any withholding taxes payable with respect to such exercise, which payment may be made with shares of Stock which would otherwise be issued pursuant to the Options.
- (d) **Vesting.** The shares covered by the Options shall vest as follows:
- (i) _____ (_____)
Option shares shall vest in full on April 1, 2011;
- (ii) _____ (_____)
Option shares shall vest in full on April 1, 2012; and
- (iii) _____ (_____)
Option shares shall vest in full on April 1, 2013.
- (e) **Acceleration.** The Options evidenced hereby shall immediately be accelerated and vest in full upon the occurrence of a “change of control” of the Company as defined in Section 15 of the Plan.
- (f) **Compliance with Laws and Regulations.** The Options evidenced hereby shall be subject to restrictions imposed at any time on the exercise or delivery of shares in violation of the By-Laws of the Company or of any law or governmental regulation that the Company may find to be valid and applicable and shall be subject to, and comply with, any applicable requirements of any federal and state securities laws, rules and regulations (including, without limitation, the provisions of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, and any rules and regulations promulgated thereunder) and any other law or regulation applicable thereto. The Company shall not be obligated to issue any shares of Stock pursuant to this Agreement if such issuance would violate any such securities laws, rules or regulations.
- (g) **Interpretation.** Optionee hereby acknowledges that this Agreement is governed by the Plan, a copy of which Optionee hereby acknowledges having received, and by such administrative rules and regulations relative to the Plan and not inconsistent therewith as may be adopted and amended from time by the Committee (the “Rules”). Optionee agrees to be bound by the terms and provisions of the Plan and the Rules.

3. **Option Data.**

Optionee's Name: [Name of Director]
Number of shares of Stock
Subject to this Option: _____
Grant Date: April 1, 2010
Exercise Price Per Share: \$2.24
Expiration Date: April 1, 2020

4. **Award of Options Contingent Upon Shareholder Approval.** The award of the Options to the Optionee hereby are expressly conditioned upon, and shall only take effect, if the Company's shareholders approve an amendment to the Plan to increase the number of shares of Stock reserved for issuance under the Plan at either (i) the Company's 2010 annual meeting of shareholders to be held in the fall of 2010, or (ii) at any subsequent annual or special meeting of shareholders of the Company held on or before April 1, 2011, which approval is required under the terms of the Plan and the listing requirements of the Nasdaq Stock Market, Inc. Optionee acknowledges and agrees that, should the required shareholder approval of the required amendment of the Plan not be obtained on or prior to April 1, 2011, then the Award of Options evidenced hereby shall be null and void and of no further force and effect.
5. **Miscellaneous.** This Agreement and the Plan (a) contains the entire Agreement of the parties relating to the subject matter of this Agreement and supersedes any prior agreements or understandings with respect thereto; and (b) shall be binding upon and inure to the benefit of the Company, its successors and assigns and the Optionee, his heirs, devisees and legal representatives. In the event of the Optionee's death or a judicial determination of his incompetence, reference in this Agreement to the Optionee shall be deemed to refer to his legal representative, heirs or devisees, as the case may be.

* * * * *

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its authorized officer, as of the Grant Date identified in Section 3 above.

MAGELLAN PETROLEUM CORPORATION

Agreed and Accepted by:

By: _____

Name: Edward B. Whittemore
Title: Secretary

Date: April 1, 2010

MAGELLAN PETROLEUM CORPORATION
1998 STOCK INCENTIVE PLAN
RESTRICTED STOCK AWARD AGREEMENT

This Restricted Stock Award Agreement evidences the award of shares of restricted common stock, par value \$0.01 per share (the "Common Stock") of Magellan Petroleum Corporation (the "Company") to the individual whose name appears below (the "Grantee"), pursuant to the provisions of the Company's 1998 Stock Incentive Plan (the "Plan") and on the following express terms and conditions (capitalized terms not otherwise defined herein shall have the meaning set forth in the Plan):

1. Name of Grantee: _____
2. Number of Restricted Shares: _____ shares (the "Restricted Shares")
3. Grant Date: April 1, 2010
4. Effectiveness; Execution of Agreement: Grantee shall have no rights with respect to the Restricted Shares awarded hereby unless Grantee shall have accepted the award of the Restricted Shares within 60 days (or such shorter date as the Committee may specify) following the Grant Date by executing and delivering to the Secretary of the Company a copy of this Restricted Stock Award Agreement.
5. Vesting of Restricted Shares: As provided in Section 8 of the Plan, the number of Restricted Shares and applicable dates on which the nontransferability of the Restricted Shares and the Company's forfeiture rights with respect thereto shall lapse, shall be as follows:

<u>Number of Shares</u>	<u>Vesting Date</u>
_____ (1/3 rd)	April 1, 2010
_____ (1/3 rd)	April 1, 2011
_____ (1/3 rd)	April 1, 2012

6. Forfeitures: In the event of termination of employment of Grantee with the Company, a Subsidiary or an Affiliate for any reason, or cessation of service as a director of the Company for any reason, all of Grantee's Restricted Shares then remaining subject to nontransferability and the Company's forfeiture rights under the Plan shall be immediately forfeited to the Company without the necessity of any further act by the Company, Grantee or Grantee's legal representative; provided, however, that in the event of termination of employment by reason of death or Disability (as defined in the Plan) or cessation of service as a director of, or consultant to, the Company by reason of death or Disability (as defined in the Plan), all restrictions and conditions applicable to any Restricted Shares then held by Grantee that remain subject to nontransferability and the Company's forfeiture rights under the Plan shall immediately lapse and be of no further force and effect.

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7. Change in Control. If a “Change of Control”, as defined in the Plan, occurs, then all restrictions and conditions applicable to any Restricted Shares then held by Grantee that remain subject to nontransferability and the Company’s forfeiture rights under the Plan shall immediately lapse and be of no further force and effect.
 8. Transferability; Rights as a Shareholder: Restricted Shares that have not become vested may not be sold, assigned, transferred or otherwise disposed of or pledged or otherwise encumbered by Grantee; provided, however, that Grantee shall have all the rights of a stockholder with respect to the Restricted Shares awarded hereby, including voting and dividend rights, subject to the provisions regarding nontransferability and the Company’s forfeiture rights described in the Plan.
 9. Taxation Matters.
 - (a) Grantee recognizes and agrees that there may be certain tax issues that affect Grantee arising from the grant and/or vesting of the Restricted Shares and Grantee shall be solely responsible for payment of all federal, state and local taxes resulting therefrom. The Company expressly provides no tax advice to Grantee and recommends that Grantee seek personal tax advice.
 - (b) In general, Grantee will have taxable income in any year during which Restricted Shares vest. The amount of the taxable income for each year will equal the number of shares which vest multiplied by the fair market value of a Share of Common Stock on the vesting date. This amount will be included Grantee’s taxable income reported for that year. Any applicable withholding taxes associated with the vesting of the Restricted Shares may be paid to the Company as set forth in paragraph (c) below or by any other method deemed satisfactory to the Company, prior to the delivery of vested shares to Grantee.
 - (c) Grantee’s tax withholding liability may be satisfied through the delivery to the Company of Shares of Common Stock having a value equal in amount to the tax withholding liability outlined in (b) above. The number of shares to be delivered to the Company will be rounded up to the nearest whole share and in no case will partial Shares be transferred. The Shares delivered to the Company for satisfaction of Grantee’s withholding tax liability will result in a reduction in the number of vested shares actually delivered to Grantee.

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- (d) Section 83(b) of the Internal Revenue Code permits Grantee to recognize income in the year in which the Restricted Shares are granted, rather than in the subsequent years in which they vest. This election generally must be filed with the Internal Revenue Service within 30 days of the Grant Date. Grantee is encouraged to discuss this option with his or her own tax advisor. In the event Grantee desires to make an election under Section 83(b) of the Code, Grantee first shall make appropriate arrangements with the Company for the payment of all applicable withholding taxes associated with such election.
- (e) If Grantee is of a natural citizenship other than the United States of America, he or she will be subject to and have his or her tax liability calculated in accordance with the applicable statutory laws of his or her home country, which may result in treatment other than what is outlined in (b) through (d) above.
10. Stock Certificates: Until the applicable vesting date, certificates representing the Restricted Shares shall be issued in the name of Grantee, but held in the physical possession of the Company. Grantee shall execute in blank the stock power attached hereto as Annex I, allowing the Company to transfer the Restricted Shares in the event they are forfeited pursuant to Section 5 above.
11. Compliance with Laws and Regulations: The issuance of the Restricted Shares pursuant to this Agreement shall (a) be subject to restrictions imposed at any time on the delivery of shares in violation of the By-Laws of the Company or of any law or governmental regulation that the Company may find to be valid and applicable; and (b) be subject to, and shall comply with, any applicable requirements of any federal and state securities laws, rules and regulations (including, without limitation, the provisions of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, and any rules and regulations promulgated thereunder) and any other law or regulation applicable thereto. The Company shall not be obligated to issue any Shares of Common Stock pursuant to this Agreement if such issuance would violate any such securities laws, rules or regulations.
12. Interpretation: Grantee hereby acknowledges that this Agreement is governed by the Plan, a copy of which Grantee hereby acknowledges having received, and by such administrative rules and regulations relative to the Plan and not inconsistent therewith as may be adopted and amended from time by the Compensation, Nominating and Governance Committee (the "Rules"). Grantee agrees to be bound by the terms and provisions of the Plan and the Rules.
13. Miscellaneous: This Agreement and the Plan (a) contains the entire Agreement of the parties relating to the subject matter of this Agreement and supersedes any prior agreements or understandings with respect thereto; and (b) shall be binding upon and inure to the benefit of the Company, its successors and assigns and Grantee, his heirs, devisees and legal representatives. In the event of Grantee's death or a judicial determination of his incompetence, reference in this Agreement to Grantee shall be deemed to refer to his legal representative, heirs or devisees, as the case may be.

* * * * *

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its authorized officer, as of the Grant Date identified in Section 3 above.

MAGELLAN PETROLEUM CORPORATION

Agreed and Accepted by:

BY: _____

Name: Edward B. Whittemore

Title: Secretary

Date: April 1, 2010

STOCK POWER

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto Magellan Petroleum Corporation (the "Company"), shares of common stock, \$0.01 par value per share, of the Company, registered in the name of the undersigned on the books and records of the Company, and does hereby irrevocably constitute and appoint the Corporate Secretary of the Company as attorney to transfer the said stock on the books of the Company with full power of substitution in the premises.

Signed (Signature should be in exact form as on stock certificate)

Date

MAGELLAN PETROLEUM CORPORATION
1998 STOCK INCENTIVE PLAN
RESTRICTED STOCK AWARD AGREEMENT

This Restricted Stock Award Agreement evidences the award of shares of restricted common stock, par value \$0.01 per share (the "Common Stock") of Magellan Petroleum Corporation (the "Company") to the individual whose name appears below (the "Grantee"), pursuant to the provisions of the Company's 1998 Stock Incentive Plan (the "Plan") and on the following express terms and conditions (capitalized terms not otherwise defined herein shall have the meaning set forth in the Plan):

1. Name of Grantee: [NAME OF DIRECTOR]
2. Number of Restricted Shares: 12,500 shares (the "Restricted Shares")
3. Grant Date: April 1, 2010
4. Effectiveness; Execution of Agreement: Grantee shall have no rights with respect to the Restricted Shares awarded hereby unless Grantee shall have accepted the award of the Restricted Shares within 60 days (or such shorter date as the Committee may specify) following the Grant Date by executing and delivering to the Secretary of the Company a copy of this Restricted Stock Award Agreement.
5. Vesting of Restricted Shares: All of the Restricted Shares awarded hereby shall become immediately vested in full as of the Grant Date.
6. Stock Certificates: Certificates representing the Restricted Shares shall, if requested by Grantee, be issued in the name of Grantee and delivered to Grantee or his or her agent upon Grantee's instruction to the Company.
7. Compliance with Laws and Regulations: The issuance of the Restricted Shares pursuant to this Agreement shall (a) be subject to restrictions imposed at any time on the delivery of shares in violation of the By-Laws of the Company or of any law or governmental regulation that the Company may find to be valid and applicable; and (b) be subject to, and shall comply with, any applicable requirements of any federal and state securities laws, rules and regulations (including, without limitation, the provisions of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, and any rules and regulations promulgated thereunder) and any other law or regulation applicable thereto. The Company shall not be obligated to issue any Shares of Common Stock pursuant to this Agreement if such issuance would violate any such securities laws, rules or regulations.

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8. **Interpretation:** Grantee hereby acknowledges that this Agreement is governed by the Plan, a copy of which Grantee hereby acknowledges having received, and by such administrative rules and regulations relative to the Plan and not inconsistent therewith as may be adopted and amended from time by the Compensation, Nominating and Governance Committee (the "Rules"). Grantee agrees to be bound by the terms and provisions of the Plan and the Rules.
9. **Miscellaneous:** This Agreement and the Plan (a) contains the entire Agreement of the parties relating to the subject matter of this Agreement and supersedes any prior agreements or understandings with respect thereto; and (b) shall be binding upon and inure to the benefit of the Company, its successors and assigns and Grantee, his heirs, devisees and legal representatives. In the event of Grantee's death or a judicial determination of his incompetence, reference in this Agreement to Grantee shall be deemed to refer to his legal representative, heirs or devisees, as the case may be.

* * * * *

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its authorized officer, as of the Grant Date identified in Section 3 above.

MAGELLAN PETROLEUM CORPORATION

Agreed and Accepted by:

BY: _____
Name: Edward B. Whittemore
Title: Secretary

[NAME OF DIRECTOR]

Date: April 1, 2010

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: May 14, 2010

/s/ William H. Hastings

William H. Hastings

President and Chief Executive Officer

RULE 13a-14(a) CERTIFICATIONS

I, Susan M. Filipos, 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: May 14, 2010

/s/ Susan M. Filipos

Susan M. Filipos

Interim Chief Financial Officer and Controller

SECTION 1350 CERTIFICATIONS

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

Dated: May 14, 2010

By: /s/ William H. Hastings

William H. Hastings

President and Chief Executive Officer

SECTION 1350 CERTIFICATIONS

In connection with the Quarterly Report of Magellan Petroleum Corporation (the "Company") on Form 10-Q for the period ended March 31, 2010 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Susan M. Filipos, Interim Chief Financial Officer and Controller 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.

Dated: May 14, 2010

By: /s/ Susan M. Filipos

Susan M. Filipos

Interim Chief Financial Officer and Controller



MAGELLAN PETROLEUM CORPORATION ANNOUNCES THIRD QUARTER RESULTS

Portland, Maine, May 12, 2010 — Magellan Petroleum Corporation (the “Company”) (NASDAQ: MPET) (ASX: MGN) reported consolidated net income of \$1.2 million (\$.02 per share) on gross revenues of \$5.1 million for its fiscal third quarter ended March 31, 2010, as compared to net income of \$391,000 (\$.01 per share) on revenues of \$5.5 million in last year’s third quarter. Working capital was \$39.8 million at March 31, 2010, an increase of \$2.6 million from June 30, 2009 (fiscal year end).

For the nine-month period ended March 31, 2010, the Company reported net income of \$1.5 million (\$.03 per share) on \$23.7 million in revenues, compared to net income of \$1.4 million (\$.03 per share) on revenues of \$21.1 million in the prior period last year.

Also during the quarter, the Company reported a non-cash charge of \$1.9 million related to the increase in the value of the warrants issued to Young Energy Prize S.A. (YEP). This revaluation will no longer be required due to a recent amendment to the warrant agreement.

Magellan’s President and Chief Executive Officer, William H. Hastings said. “Results for the third fiscal quarter reflect stronger energy prices, a \$5.7 million gain from the sale of the Nockatunga assets and added personnel and asset base in Montana. This is offset by a 62% volume reduction of gas revenue as Power and Water (“PWC”) began reducing natural gas takes at Mereenie and by non-cash revaluation charges that did not occur in Q3 2009. We continue to work toward new sales agreements in Australia although the Blacktip field is now operational. We also incurred expenses associated with the purchase and or consolidation of interests in Montana and offshore Australia”.

Operating income for this fiscal quarter was \$4.2 million versus a loss of \$966,000 in the same period in 2009. Operating Income for the nine months ended March 31, 2010 was \$5.4 million versus \$1.2 million for the same period last year. The differences are largely attributable to the sale of underperforming assets.

We are continuing with our work to transform Magellan. In late March, we entered into an agreement to purchase a 40% working interest in the Evans Shoal field, offshore Australia which is a milestone for the Company. The field is well-suited for the Pacific Methanol trade, and because of relatively shallow water, is a lower-cost development option than some of the competing fields.

In Montana, Magellan has recently consolidated its ownership interests in the Poplar Dome area with a view toward new development.

Recent activity and initiatives to-date are summarized here:

- As mentioned, we agreed to purchase a significant interest in an already discovered, world-class Evans Shoal natural gas field, offshore Australia. On March 25, 2010, MPAL executed an agreement with Santos Limited (Santos) to purchase Santos' 40% interest in the Evans Shoal natural gas field (NT/P48), located in the Bonaparte Basin offshore Northern Australia. Under the agreement, Magellan is obligated to pay Santos time-staged cash consideration equal to Australian \$100 million (U.S. \$91 million equivalent) for its interest in Evans Shoal. Magellan is also required to pay additional contingent payments to Santos of Australian \$50 million (U.S.\$45.5 million) upon a favorable partner vote on any final investment decision to develop Evans Shoal and Australian \$50 million (US\$45.5 million) upon first stabilized gas production from NT/P 48. Closing and completion of the purchase is subject to regulatory and other approvals and is expected to occur in the second half of calendar 2010.
- A consolidation of interests at the East Poplar Unit and the Northwest Poplar fields in Roosevelt Co., Montana was completed. Magellan entered into a Purchase and Sale Agreement with Hunter Energy LLC under which Magellan purchased Hunter's 25.05% average working interests in those Montana fields. We also purchased 1.25% of Nautilus Technical Group's working interest. Magellan, itself and through its subsidiaries, now owns an 83.7% average working interest there.
- Initial results of expense reduction efforts at Mereenie and Palm Valley became apparent. Operating changes at the field are active and the Field Operator is examining the sale of its interest. We are monitoring progress there and looking toward focusing on development over the western two-thirds of the field that is currently not producing.
- Natural gas takes at Mereenie were significantly reduced in the third fiscal quarter and will remain similar in the fourth fiscal quarter subject to exhaustive efforts described below on a new Sales Agreement. Under the provisions of the MSA4 Sales Agreement, given the low take levels, the Mereenie Producers have advised PWC that pursuant to the terms of the Agreement, Mereenie Producer obligations to PWC under the current MSA4 Agreement will cease effective on September 5, 2010. Further discussions on a new agreement, through intermediaries, with the Northern Territories Government continue. Mereenie Producers have had and continue to have the ability to provide surety of supply to the city of Darwin and its environs.

We will continue efforts to secure new gas sales agreements for our onshore fields. This process is important. We have had success with a follow-on agreement for Palm Valley post-2012 and are receiving feedback that a new agreement for Mereenie may be possible soon subject to further discussions in May.

- In March, Magellan accepted an offer from the Commonwealth – Northern Territory Offshore Petroleum Joint Authority for the grant of an exploration permit for petroleum over Area NT09-1 offshore Northern Territory. The area is located 220 kilometers (137 miles) northwest of Darwin. The permit covers 6,305 square kilometers (2,434 square miles). It is seen as a good fit with Magellan's stated gas development strategy. We believe an important structural closure exists within this license area and are anxious to initiate a technical work program to study the area's potential. Commercially, any gas that can be found in NT09-1 will yield incremental economics for development through Evans Shoal and will offset our neighbors at Caldita to the north.
- In Montana, we will begin work with an intermediary to farm-out a share of our 23,000 ac. Bakken position within the Poplar fields. There has been strong external interest in a farm-in program. This work is now ongoing and we expect to report results within the next three months. We also plan to drill at least two targeted development wells (North American summer 2010) to test wettability development strategies for the Tyler and Nisku oil formations. We will also gain benefit from these wells by testing all of the producing formations on the way to the deeper Nisku formation for reservoir quality, producing capacity given new drilling technology, and for other pertinent reservoir data.

We will also conclude Single Well Tracer tests for residual oil saturation within the Mississippian Charles formation(s). This will allow us to determine the applicability of tertiary oil recovery strategies – including, but not limited to, carbon dioxide flooding. Furthermore, we will initiate work on a shallow natural gas development program involving a large industrial buyer wishing to restart operations in Canada.

- In the United Kingdom we will initiate and complete the first of a two-well drilling program at the Markwells Wood 1. The Markwells Wood well offsets a producing oil field (Horndean) which has/is producing in excess of its material balance. Northern Petroleum, operator of PEDL 126 in the Weald Basin of Southern England, has issued a written advisory stating that it intends to spud the Markwells Wood exploration well, onshore United Kingdom, in June 2010. To achieve cost efficiencies, the intent is to drill Markwells Wood -1 in PEDL 126 and the Havant-1 on a prospect in PEDL 155 & PEDL 256 as a sequential drilling operation. Unfortunately construction of the Havant drill site, which commenced in late 2009, has been impacted by one of the worst winters in over a hundred years in the U.K., causing delays to previous intentions for the drilling program. Drilling progress is expected this summer.

The following is a discussion of the financial results for the three and nine months ended March 31, 2010.

Quarter Ended March 31, 2010

Oil revenue increased 14% to \$1.9 million in 2010 from \$1.7 million in 2009. This increase was primarily due to the October 15, 2009 acquisition of Nautilus, a 21% net increase in average price per barrel in Australia and the 36% increase in the average exchange rate. These increases were partially offset by the sale of the Nockatunga assets.

Gas revenue decreased to \$2 million in 2010 from \$3.3 million in 2009. Gas sales by volume were down 62% compared to 2009 due to natural declines and significantly reduced sales to PWC, partially offset by the 16% net increase in the average price per mcf and the 36% increase in the average exchange rate. PWC's most recent advisory to the Mereenie Producers (Magellan and Santos) states that Mereenie gas is no longer required after September 2010. Unless MPAL is able to sell uncontracted gas, including reasonable endeavors gas not taken by PWC, its revenues will continue to decline substantially and future gas sales will continue to be materially lower.

Investment and other income increased primarily due to the 36% increase in the average exchange rate, partially offset by a decrease in interest income.

Exploration and dry hole costs decreased to \$225,000 from \$1,386,000 in 2009. This decrease was primarily due to prior year seismic data costs of \$1,200,000 related to the Nockatunga fields not incurred in the current year, partially offset by the 36% increase in the average exchange rate.

Salaries and employee benefits increased to \$1.3 million in 2010 from \$386,000 in 2009. This increase was due to non cash expenses related to employee stock options (\$571,000), the addition of new personnel at MPC (\$98,000), the Nautilus acquisition (\$76,000) and the 36% increase in the average exchange rate, partially offset by a decrease at MPAL due to a lower headcount.

Depletion, depreciation and amortization decreased in 2010 to \$704,000 from \$1.1 million in 2009. The decrease was due to lower depletable costs mostly due to the MPAL Cooper Basin asset sale, partially offset by the 36% increase in the average exchange rate.

Auditing, accounting and legal costs decreased to \$387,000 in 2010 from \$602,000 in 2009 due mostly to 2009 legal fees of \$256,000 related to the YEP transactions and the warrant agreement, partially offset by current year legal costs associated with the Nautilus acquisition, purchase valuation consulting fees and the 36% increase in the average exchange rate.

Other administrative expenses increased to \$1.9 million in 2010 from \$776,000 in 2009 due primarily to the foreign exchange rate on U.S. dollar cash held by MPAL (\$419,000), increased directors' fees including the addition of two new directors (\$96,000), increased consulting costs (\$371,000), increased travel costs (\$131,000) and the 36 % increase in the average exchange rate.

(Gain) loss on the sale of assets increased in 2010 due to the \$5.7 million gain recorded in the third quarter of 2010 on the sale of MPAL's Cooper Basin assets.

Warrant expense relates to the increase in the fair value of the YEP warrants. These warrants did not exist in 2009.

Income tax provision increased due to an increase in income before taxes. Additionally, a decrease in the effective tax rate used to calculate the provision (benefit) for the nine months ended March 31, 2009 from the six months ended December 31, 2008 created a negative adjustment to the provision.

Nine Months Ended March 31, 2010

Oil revenue decreased 14% to \$7.9 million in 2010 from \$9.2 million in 2009. This decrease is due to a 27% net decrease in Australian production (due mostly to the sale of the Nockatunga assets) and a 14% net decrease in price per barrel in Australia, partially offset by the Nautilus acquisition and the 19% increase in the average exchange rate.

Gas revenue increased to \$13 million in 2010 from \$10.6 million in 2009. This was due to a 57% net increase in price per mcf and the 19% increase in the average exchange rate, partially offset by the net 31% decrease in volume caused by natural declines and significantly reduced sales to PWC. PWC's most recent advisory to the Mereenie Producers (Magellan and Santos) states that Mereenie gas is no longer required after September 2010. Unless MPAL is able to sell uncontracted gas, including reasonable endeavors gas not taken by PWC, its revenues will continue to decline substantially and future gas sales will continue to be materially lower.

Investment income increased to \$2.8 million in 2010 from \$1.4 million in 2009 primarily as a result of a \$2.1 million realized gain on the sale of available-for-sale securities and the 19% increase in the average exchange rate, partially offset by a decrease in interest income.

Production costs increased to \$7.2 million in 2010 from \$6.2 million in 2009, due primarily to the Nautilus acquisition (\$884,000) and the 19% increase the average exchange rate described below partially offset by the sale of the Cooper Basin assets.

Exploration and dry hole costs decreased to \$882,000 in 2010 from \$2.7 million in 2009. This decrease was 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 \$1.2 million not incurred in the current year, partially offset by the 19% increase in the average exchange rate.

Salaries and employee benefits increased to \$4.0 million in 2010 from \$1.2 million in 2009. This increase is due mostly to the payment of employee termination costs (\$993,000) at MPAL, non cash expense related to employee stock options (\$1,187,000), the addition of new personnel at MPC (\$375,000), the acquisition of Nautilus (\$160,000) and the 19% increase in the average exchange rate.

Depletion, depreciation and amortization decreased in 2010 to \$3.4 million from \$5.7 million in 2009. The decrease is due primarily to lower depletable costs related to the Cooper Basin asset sales partially offset by the 19% increase in the average exchange rate and the acquisition of Nautilus.

Auditing, accounting and legal services decreased in 2010 to \$1.2 million from \$1.3 million in 2009 due mostly to 2009 legal fees of \$256,000 related to the YEP transactions and the warrant agreement, partially offset by current year legal costs associated with the Nautilus acquisition, purchase valuation consulting and the 19% increase in the average exchange rate.

Accretion expense increased to \$546,000 in 2010 from \$396,000 in 2009 primarily due to the 19% increase in the average exchange rate and the acquisition of Nautilus.

(Gain) loss on the sale of assets increased due to the \$6.8 million gain recorded on the sale of MPAL'S Cooper Basin assets in 2010.

Impairment loss increased in 2010 due to the impairment loss recorded on MPAL's Udacha assets.

Other administrative expenses increased to \$6 million in 2010 from \$2.1 million in 2009 due to the foreign exchange rate on U.S. dollar cash held by MPAL (\$1,671,000), costs relating to the July 2009 closing of the YEP equity investment (\$440,000), increased travel costs (\$348,000), increased directors' fees including the addition of two new directors (\$257,000), increased office rent (\$211,000), increased consulting costs (\$313,000), and the 19% increase in the average exchange rate.

Warrant expense relates to the increase in the fair value of the YEP warrants at March 31, 2010. These warrants did not exist in 2009.

Income tax provision increased primarily due to an increase in income before income taxes compared to the same period last year.

Gas Contract

MPAL's major customer, Gasgo Pty. Ltd., a subsidiary of Power and Water Corporation ("PWC") of the Northern Territory has contracted with Eni Australia for the supply of PWC's Northern Territory gas demand requirement for twenty five years. Natural gas takes at Mereenie were significantly reduced in the third fiscal quarter and will remain similar in the fourth fiscal quarter subject to exhaustive efforts on a new Sales Agreement. Under the provisions of the MSA4 Sales Agreement, given the low take levels, the Mereenie Producers have advised PWC that pursuant to the terms of the Agreement, Mereenie Producer obligations to PWC under the current MSA4 Agreement will cease effective on September 5, 2010. Further discussions on a new Agreement, through intermediaries, with the Northern Territories Government continue. Mereenie Producers have had and continue to have the ability to provide surety of supply to the city of Darwin and its environs.

We will continue efforts to secure new gas sales agreements for our onshore fields. This process is important. We have had success with a follow-on Agreement for Palm Valley post-2012 and are receiving feedback that a new Agreement for Mereenie may be possible soon subject to further discussions in May.

However, unless MPAL is able to sell uncontracted gas, its future revenues will continue to be substantially reduced. Mereenie gas sales were approximately \$11 million (net of royalties) or 87% of total gas sales for the nine months ended March 31, 2010.

Forward Looking Statements

Statements in this press release which are not historical in nature are intended to be, and are hereby identified as, forward looking statements for purposes of the "Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995. The Company cautions readers that forward looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward looking statements. Among these risks and uncertainties are pricing and production levels from the properties in which the Company has interests and the extent of the recoverable reserves at those properties and 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.

Comparative, consolidated results for the three and nine month periods are shown in the following consolidated statements of operations:

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MAGELLAN PETROLEUM CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

	THREE MONTHS ENDED MARCH 31,		NINE MONTHS ENDED MARCH 31,	
	2010	2009	2010	2009
REVENUES:				
Oil sales	\$ 1,947,505	\$ 1,707,287	\$ 7,890,129	\$ 9,184,879
Gas sales	2,024,487	3,291,615	12,985,167	10,600,544
Other production related revenues	1,164,953	523,611	2,856,704	1,348,058
Total revenues	5,136,945	5,522,513	23,732,000	21,133,481
COSTS AND EXPENSES:				
Production costs	1,823,303	1,951,335	7,243,205	6,218,141
Exploration and dry hole costs	225,204	1,385,552	882,260	2,652,929
Salaries and employee benefits	1,281,819	386,450	4,032,120	1,200,435
Depletion, depreciation and amortization	704,428	1,130,134	3,351,564	5,691,415
Auditing, accounting and legal services	387,260	602,058	1,164,334	1,291,857
Accretion expense	161,828	118,206	546,179	396,482
Shareholder communications	77,951	138,414	380,125	351,586
Other administrative expenses	1,953,959	776,278	5,976,356	2,069,528
(Gain) loss on sale of assets	(5,693,784)	211	(6,828,059)	12,072
Impairment loss	—	—	1,604,417	—
Total costs and expenses	921,968	6,488,638	18,352,501	19,884,445
Operating income (loss)	4,214,977	(966,125)	5,379,499	1,249,036
Warrant expense	(1,897,753)	—	(4,276,472)	—
Investment and other income	327,187	273,641	2,862,118	1,362,185
Income (loss) before income taxes	2,644,411	(692,484)	3,965,145	2,611,221
Income tax (provision) benefit	(1,463,723)	1,083,101	(2,485,529)	(1,237,487)
Net income	1,180,688	390,617	1,479,616	1,373,734
Less net income attributable to non-controlling interest in subsidiaries	(18,243)	—	(21,880)	—
Net income attributable to Magellan Petroleum Corporation	\$ 1,162,445	\$ 390,617	\$ 1,457,736	\$ 1,373,734
Average number of shares outstanding				
Basic	51,989,866	41,500,325	51,100,029	41,500,325
Diluted	54,464,150	41,500,325	52,442,981	41,500,325
Net Income per basic and dilutive share attributable to Magellan Petroleum Corporation common shareholders	\$ 0.02	\$ 0.01	\$ 0.03	\$ 0.03