

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

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

For the fiscal year ended June 30, 2014,

or

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

for the transition period from _____ to _____

Commission file number 001-5507



Magellan Petroleum Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

1775 Sherman Street, Suite 1950, Denver, Colorado

(Address of principal executive offices)

06-0842255

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

80203

(Zip Code)

Registrant's telephone number, including area code: (720) 484-2400

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

Title of each class	Name of each exchange on which registered
Common stock, par value \$0.01 per share	NASDAQ Capital Market

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 Smaller reporting company

(Do not check if a smaller reporting company)

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

The aggregate market value of the common equity held by non-affiliates of the registrant, based on the \$1.030 closing price per share of the registrant's common stock as reported by the NASDAQ Capital Market, as of December 31, 2013 (the last business day of the most recently completed second fiscal quarter) was \$42,236,074. For the purpose of this calculation, shares of common stock held by each director and executive officer and by each person who owns ten percent or more of the outstanding shares of common stock or who is otherwise believed by the registrant to be in a control position have been excluded. This determination of affiliate status is not necessarily a conclusive determination for any other purpose.

As of September 8, 2014, the registrant had 45,586,778 shares of common stock outstanding, which is net of 9,425,114 treasury shares held by the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement related to the 2014 annual meeting of stockholders to be filed within 120 days after June 30, 2014, are incorporated by reference in Part III of this Form 10-K to the extent stated herein.

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PART I

ITEMS 1 AND 2: BUSINESS AND PROPERTIES

GENERAL

Magellan Petroleum Corporation (the "Company" or "Magellan" or "we") is an independent oil and gas exploration and production company focused on the development of a CO₂-enhanced oil recovery ("CO₂-EOR") program at Poplar Dome in eastern Montana and the exploration of unconventional hydrocarbon resources in the Weald Basin, onshore UK. Magellan also owns an exploration block, NT/P82, in the Bonaparte Basin, offshore Northern Territory, Australia, which the Company currently plans to farmout; and an 11% ownership stake in Central Petroleum Limited (ASX: CTP) ("Central"), a Brisbane based junior exploration and production company that operates one of the largest holdings of prospective onshore acreage in Australia.

The Company conducts its operations through three wholly owned subsidiaries corresponding to the geographical areas in which the Company operates: Nautilus Poplar LLC ("NP") in the US, Magellan Petroleum (UK) Limited ("MPUK"), and Magellan Petroleum Australia Pty Ltd ("MPA").

Magellan was founded in 1957 and incorporated in Delaware in 1967. The Company's common stock has been trading on the NASDAQ since 1972 under the ticker symbol "MPET".

Our principal offices are located at 1775 Sherman Street, Suite 1950, Denver, Colorado, 80203, and our telephone number is (720) 484-2400.

STRATEGY

Our strategy is to enhance shareholder value by maximizing the value of our existing assets. Our portfolio of operations includes several early stage oil and gas exploration and development projects, the successful development of which requires significant capital, as well as significant engineering and management resources. We are committed to investing in these projects to establish their technical and economic viability. In turn, we are focused on determining the most efficient way to create the greatest value and highest returns for our shareholders.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2014

During fiscal year 2014, the Company achieved a number of key milestones in the strategy of creating value from our existing assets.

Progress on Key Projects

Portfolio rationalization and funding of core projects. On March 31, 2014 (the "Central Closing Date"), pursuant to the Share Sale and Purchase Deed (the "Sale Deed") dated February 17, 2014 (the "Execution Date"), the Company sold its Amadeus Basin assets, the Palm Valley and Dingo gas fields ("Palm Valley" and "Dingo," respectively), to Central through the sale of the Company's wholly owned subsidiary, Magellan Petroleum (N.T.) Pty. Ltd, to Central's wholly owned subsidiary Central Petroleum PV Pty. Ltd ("Central PV"). In exchange for the assets, Central paid to Magellan cash in the total amount of AUD \$20.0 million, paid in two installments of AUD \$15.0 million and AUD \$5.0 million on March 31, 2014, and April 15, 2014, respectively, and 39.5 million newly issued shares of Central stock, worth AUD \$15.0 million as determined on the Execution Date, equivalent to an approximate 11% ownership interest in Central as of the Central Closing Date. Magellan is currently Central's single largest shareholder. Based on the Central closing price on September 5, 2014, these shares of stock represent a total value of AUD \$12.2 million, or an AUD \$2.8 million decrease over the issuance value on the Execution Date. In addition, Magellan is entitled to receive bonus payments from Central in the event that future gas sales revenues from Palm Valley exceed certain levels. The Company also maintained its right to the Mereenie Bonus, which it received as part of the asset swap agreement with Santos QNT Pty Ltd ("Santos") in September 2011, which entitles the Company to potential total cash payments ranging from AUD \$5.0 million to AUD \$17.0 million based on certain gas sales thresholds at Mereenie.

This transaction represents a major step in the rationalization of the Company's non-core assets. Furthermore, the Company expects that the consideration from the transaction combined with the Company's previous cash balances provide the Company with sufficient funds to complete the CO₂-EOR pilot project at Poplar, to participate in the drilling of its first exploratory wells in the UK, and to finance its ongoing operations. By selling Dingo, the Company avoided the need to finance an AUD \$20.0 million development, including necessary gas transportation facilities, which would have rendered the

Australian operations cash flow negative over the next five years. The Company has also been able to close its Brisbane, Australia, office, which is expected to reduce consolidated general and administrative expenses by approximately \$2.0 million to \$3.0 million per year and bring the Company closer to operating cash flow break-even levels. In addition, the 11% ownership stake in Central should allow the Company to maintain broader exposure to the Amadeus Basin through a player who controls most of the basin's acreage through farmouts to significant operators and represents an attractive investment opportunity with significant value appreciation potential.

For a summary of the key terms of the Sale Deed and further information on the Amadeus Basin Sale, please see the Company's Current Reports on Form 8-K filed with the SEC on February 18, 2014, and March 31, 2014.

Poplar CO₂-EOR pilot project. Fiscal year 2014 was a pivotal year for CO₂-EOR development at Poplar, during which period the Company finalized plans for, drilled five wells and installed the facilities for, and then began, the pilot program. In July 2013, the Company signed an approximate two-year CO₂ supply contract with Air Liquide for the purchase of CO₂ volumes necessary to complete the CO₂-EOR pilot project. In August 2013, the Company obtained permits from the US Bureau of Land Management to drill the five wells necessary for the pilot project. Between September and December 2013, the Company drilled all five pilot wells to total depth of approximately 5,800 feet. From January to March 2014, the Company completed and tested the wells and installed necessary surface facilities and CO₂ injection equipment. During this period, the Company collected various cores and logs, which contributed to a more refined 3-D reservoir model of the Charles formation at Poplar and will in turn improve our analysis of the performance of the CO₂-EOR pilot. At the end of March 2014, the Company began injecting CO₂ through the injection well, marking the beginning of the injection phase of the pilot. Between March and April 2014, the Company monitored and conducted preliminary tests of the effectiveness of CO₂ injection into the Charles formation. Between May and August 2014, the Company paused CO₂ injection in order to (i) resolve issues that were identified with the cementing of the wells, (ii) amend and simplify the completion equipment design of the wells to address certain technical issues with packers and improve the overall reliability of the completion equipment, and (iii) perform water shut-off treatments on all of the pilot wells. Water shut-off treatments conducted in the pilot wells are identical to the treatments generally performed in other wells at Poplar and require approximately one month to complete. Their purpose is to enhance the amount of CO₂ injected in the reservoir matrix through the injection well and to block water production from fractures in the producer wells and enhance the amount of oil produced from the reservoir. In late August 2014, the Company began CO₂ injection once again.

Based on the work completed to date, the Company has not identified any technical issues that would jeopardize the viability of CO₂-EOR at Poplar. Although results to date are very preliminary, the Company has already acquired critical data points that indicate that CO₂-EOR at Poplar could be technically viable. Initial CO₂ injection resulted in the relatively quick increase in down-hole pressures in the injector well bore to levels necessary, as determined by Core Labs in 2012, for the miscibility of CO₂ and oil at Poplar. This pressuring up indicated that CO₂ injection did not encounter a breakthrough, commonly called a "thief zone", through which CO₂ can by-pass the reservoir and thereby reduce the efficacy of the CO₂ in sweeping oil from the reservoir. Moreover, achieving miscibility pressure is essential for CO₂-EOR to be effective, and the ability to reach miscibility pressures relatively quickly implies that CO₂-EOR could be economically feasible at Poplar.

The Company has not yet opened the production wells. Once open, the primary production from these wells will provide a baseline against which we can measure the impact on production of CO₂ injection.

UK - Central Weald Licenses. During fiscal year 2014, the Company obtained a key extension to its central Weald Petroleum Exploration and Development Licenses ("PEDLs") (PEDLs 231, 234, and 243), which it co-owns equally with Celtique Energie Holdings Ltd ("Celtique"). This extension should allow the Company sufficient time to establish the unconventional prospects in these licenses. Also during the period, Magellan and Celtique advanced plans to drill a first exploratory well on a conventional prospect at Broadford Bridge, which is located within the license area of PEDL 234, by the end of the second quarter of fiscal year 2015 subject to the finalization of the permitting process and rig availability.

In May 2014, the British Geological Survey ("BGS"), in association with the UK Department of Energy and Climate Change ("DECC"), publicly released a report (the "BGS Report") on the Jurassic shale formations in the Weald Basin. Maps presented in the BGS Report illustrate that the three licenses co-owned by Magellan cover most of the area prospective for unconventional development in the Weald Basin. In addition, tight conventional formations present between the thick shale packages of the Jurassic and Cretaceous sections may be prospective for development. These formations were previously tested with encouraging results by Cuadrilla at the Balcombe-1 well, which offsets Magellan's central Weald licenses to the east.

UK - Peripheral Weald Licenses. During fiscal year 2014, the Company executed a farmout of PEDLs 137 and 246, which contain the Horse Hill prospect, to Angus Energy ("Angus"), a privately owned UK based exploration and development Company. Pursuant to the terms of the farmout, Angus is obligated to fund 100% of the cost of drilling a vertical exploratory well in order to earn a 65% working interest in, and operatorship of, the license. The Horse Hill prospect was identified on 2-D seismic data reprocessed by the Company. The conventional hydrocarbon prospect, which is Triassic in age, is approximately 10,000 feet deep and is expected to primarily contain gas. Angus spud the Horse Hill-1 exploratory well in August 2014, and,

as of the date hereof, the drilling of this well is ongoing. During the drilling of the Horse Hill-1 well, logs and cores are planned to be collected from the Kimmeridge and Liassic formations, which constitute the main potential unconventional formations in the Weald Basin and will contribute to the Company's overall understanding of the potential for unconventional development in the Weald Basin.

During the fiscal year, the Company also rationalized the portfolio of other licenses in which it owns interests on the periphery of the Weald Basin. Effective from March 2014, the Company, together with its partners in the respective licenses, relinquished PEDLs 155 and 256 due to a determination of limited development prospectivity within the license areas, and PEDL 240, which was located on the Isle of Wight, due to inability to secure a suitable drill site. In June 2014, PEDL 232, co-owned equally by Magellan and Celtique, was relinquished several weeks prior to its expiration date of June 30, 2014. The Company did not believe these licenses contained material hydrocarbon resources and did not consider them core to its UK strategy. The Company does not face abandonment or restoration liabilities with respect to these licenses.

With respect to PEDL 126, which contains the Markwells Wood-1 well, during fiscal year 2014 the Company and its partners contracted Schlumberger to undertake a study of the unconventional resource potential of the license area. This study indicated that the area is probably immature for oil or gas generation and therefore unlikely to have unconventional shale oil or gas potential. This finding was consistent with the Company's understanding of the geology of the Basin.

Following the study, the joint venture reached an agreement with DECC to relinquish all of the license area except for 11.2 square kilometers (2,768 acres) around and including the Markwells Wood-1 well bore in exchange for an extension of the exploration term by one year to June 30, 2015. During fiscal year 2015, the Company and its partners plan to evaluate the sale or farmout of the remaining license area to a third party on the basis of the relatively small conventional reservoir contained therein and the potential value of the wellbore to a third party. If the Company and its partners are unable to sell or farmout PEDL 126, the Company may face a plugging and abandonment liability of approximately \$394 thousand net to its interest.

Australia - NT/P82. During fiscal year 2014, the Company completed the processing and interpretation of the 2-D and 3-D seismic surveys that the Company shot over part of NT/P82 in the Bonaparte Basin in December 2012. The Company believes that these seismic studies confirm the presence within the block of two large prospects. In April 2014, the Company received from the Australian government a one-year extension of the deadline for the drilling of an exploration well in NT/P82 until May 2016. This extension will allow the Company greater flexibility in identifying partner(s) for, and executing a farmout of, this exploration block. On the basis of both developments, in the fourth quarter of fiscal year 2014, the Company began a farm-out process to identify a suitable partner experienced in offshore drilling to drill and carry Magellan for at least one exploratory well in the license area in exchange for operatorship of, and an interest in, the license. If the drilling operations are successful, the Company will likely seek to sell its remaining interest in the license and redeploy the proceeds in its core activities.

Financial Performance

As a result of the sale of the Amadeus Basin assets in March 2014, results of operations related to these assets have been reclassified as discontinued operations. Accordingly, the revenue and adjusted EBITDAX amounts presented immediately below for fiscal years 2013 and 2014 exclude the impact of these assets on such amounts.

Revenues. Revenues for the year ended June 30, 2014, totaled \$7.6 million, compared to \$6.1 million in the prior year, an increase of 24%. The \$1.5 million increase in revenue over the prior year was primarily due to both an increase in production volumes (\$1.2 million) resulting from the favorable impact of workovers and water shut-off treatments on several wells during the year, and an increase in WTI benchmark pricing (\$0.7 million), which increases were partially offset by a decrease in the pricing differential realized at Poplar (\$0.4 million).

Net Income and Earnings per Share. Net income totaled \$13.8 million (\$0.30/basic share), compared to a net loss of \$20.5 million (\$0.41/basic share) in the prior year. The increase in net income was primarily the result of a gain on sale of assets of \$30.0 million recognized as a result of the sale of the Amadeus Basin assets in March 2014.

Adjusted EBITDAX. Adjusted EBITDAX (see *Non-GAAP Financial Measures and Reconciliation* under *Part 1, Items 1 and 2: Business and Properties*) was negative \$5.6 million, compared to negative \$7.5 million in the prior year, a change of 26%. The improvement in Adjusted EBITDAX resulted from an increase in revenues of \$1.5 million and a reduction in general and administrative expense (excluding stock based compensation and foreign transaction loss) of \$1.9 million, partially offset by an increase in lease operating expense of \$1.4 million.

Cash. As of June 30, 2014, Magellan had \$16.4 million in cash and cash equivalents, compared to \$32.5 million at the end of the prior fiscal year. The decrease of \$16.0 million was the result of net cash used in operating activities of \$11.7 million, net cash used in investing activities of \$2.4 million, net cash used in financing activities of \$0.7 million, and net cash used in discontinued operations of \$1.4 million, partially offset by a \$0.1 million increase in cash from the effect of exchange

rates. The \$2.4 million of net cash used in investing activities was the result of \$20.9 million of capital expenditures primarily relating to the CO₂-EOR pilot at Poplar, partially offset by \$18.6 million in proceeds from the sale of the Company's Amadeus Basin assets.

Securities available-for-sale. As of June 30, 2014, Magellan had \$11.9 million in securities available for sale, consisting primarily of the Company's investment in the shares of Central stock. The Company faces no restrictions other than insider trading restrictions relevant to this stock and can liquidate a portion or all of these shares if needed to fund its other projects or obligations.

OUTLOOK FOR FISCAL YEAR 2015

During fiscal year 2015, Magellan intends to continue executing on its strategy of proving the potential of its existing assets. The Company will be particularly focused on the following projects:

- progressing the CO₂-EOR pilot project at Poplar to such a point that the Company will be able to assess the technical and economic viability of a full CO₂-EOR program at the field;
- drilling one and possibly two wells in the UK to evaluate the potential of the various conventional and unconventional formations in our licenses there; and
- executing a farmout of NT/P82 to a partner qualified in offshore drilling that will result in the drilling of at least one test well over the license area by May 2016.

The Company believes that each of these projects has significant potential that, if realized, could materially impact the Company's reserves and the underlying net asset value per share and eventually allow the Company to generate positive cash flow from operations and raise financing on attractive terms. Specific steps and milestones for each of these key areas are discussed below. By pursuing these courses of action in parallel, the Company expects that, over the next 12 months, it will be able to validate the value potential of these assets and will be able to determine the most appropriate course of action with respect to each asset to achieve the best value for its shareholders.

CO₂-EOR Pilot Project

During fiscal year 2015, the Company will continue to conduct the CO₂-EOR pilot at Poplar with the objective of obtaining meaningful preliminary results in the third quarter of fiscal year 2015. Following implementation of improvements in well completion design and surface facility injection systems and the re-initiation of CO₂ injection during the summer of 2014, CO₂ injection is expected to be continuous over the coming months. The Company will also soon open for production the four pilot producer wells. Once open, the primary production from these wells will provide a baseline against which we can measure the impact on production of CO₂ injection. Over the upcoming months, the Company will be continuously monitoring key data in real-time, including CO₂ injection pressures, volumes, and rates, and production from the producer wells. The Company will then integrate this data into its 3-D reservoir model to enhance its interpretation of the reservoir and its understanding of the efficacy of CO₂-EOR at Poplar.

With these results, and with additional data from the pilot to be received over the remainder of the fiscal year, the Company anticipates that it will be able to quantify with greater certainty both the incremental volume of oil that could be recoverable from Poplar through the use of CO₂-EOR techniques and the corresponding increase in the quantity of reserves the Company can record with respect to CO₂-EOR.

UK - Central Weald Licenses

In fiscal year 2015, the Company will work with its partner, Celtique, to spud the Broadford Bridge-1 well, the first exploratory well in the central Weald licenses. The Broadford Bridge-1 well is designed and permitted to test a conventional prospect in a Triassic-age formation, similar to the prospect targeted at Horse Hill. The Company and its partner Celtique also intend to collect logs and cores from the Kimmeridge and Liaissic formations, which hold potential for unconventional development. According to an agreement with DECC, this well, which is located within the license area of PEDL 234, will satisfy the drilling obligations for both PEDLs 234 and 243. Currently, the process of obtaining relevant regulatory and planning permissions is substantially complete, and the timing of spudding this well will depend primarily on rig availability. Currently, the Company expects the well to be spud late in the second or early in the third quarter of fiscal year 2015.

In parallel, the Company will continue efforts with Celtique to permit additional drilling locations within the Central Weald licenses. The Company expects that it can permit well sites successfully such that it can meet its drilling obligations for

these licenses within the required time frame of before June 30, 2016. Although the UK regulatory and permitting process can be challenging, particularly with respect to locally granted permits, the UK government has made significant efforts to improve the efficiency of such processes with various proposed changes to incentive schemes, regulatory processes, and laws relevant to onshore unconventional oil and gas development. The Company expects that such proposed changes will become effective during fiscal year 2015.

During fiscal year 2015, there are a number of wells scheduled to be drilled onshore in the UK by other industry players, some of which will be hydraulically fractured. As these various new wells are permitted and drilled, the Company expects that the permitting and regulatory processes will become smoother and more efficient.

UK - Peripheral Weald Licenses

On September 3, 2014, Angus commenced drilling operations on the Horse Hill-1 well. The well is expected to be drilled to a depth of approximately 8,700 feet and to test a number of Jurassic-aged conventional stacked oil formations, including the Portland Sandstone, Corallian Sandstone, and Great Oolite formations, and a Triassic-aged conventional gas target. The well will be drilled vertically and will not be hydraulically fractured. The Horse Hill-1 well lies within the license area of PEDL 137. Pursuant to a farmout agreement executed in December 2013, Horse Hill Development Limited, a majority-owned subsidiary of Angus Energy, will carry Magellan for its share of the costs of this well in exchange for having received operatorship of, and a 65% interest in, both the well and the license.

During drilling, Magellan will have the opportunity to core and log at its own expense several shale and tight formations in the Cretaceous and Jurassic sections, including the Kimmeridge Clay and Liassic formations. The Company expects that the information gained through these activities will provide valuable insights into the technical and economic viability of unconventional development elsewhere in the Weald Basin.

With respect to the Company's interests in its two other licenses on the periphery of the Weald Basin, P1916 and PEDL 126, the Company currently has no plans to pursue exploration or drilling activities. The Company does not believe that a suitable drilling location can be permitted for P1916. As such, the Company is considering, together with its joint venture partners, the relinquishment of this license. During fiscal year 2015, the Company and its partners in PEDL 126 will evaluate the sale or farmout of the remaining license area to a third party on the basis of the relatively small conventional reservoir contained therein.

During fiscal year 2015, the UK government will hold the 14th Annual Landward Licensing Round, through which companies will be able to apply for various oil and gas exploration permits onshore in the UK. Magellan does not intend to participate in this round, since we believe that our central Weald licenses cover substantially all of the Weald Basin's acreage prospective for unconventional development, and we have not identified attractive conventional targets in other areas.

NT/P82, Offshore Australia

Based on the results of 2-D and 3-D seismic interpretation completed in fiscal year 2014, the Company began a process in the fourth quarter of fiscal year 2014 to identify a farmout partner experienced in offshore drilling. In completing a farmout, the Company expects to relinquish a portion of its working interest in, and operatorship of, NT/P82, in exchange for a commitment from the partner to drill exploration wells by May 2016 over the large gas prospects identified in the block. Given the high level of offshore drilling activity in the Bonaparte Basin, the network of installed gas infrastructure in the relative vicinity of our block, and the relatively shallow depths of water in the license, the Company believes it is well positioned to successfully execute a farmout agreement during fiscal year 2015.

OPERATIONS

Magellan operates in the single industry segment of oil and gas exploration and production. We have three reportable geographic segments, NP, MPA, and MPA, corresponding to our operations in the United States, the UK, and Australia, respectively. NP's oil and gas assets consist of its interests in Poplar in the Williston Basin. MPA's oil and gas assets consist of various exploration licenses in or adjacent to the Weald Basin located onshore and offshore southern England. MPA's oil and gas assets consist of NT/P82, an exploration block in the Bonaparte Basin, offshore Australia, and an 11% ownership interest in Central. The locations of the Company's key oil and gas properties are presented in the map below. For certain additional information about the Company's reportable segments, see Note 13 to the consolidated financial statements included in *Item 8: Financial Statements and Supplementary Data* of this report.

Magellan's Areas of Operations



United States - Poplar

In the US, Magellan owns Poplar, an oil field located in Roosevelt County, Montana. Our acreage position covers substantially all of Poplar Dome, the largest geologic structure in the western Williston Basin with multiple stacked formations with hydrocarbon resource potential.

The field was discovered in the 1950s by Murphy Oil, which actively explored and developed the Charles formation for two decades. By the time Magellan acquired Poplar in 2009, technological advances in oil and gas exploration allowed us to reevaluate Poplar's known formations and to discover new ones. The Charles formation at Poplar is highly prospective for development using the tertiary technique of CO₂-EOR. The Company's current primary focus at Poplar is the evaluation of the effectiveness of this technique through a CO₂-EOR pilot.

Poplar, as the Company defines it, is composed of a 100% working interest in the oil and gas leases within the East Poplar Unit ("EPU"), a federal exploratory unit in Roosevelt County, Montana, totaling approximately 18,000 net acres, and the working interests in various oil and gas leases that are adjacent to or near EPU ("Northwest Poplar" or "NWP") totaling approximately 4,000 net acres.

Our interests within EPU (also referred to herein as "Poplar") include a 100% operated working interest in the interval from the surface to the top of the Bakken/Three Forks formation (the "Shallow Intervals") and an operated working interest below those intervals ranging from 50% to 65%, which include the Bakken/Three Forks, Nisku, and Red River formations (the "Deep Intervals"). VAALCO Energy (USA), Inc. ("VAALCO") owns the remaining working interest in the Deep Intervals. Our interests within NWP are all operated and are the same as within EPU, except in certain leases in which the Company and VAALCO collectively own less than 100% of the working interest.

CO₂-EOR Pilot. Based on the Company's technical analysis, the production history of the field to date, and reference to analogous CO₂-EOR projects in the Williston Basin, management believes that the Charles formation at Poplar is an attractive candidate for CO₂-EOR, which has the potential to significantly increase the ultimate oil recovery of the field, resulting in increased reserves and oil production. To reduce the operational risk of implementing a full-field CO₂-EOR program at Poplar and to further validate the tertiary recovery technique on a full-field basis, the Company began a CO₂-EOR pilot project in the Charles formation in the first quarter of fiscal year 2014. The program consists of injecting CO₂ in an injection well for a period ranging between one and two years and assessing its impact on the oil production out of four production wells surrounding the injection well.

Shallow Intervals. In addition to the CO₂-EOR pilot in the Charles formation, the Company has existing conventional production in the Shallow Intervals, primarily from the Charles formation but also from the Tyler formation. As a secondary priority at Poplar, the Company plans to continue evaluating the effectiveness of water shut-off treatments on conventional

production in these formations. At a later date, the Company may explore other formations within the Shallow Intervals prospectively for oil and gas production, including the Amsden, Piper, and Judith River formations.

Deep Intervals. Based on the results of three wells drilled into and completed in the Deep Intervals in 2012 and 2013, the Company has been able to evaluate the potential of various formations within the Deep Intervals, including the Bakken/Three Forks, Nisku, and Red River. Although commercial quantities of oil and gas were not encountered with these three wells, the results of cores and logs were encouraging. In the fourth quarter of fiscal year 2014, the Company executed a water shut-off treatment on one of these three wells, the EPU 120, in an attempt to stimulate production. The results of this treatment are still under evaluation. In addition to this treatment, the Company may engage in further exploration of these formations at a later date, but has no current plans to do so.

United Kingdom

Magellan's UK position consists of interests in seven exploration permits located in or adjacent to the Weald Basin, which is geographically situated southwest of London and which contains multiple unconventional and conventional oil and gas prospects. In the central Weald Basin, Magellan co-owns equally with Celtique three licenses (PEDLs 231, 234, and 243), representing 124 thousand net acres, that are prospective for unconventional oil and gas development from the Kimmeridge Clay and Liassic formations and may be prospective for conventional development in other formations. Celtique Energie operates these licenses. On the periphery of the Weald Basin, Magellan maintains non-operated interests in four additional exploration licenses, representing an additional 16 thousand net acres, that may be prospective for conventional oil and gas targets.

Australia

NT/P82. In the Timor Sea, offshore Northern Territory, Australia, Magellan holds a 100% interest in the exploration permit NT/P82, which covers 2,500 square miles of the Bonaparte Basin in water ranging in depth from 30 to 500 feet. The Company conducted 3-D and 2-D seismic surveys over portions of the license area in December 2012 and, following processing and interpretation during fiscal years 2013 and 2014, is currently engaged in a farmout process to identify a suitable partner to drill at least one exploratory well. Under the terms of the permit, the Company, or its farmout partner, is required to drill one exploratory well by May 2016 or the permit will expire.

Central. Magellan is the owner of approximately 39.5 million shares of stock in Central, representing an approximate 11% ownership interest as of September 5, 2014. Central is a Brisbane based junior exploration and production company that operates one of the largest holdings of prospective onshore acreage in Australia. Magellan received its shares in Central on March 31, 2014, as part of the consideration paid by Central to acquire Magellan's interests in the Palm Valley and Dingo gas fields. The Company's ownership of these shares is not subject to any trading restrictions imposed by Central, and the Company has the right to nominate one director to Central's board of directors. The Company's current nominee is J. Thomas Wilson, President and CEO of Magellan. Further information about Central can be found on Central's website at www.centralpetroleum.com.au, which is not incorporated by reference into this report and should not be considered part of this document.

RESERVES

Estimates of reserves are inherently imprecise and continually subject to revision based on production history, results of additional exploration and development, price changes, and other factors. The below table presents a summary of our proved and probable reserves as of June 30, 2014.

	Oil (Mbbls)
United States Reserves:	
Proved developed producing ("PDP")	1,417
Proved developed not producing ("PDNP")	1,078
Proved undeveloped ("PUD")	3,241
Total reserves	5,736
PDP%	25%
PDNP%	19%
PUD%	56%
Probable undeveloped reserves	1,950
Total proved and probable reserves	7,686
Proved %	75%
Probable %	25%

Proved Undeveloped Reserves

As of June 30, 2014, we had 3,241 Mbbls of proved undeveloped reserves, representing a decrease of 2,546 Mbbls, or 44%, over the prior year figure. The below table presents a summary of our PUDs for the year ended June 30, 2014:

	Total (Mbbls)
Fiscal year opening balance	5,787
Removed due to change in drilling schedule	(5,787)
Added from drilling program	3,241
Fiscal year ended June 30, 2014	3,241

During the fiscal year, we did not convert any proved undeveloped reserves to proved developed reserves. The proved undeveloped reserves as of June 30, 2013, which were related to the planned drilling of 16 wells, were originally identified and recorded in fiscal year 2010 in relation to a 20-well infill drilling program at Poplar. However, in light of the Company's increasing focus on CO₂-EOR and the fact that no wells for this drilling program have been drilled to date, the Company decided to change its plans such that those locations are currently not scheduled to be drilled within five years from the date of original booking, and to remove all of the related proved undeveloped reserves from its books as of June 30, 2014. During the fiscal year ended June 30, 2014, the Company added new proved undeveloped reserves amounting to 3,241 Mbbls and attributable to a new 9-well drilling program at Poplar. The nine well locations in this program are at Poplar in the immediate vicinity of the five wells that have been recently drilled for the CO₂-EOR pilot project. The Company plans to drill these wells as infill drilling locations for primary production from the Charles formation, with the additional benefit of potentially being converted for the purpose of CO₂-EOR development given their location as offsets to the pilot producer wells. In parallel with the results of the Company's CO₂-EOR pilot project, these new nine locations at Poplar are scheduled to be drilled within the next five years.

As of June 30, 2014, we had no proved undeveloped reserves that had been on our books in excess of five years, and we had no material proved undeveloped locations that were more than one direct offset from an existing producing well.

Probable Reserves

Estimates of probable reserves are inherently less certain than estimates of proved reserves. When estimating the amount of oil and gas that is recoverable from a particular reservoir, an estimated quantity of probable reserves is an estimate that more likely than not will be achieved, as opposed to the reasonable certainty standard applicable to estimates of proved reserves. Estimates of probable reserves are continually subject to revision based on production history, results of additional exploration and development, price changes, and other factors, and are subject to substantially greater risk of not actually being realized by the Company.

We use deterministic methods to estimate probable reserve quantities, and when deterministic methods are used, it is as likely as not that actual remaining quantities recovered will exceed the sum of estimated proved plus probable reserves. Probable reserves may be assigned to areas of a reservoir adjacent to proved reserves where data control or interpretations of available data are less certain, even if the interpreted reservoir continuity of structure or productivity does not meet the reasonable certainty criterion for proved reserves. Probable reserves may be assigned to areas that are structurally higher than the proved area if these areas are in communication with the proved reservoir. Probable reserves estimates also include potential incremental quantities associated with a lower percentage recovery of the hydrocarbons in place than assumed for proved reserves.

Internal Controls Over Reserve Estimates

Our internal controls over the recording of proved and probable reserves are structured to objectively and accurately estimate our reserve quantities and values in compliance with regulations established by the SEC. The Company relies upon a combination of internal technical staff and third party consulting arrangements for reserve estimation and review.

Reserve estimates were prepared by Hector Wills of MI3 Petroleum Engineering ("MI3"), a Golden, Colorado, based petroleum engineering firm that regularly performs petroleum engineering services for the Company with respect to Poplar, for the fiscal year ended June 30, 2014, and by the Company's now former Operations Manager, Blaine Spies, for the fiscal year ended June 30, 2013. Mr. Wills has nearly 20 years of operation and technical engineering experience in the oil and gas industry. Prior to his time with MI3, he served as a reservoir engineer at Stimlab Inc. and prior to that as a drilling engineer at PDVSA Petroleos de Venezuela S.A. Mr. Wills holds a PhD in Petroleum Engineering from the Colorado School of Mines. Mr. Spies has over 20 years of operation and technical engineering experience in the oil and gas industry. Prior to his appointment with Magellan, Mr. Spies was the Operations Manager at American Oil & Gas, responsible for drilling and completion operations in North Dakota. Mr. Spies also has experience in the Rocky Mountain and Gulf Coast regions. He received his Bachelors of Science in Petroleum Engineering from the Colorado School of Mines and his Masters in Business Administration from the Colorado Technical University. For both periods, the reserve estimates were audited by the Company's independent petroleum engineering firm, Allen & Crouch Petroleum Engineers ("A&C"). See "Third Party Reserve Audit" below. In addition, the preparation of the reserve estimates for both periods was subject to the oversight of our management and a summary review by the Audit Committee of our Board of Directors.

Third Party Reserve Audit

Reserve estimates were audited by A&C, an independent petroleum engineering firm. A copy of the summary reserve report of A&C is provided as Exhibit 99.1 to this Annual Report on Form 10-K. A&C does not own an interest in any of Magellan's oil and gas properties and is not employed by Magellan on a contingent basis.

Detailed information regarding reserves, costs of oil and gas activities, capitalized costs, discounted future net cash flows, and results of operations is disclosed in the supplemental information (see Note 19) to the consolidated financial statements in this Form 10-K.

VOLUMES AND REALIZED PRICES

The following table summarizes volumes and prices realized from the sale of oil from properties in which we owned an interest during the periods presented. The table also summarizes operational costs per barrel of oil equivalent for the fiscal years ended:

	June 30,	
	2014	2013
United States:		
Volumes (Mbbls)	88	72
Average realized prices (\$/boe) ⁽¹⁾	\$86.38	\$84.91
Lease operating (\$/boe)	\$71.10	\$67.17

⁽¹⁾ Prices per bbl is reported net of royalties.

Total production increased from 72 Mbbls in fiscal year 2013, to 88 Mbbls in fiscal year 2014. The increase was primarily the result of increased production from water shut-off treatments and workovers. The average realized price increased to \$86.38/boe from \$84.91/boe in the prior year. The increase was primarily the result of decreasing differentials relative to the benchmark pricing (WTI) realized at the Poplar field. The Company does not currently engage in any oil and gas hedging activities. Lease operating expenses increased to \$71.10/boe from \$67.17/boe in the prior year. The increase is related to workover activity, maintenance on wells, and lease road maintenance.

PRODUCTIVE WELLS

Productive wells include producing wells and wells mechanically capable of production. The following table presents a summary of our productive wells, all of which were located in the US at Poplar as of June 30, 2014.

	Productive Wells
United States:	
Gross oil wells ⁽¹⁾	34.0
Net oil wells ⁽²⁾	32.6

⁽¹⁾ A gross well is a well in which the Company owns a working interest. Wells with one or more completions in the same bore hole are considered to be one well.

⁽²⁾ The number of net wells is the sum of the fractional working interests owned in gross wells.

DRILLING ACTIVITY

The following table summarizes the results of our development and exploratory drilling during the fiscal years ended:

	June 30,			
	2014		2013	
	Productive ⁽²⁾	Dry ⁽³⁾	Productive ⁽²⁾	Dry ⁽³⁾
United States:				
Development wells, net ⁽¹⁾	5.0	—	4.0	1.0
Exploratory wells, net ⁽¹⁾	—	—	1.0	—
Total net wells	5.0	—	5.0	1.0

⁽¹⁾ The number of net wells is the sum of the fractional working interests owned in gross wells. The number of wells drilled refers to the number of wells completed at any time during the fiscal year, regardless of when drilling was initiated.

⁽²⁾ A productive well is an exploratory, development, or extension well that is not a dry well.

⁽³⁾ A dry well is an exploratory, development, or extension well that proves to be incapable of producing either oil or gas in sufficient quantities to justify completion as an oil or gas well. Completion refers to installation of permanent equipment for production of oil or gas, or, in the case of a dry well, to reporting to the appropriate authority that the well has been plugged and abandoned.

The following table summarizes the results, as of September 18, 2014, of our wells that were still in progress as of June 30, 2014.

	Still in Progress	
	Gross ⁽¹⁾	Net ⁽²⁾
United States	2.0	2.0

⁽¹⁾ A gross well is a well in which the Company owns a working interest. Wells with one or more completions in the same bore hole are considered to be one well.

⁽²⁾ The number of net wells is the sum of the fractional working interests owned in gross wells.

ACREAGE

The following table summarizes gross and net developed and undeveloped acreage by geographic area at June 30, 2014.

	Developed ⁽¹⁾		Undeveloped ⁽⁴⁾		Total	
	Gross ⁽²⁾	Net ⁽³⁾	Gross ⁽²⁾	Net ⁽³⁾	Gross ⁽²⁾	Net ⁽³⁾
United States (Poplar)	22,913	22,669	—	—	22,913	22,669
United Kingdom	80	32	296,515	139,523	296,595	139,555
Australia (NT/P82)	—	—	1,566,647	1,566,647	1,566,647	1,566,647
Total	22,993	22,701	1,863,162	1,706,170	1,886,155	1,728,871

⁽¹⁾ Developed acreage encompasses those leased acres assignable to productive wells. Our developed acreage that includes multiple formations may be considered undeveloped for certain formations but have been included as developed acreage in the presentation above.

⁽²⁾ A gross acre is an acre in which the registrant owns a working interest.

⁽³⁾ The number of net acres is the sum of the fractional working interests owned in gross acres.

⁽⁴⁾ Undeveloped acreage encompasses those leased acres on which wells have not been drilled or completed to a point that would permit the production of economic quantities of oil or gas, regardless of whether such acreage contains proved reserves.

Of our 22,913 gross acres at Poplar, approximately 18,000 acres (79%) form a federal exploratory unit which is held by economic production from any one well within the unit. Currently, Poplar contains 34 producing wells.

TITLES TO PROPERTY, PERMITS, AND LICENSES

Magellan maintains interests in its oil and gas properties through various contractual arrangements customary to the oil and gas industry and relevant to the local jurisdictions of its assets.

United States

In the US, Magellan maintains its working interests in oil and gas properties pursuant to leases from third parties. We have either commissioned title opinions or conducted title reviews on substantially all of our properties and believe we have title to them. Magellan obtains title opinions to a drill site prior to commencing initial drilling operations. In accordance with industry practice, we perform only minimal title review work at the time of acquiring undeveloped properties.

United Kingdom

In the UK, the petroleum licensing regime is administered by DECC, and PEDLs and Seaward Production Licenses (denoted by a "P") issued by DECC are subject to the *Petroleum Act*. A licensee has the exclusive right to produce, explore, and develop petroleum from the land subject to the payment of rental to DECC. The maximum term of the license is 31 years. Licenses expire after the initial exploration term of 6 years if a well is not drilled and after a second exploration term of 5 years if a well is drilled but no development program is approved by DECC. If a development program is approved by DECC, a PEDL will convert into a production license with a term of approximately 20 years. The licensing regime also requires that 50% of the acreage of a PEDL be relinquished at the end of the initial exploration period. This 50% relinquishment is expected to be applicable to Magellan's licenses upon their respective initial expiration dates.

With respect to the PEDLs 231, 234, and 243, the Company and its partner, Celtique, negotiated with DECC an amendment to the terms of expiration, whereby the expiration date of the initial exploration term was extended by two years to June 2016, with the expiration date of the second exploration term remaining unchanged. As a result, in the case of these PEDLs, the second exploration term will only last three years.

The below table summarizes the permits we maintain in the UK as of June 30, 2014.

License	Geologic basin	Expiration date	Operator	Ownership interest	Gross acres (1)	Net acres (2)
Central Weald licenses prospective for unconventional development:						
PEDL 231	Weald	6/30/2016	Celtique	50%	98,800	49,400
PEDL 234	Weald	6/30/2016	Celtique	50%	74,100	37,050
PEDL 243	Weald	6/30/2016	Celtique	50%	74,100	37,050
Subtotal					247,000	123,500
Licenses containing Horse Hill conventional Triassic play:						
PEDL 137 ⁽³⁾	Weald	9/30/2014	Angus	35%	24,525	8,584
PEDL 246 ⁽³⁾	Weald	6/30/2015	Angus	35%	10,769	3,769
Subtotal					35,294	12,353
Other licenses on periphery of Weald Basin:						
PEDL 126	Weald	6/30/2015	Northern	40%	2,766	1,107
P1916	Wessex	1/31/2016	Northern	23%	11,535	2,595
Subtotal					14,301	3,702
Total					296,595	139,555

⁽¹⁾ A gross acre is an acre in which the registrant owns a working interest.

⁽²⁾ The number of net acres is the sum of the fractional working interests owned by the registrant in gross acres.

⁽³⁾ Formal transfer of 65% ownership in, and operatorship of, PEDLs 137 and 246 is subject to Angus funding and drilling a first obligation well.

Australia

In Australia, Magellan's offshore exploration license, NT/P82, is issued jointly by the Commonwealth and Northern Territory Governments and is subject to the *Offshore Petroleum and Greenhouse Gas Storage Act*. The licensee has the exclusive right to explore for petroleum in the license area, subject to fulfillment of a pre-agreed work program. The term of a petroleum license is 6 years, and a license may be renewed for a further term of 5 years.

The below table summarizes the permit we maintain in Australia as of June 30, 2014.

License	Geologic basin	Expiration date	Operator	Ownership interest	Gross acres ⁽¹⁾	Net acres ⁽²⁾
NT/P82	Bonaparte	5/12/2016	Magellan	100%	1,566,647	1,566,647
Total					1,566,647	1,566,647

⁽¹⁾ A gross acre is an acre in which the registrant owns a working interest.

⁽²⁾ The number of net acres is the sum of the fractional working interests owned by the registrant in gross acres.

MARKETING ACTIVITIES AND CUSTOMERS

Customers

The Company's consolidated oil production revenue is derived from its NP segment and was generated from a single customer, Plains Marketing, LP, for the years ended June 30, 2014, and 2013, respectively.

Delivery Commitments

None of our production sales agreements contain terms and conditions requiring us to deliver a fixed determinable quantity of product.

CURRENT MARKET CONDITIONS AND COMPETITION

Seasonality of Business

Demand and prices for oil and gas can be impacted by seasonal factors. Increased demand for heating oil in the winter and gasoline during the summer driving season can positively impact the price of oil during those times. Increased demand for heating during the winter and air conditioning during the summer months can positively impact the price of natural gas. Unusual weather patterns can increase or dampen normal price levels. Our ability to carry out drilling activities can be adversely affected by weather conditions during winter months at Poplar. In general, the Company's working capital balances are not materially impacted by seasonal factors.

Competitive Conditions in the Business

The oil and gas industry is highly competitive. We face competition from numerous major and independent oil and gas companies, many of whom have greater technical, operational, and financial resources, or who have vertically integrated operations in areas such as pipelines and refining. Our ability to compete in this industry depends upon such factors as our ability to identify and economically acquire prospective oil and gas properties; the geological, geophysical, and engineering capabilities of management; the financial strength and resources of the Company; and our ability to secure drilling rigs and other oil field services in a timely and cost-effective manner. We believe our acreage positions, our management's technical and operational expertise, and the strength of our balance sheet allow us to effectively compete in the exploration and development of oil and gas projects.

The oil and gas industry itself faces competition from alternative fuel sources, which include other fossil fuels, such as coal and renewable energy sources.

EMPLOYEES AND OFFICE SPACE

As of June 30, 2014, the Company had a total of 26 full-time employees. We maintain approximately 6,000 square feet of functional office space in Denver, Colorado for our executive and administrative headquarters.

GOVERNMENT REGULATIONS

Our business is extensively regulated by numerous foreign, US federal, state, and local laws and governmental regulations. These laws and regulations may be changed from time to time in response to economic or political conditions, or other developments, and our regulatory burden may increase in the future. Laws and regulations have the potential of increasing our cost of doing business and, consequently, could affect our results of operations. However, we do not believe that we are affected to a materially greater or lesser extent than others in our industry.

Regulations Applicable to Foreign Operations

Several of the properties and investments in which we have interests are located outside of the US, and are subject to foreign laws, regulations, and related risks involved in the ownership, development, and operation of foreign property interests. Foreign laws and regulations may result in possible nationalization of assets, expropriation of assets, confiscatory taxation, changes in foreign exchange controls, currency revaluations, price controls or excessive royalties, export sales restrictions, and limitations on the transfer of interests in exploration licenses. Foreign laws and regulations may also limit our ability to transfer funds or proceeds from operations or investments. In addition, foreign laws and regulations providing for conservation, proration, curtailment, cessation, or other limitations or controls on the production of or exploration for hydrocarbons may increase the costs or have other adverse effects on our foreign operations or investments. As a result, an investment in us is subject to foreign legal and regulatory risks in addition to those risks inherent in US domestic oil and gas exploration and production company investments.

Oil and gas exploration and production operations in the UK are subject to numerous UK and European Union ("EU") laws and regulations relating to environmental matters, health, and safety. Environmental matters are addressed before oil and gas production activities commence and during the exploration and production activities. Before a UK licensing round begins, the DECC will consult with various public bodies that have responsibility for the environment. Applicants for production licenses are required to submit a summary of their management systems and how those systems will be applied to the proposed work program. In addition, the Offshore Petroleum Production and Pipelines (Assessment of Environmental Effects) Regulations 1999 require the Secretary of State to exercise the Secretary's licensing powers under the UK Petroleum Act in such a way as to ensure that an environmental assessment is undertaken and considered before consent is given to certain

projects. Further, depending on the scale of operations, production facilities may be subject to compliance obligations under the EU emissions trading system. Compliance with the above regulations may cause us to incur additional costs with respect to UK operations.

Our Australian investments and prospects are subject to stringent Australian laws and regulations relating to the release or disposal of materials into the environment or otherwise relating to environmental protection. These laws and regulations, which include the Environment Protection and Biodiversity Conservation Act 1999, require approval before seismic acquisition or drilling commences, restrict the types, quantities, and concentration of substances that can be released into the environment in connection with drilling and production activities, limit or prohibit seismic or drilling activities in protected areas, and impose substantial liabilities for pollution resulting from oil and gas operations. Failure to comply with these laws and regulations may result in the assessment of administrative, civil, and criminal penalties, incurrence of investigatory or remedial obligations, or the imposition of injunctive relief. Changes in Australian environmental laws and regulations occur frequently, and any changes that result in more stringent or costly waste handling, storage, transport, disposal, or cleanup requirements could require us to make significant expenditures to maintain compliance, and may otherwise have a material adverse effect on our results of operations, competitive position, investment values, or financial condition as well. Under these environmental laws and regulations, we could be held strictly liable for the removal or remediation of previously released materials or property contamination, regardless of whether we were responsible for the release of such materials or if our operations were standard in the industry at the time they were performed.

US Energy Regulations

States in which we operate have adopted laws and regulations governing the exploration for, and production of, oil and gas, including laws and regulations that (i) require permits for the drilling of wells; (ii) impose bonding requirements in order to drill or operate wells; and (iii) govern the timing of drilling and location of wells, the method of drilling and casing wells, the surface use and restoration of properties upon which wells are drilled, and the plugging and abandonment of wells. Many of our operations are also subject to various state conservation laws and regulations, including regulations governing the size of drilling and spacing units or proration units, the number of wells that may be drilled in an area, the spacing of wells, and the unitization or pooling of oil and gas properties. In addition, state conservation laws sometimes establish maximum rates of production from oil and gas wells, generally prohibit the venting or flaring of gas, and may impose certain requirements regarding the ratability or fair apportionment of production from fields and individual wells.

Some of our operations are conducted on federal lands pursuant to oil and gas leases administered by the Bureau of Land Management ("BLM") and/or the Bureau of Indian Affairs ("BIA"). These leases contain relatively standardized terms and require compliance with detailed regulations and orders that are subject to change. In addition to permits required from other regulatory agencies, lessees, such as Magellan, must obtain a permit from the BLM before drilling and must comply with regulations governing, among other things, engineering and construction specifications for production facilities, safety procedures, the valuation of production and payment of royalties, the removal of facilities, and the posting of bonds to ensure that lessee obligations are met. Under certain circumstances, the BLM or the BIA may suspend or terminate our operations on federal or Indian leases.

In May 2010, the BLM adopted changes to its oil and gas leasing program that require, among other things, a more detailed environmental review prior to leasing oil and natural gas resources, increased public engagement in the development of master leasing and development plans prior to leasing areas where intensive new oil and gas development is anticipated, and a comprehensive parcel review process. These changes have increased the amount of time and regulatory costs necessary to obtain oil and gas leases administered by the BLM.

The sale of natural gas in the US is affected by the availability, terms, and cost of gas pipeline transportation. The Federal Energy Regulatory Commission ("FERC") has jurisdiction over the transportation and sale for resale of natural gas in interstate commerce. FERC's current regulatory framework generally provides for a competitive and open access market for sales and transportation of natural gas. However, FERC regulations continue to affect the midstream and transportation segments of the industry, and thus can indirectly affect sales prices for natural gas production. In addition, the less stringent regulatory approach currently pursued by FERC and the US Congress may not continue indefinitely.

Environmental, Health, and Safety Matters

General. Our operations are subject to stringent and complex federal, state, tribal, and local laws and regulations governing protection of the environment and worker health and safety as well as the discharge of materials into the environment. These laws, rules, and regulations may, among other things:

- require the acquisition of various permits before drilling commences;

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- restrict the types, quantities, and concentration of various substances that can be released into the environment in connection with oil and natural gas drilling and production and saltwater disposal activities;
- limit or prohibit drilling activities on certain lands lying within wilderness, wetlands, and other protected areas, including areas containing certain wildlife or threatened and endangered plant and animal species; and
- require remedial measures to mitigate pollution from former and ongoing operations, such as requirements to close pits and plug abandoned wells.

These laws, rules, and regulations may also restrict our ability to produce oil or gas to a rate of oil and natural gas production that is lower than the rate that is otherwise possible. The regulatory burden on the oil and natural gas industry increases the cost of doing business in the industry and consequently affects profitability. Additionally, environmental laws and regulations are revised frequently, and any changes that result in more stringent and costly permitting, waste handling, disposal, and cleanup requirements for the oil and natural gas industry could have a significant impact on our operating costs.

The following is a summary of some of the existing laws, rules, and regulations to which our business is subject:

Waste handling. The Resource Conservation and Recovery Act (the "RCRA") and comparable state statutes regulate the generation, transportation, treatment, storage, disposal, and cleanup of hazardous and non-hazardous wastes. Under the auspices of the federal Environmental Protection Agency (the "EPA"), the individual states administer some or all of the provisions of the RCRA, sometimes in conjunction with their own, more stringent requirements. Drilling fluids, produced waters, and most of the other wastes associated with the exploration, development, and production of oil or natural gas are currently regulated under the RCRA's non-hazardous waste provisions. However, it is possible that certain oil and natural gas exploration and production wastes now classified as non-hazardous could be classified as hazardous wastes in the future. Any such change could result in an increase in our costs to manage and dispose of wastes, which could have a material adverse effect on our results of operations, financial condition, and cash flows.

Comprehensive Environmental Response, Compensation and Liability Act. The Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), also known as the Superfund law, imposes joint and several liability, without regard to fault or legality of conduct, on classes of persons who are considered to be responsible for the release of a hazardous substance into the environment. These persons include the owner or operator of the site where the release occurred, and anyone who disposed or arranged for the disposal of a hazardous substance released at the site. Under CERCLA, such persons may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources, and for the costs of certain health studies. In addition, it is not uncommon for neighboring landowners and other third-parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment.

We currently own, lease, or operate numerous properties that have been used for oil and natural gas exploration and production for many years. Although we believe that we have utilized operating and waste disposal practices that were standard in the industry at the time, hazardous substances, wastes, or hydrocarbons may have been released on or under the properties owned or leased by us, or on or under other locations, including off-site locations, where such substances have been taken for disposal. In addition, some of our properties have been operated by third parties or by previous owners or operators whose treatment and disposal of hazardous substances, wastes, or hydrocarbons was not under our control. These properties and the substances disposed or released on them may be subject to CERCLA, RCRA, and analogous state laws. Under such laws, we could be required to remove previously disposed substances and wastes, remediate contaminated property, or perform remedial operations to prevent future contamination.

Water discharges. The federal Water Pollution Control Act (the "Clean Water Act") and analogous state laws impose restrictions and strict controls with respect to the discharge of pollutants, including spills and leaks of oil and other substances, into waters of the US and states. The discharge of pollutants into regulated waters is prohibited, except in accordance with the terms of a permit issued by the EPA, US Army Corps of Engineers, or analogous state agencies. Federal and state regulatory agencies can impose administrative, civil, and criminal penalties for non-compliance with discharge permits or other requirements of the Clean Water Act and analogous state laws and regulations.

The Oil Pollution Act of 1990 ("OPA") addresses prevention, containment and cleanup, and liability associated with oil pollution. The OPA applies to vessels, offshore platforms, and onshore facilities, and subjects owners of such facilities to strict liability for containment and removal costs, natural resource damages, and certain other consequences of oil spills into jurisdictional waters. Any unpermitted release of petroleum or other pollutants from our operations could result in governmental penalties and civil liability.

Air emissions. The federal Clean Air Act ("CAA") and comparable state laws regulate emissions of various air pollutants through air emissions permitting programs and the imposition of other requirements. In addition, the EPA has developed, and continues to develop, stringent regulations governing emissions of toxic air pollutants at specified sources. Federal and state regulatory agencies can impose administrative, civil, and criminal penalties for non-compliance with air permits or other requirements of the federal CAA and associated state laws and regulations.

Climate change. In December 2009, the EPA determined that emissions of carbon dioxide, methane, and other "greenhouse gases" present an endangerment to public health and the environment because emissions of such gases are contributing to warming of the earth's atmosphere and other climatic changes. Based on this determination, the EPA has been adopting and implementing a comprehensive suite of regulations to restrict emissions of greenhouse gases under existing provisions of the CAA. Legislative and regulatory initiatives related to climate change could have an adverse effect on our operations and the demand for oil and gas. See *Item 1A, Risk Factors - Risks Related to Our Business - Legislative and regulatory initiatives related to global warming and climate change could have an adverse effect on our operations and the demand for crude oil and natural gas.* In addition to the effects of regulation, the meteorological effects of global climate change could pose additional risks to our operations, including physical damage risks associated with more frequent and more intensive storms and flooding, and could adversely affect the demand for oil and natural gas.

Endangered species. The federal Endangered Species Act and analogous state laws regulate activities that could have an adverse effect on threatened or endangered species. Some of our well drilling operations are conducted in areas where protected species are known to exist. In these areas, we may be obligated to develop and implement plans to avoid potential adverse impacts on protected species, and we may be prohibited from conducting drilling operations in certain locations or during certain seasons, such as breeding and nesting seasons, when our operations could have an adverse effect on the species. It is also possible that a federal or state agency could order a complete halt to drilling activities in certain locations if it is determined that such activities may have a serious adverse effect on a protected species. The presence of a protected species in areas where we perform drilling activities could impair our ability to achieve timely well drilling and development and could adversely affect our future production from those areas.

National Environmental Policy Act. Oil and natural gas exploration and production activities on federal and Indian lands are subject to the National Environmental Policy Act ("NEPA"). NEPA requires federal agencies, including the Department of Interior, to evaluate major agency actions having the potential to significantly impact the environment. In the course of such evaluations, an agency will prepare an environmental assessment that assesses the potential direct, indirect, and cumulative impacts of a proposed project and, if necessary, will prepare a more detailed environmental impact statement that may be made available for public review and comment. All of our current exploration and production activities, as well as proposed exploration and development plans, on federal and Indian lands require governmental permits that are subject to the requirements of NEPA. This process has the potential to delay development of some of our oil and natural gas projects.

OSHA and other laws and regulations. We are subject to the requirements of the federal Occupational Safety and Health Act ("OSHA") and comparable state statutes. The OSHA hazard communication standard, the EPA community right-to-know regulations under Title III of CERCLA, and similar state statutes require that we organize and/or disclose information about hazardous materials used or produced in our operations. Also, pursuant to OSHA, the Occupational Safety and Health Administration has established a variety of standards relating to workplace exposure to hazardous substances and employee health and safety. We believe that we are in substantial compliance with the applicable requirements of OSHA and comparable laws.

Hydraulic fracturing. Hydraulic fracturing is an important and common practice that is used to stimulate production of hydrocarbons, particularly natural gas, from tight formations, including shales. While we have not routinely utilized hydraulic fracturing techniques in our drilling and completion programs in the past, we may do so in the future in connection with our potential unconventional development with Celtique in southern England, or if we expand our Bakken/Three Forks play at Poplar. The hydraulic fracturing process involves the injection of water, sand, and chemicals under pressure into the formation to fracture the surrounding rock and stimulate production. The process is typically regulated by state oil and natural gas commissions, and in the UK an Office of Unconventional Gas and Oil has been established to coordinate the related activities of various regulatory authorities. However, the EPA has asserted federal regulatory authority over hydraulic fracturing involving diesel additives under the Safe Drinking Water Act's Underground Injection Control Program. The federal Safe Drinking Water Act protects the quality of the nation's public drinking water through the adoption of drinking water standards and controlling the injection of waste fluids into below-ground formations that may adversely affect drinking water sources.

Increased regulation and attention given to the hydraulic fracturing process could lead to greater opposition to oil and gas activities using hydraulic fracturing techniques, which could potentially cause a decrease in the completion of new oil and gas wells, increased compliance costs, and delays, all of which could adversely affect our financial position, results of operations, and cash flows. For example, the UK government imposed a temporary moratorium on hydraulic fracturing in the UK that was lifted in December 2012. In addition, local planning permission requirements in the UK may have the effect of restricting or delaying hydraulic fracturing activities. If new laws, rules, regulations, or other requirements that significantly restrict hydraulic fracturing are adopted, such requirements could make it more difficult or costly for us to perform fracturing to stimulate production from tight formations. In addition, if hydraulic fracturing becomes more strictly regulated at the federal level as a result of federal legislation or regulatory initiatives by the EPA, or becomes subject to regulatory restrictions at the local level, our fracturing activities could become subject to additional permitting requirements, and also to attendant permitting delays and potential increases in costs. Restrictions on hydraulic fracturing could also reduce the amount of oil and

natural gas that we are ultimately able to produce from our reserves.

Other initiatives. Public and regulatory scrutiny of the energy industry has resulted in increased environmental regulation and enforcement initiatives being either proposed or implemented. For example, the EPA's 2014 - 2016 National Enforcement Initiatives include "Assuring Energy Extraction Sector Compliance with Environmental Laws." According to the EPA's website, "some techniques for natural gas extraction pose a significant risk to public health and the environment." To address these concerns, the EPA's goal is to "address incidences of noncompliance from natural gas extraction and production activities that may cause or contribute to significant harm to public health and/or the environment." The EPA has emphasized that this initiative will be focused on those areas of the US where energy extraction activities are concentrated, and the focus and nature of the enforcement activities will vary with the type of activity and the related pollution problem presented. This initiative could involve an investigation of our facilities and processes, and could lead to potential enforcement actions, penalties, or injunctive relief against us.

We believe that it is reasonably likely that the trend in environmental legislation and regulation will continue toward stricter standards. We believe that we are in substantial compliance with existing environmental laws and regulations applicable to our current operations and that our continued compliance with existing requirements will not have a material adverse impact on our financial condition and results of operations. However, we cannot give any assurance that we will not be adversely affected in the future.

AVAILABLE INFORMATION

Our internet website address is www.magellanpetroleum.com. We routinely post important information for investors on our website, including updates about us and our operations. Within our website's investor relations section, we make available free of charge our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed with or furnished to the SEC under applicable securities laws. These materials are made available as soon as reasonably practical after we electronically file such materials with or furnish such materials to the SEC. We also make available within our website's corporate governance section the by-laws, code of conduct, and charters for the Audit Committee and the Compensation, Nominating and Governance Committee of the Board of Directors of Magellan. Information on our website is not incorporated by reference into this report and should not be considered part of this document.

NON-GAAP FINANCIAL MEASURES AND RECONCILIATION

Adjusted EBITDAX

We define Adjusted EBITDAX as net income (loss) attributable to Magellan, plus (minus): (i) depletion, depreciation, amortization, and accretion expense, (ii) exploration expense, (iii) stock based compensation expense, (iv) foreign transaction loss, (v) impairment expense, (vi) net interest expense (income), (vii) fair value revision of contingent consideration payable, (viii) other income, and (ix) net (income) loss from discontinued operations. Adjusted EBITDAX is not a measure of net income or cash flow as determined by GAAP and excludes certain items that we believe affect the comparability of operating results.

Our Adjusted EBITDAX measure provides additional information that may be used to better understand our operations. Adjusted EBITDAX is one of several metrics that we use as a supplemental financial measurement in the evaluation of our business and should not be considered as an alternative to, or more meaningful than, net income (loss) as an indicator of our operating performance. Certain items excluded from Adjusted EBITDAX are significant components in understanding and assessing a company's financial performance, such as the historic cost of depreciable and depletable assets. Adjusted EBITDAX, as used by us, may not be comparable to similarly titled measures reported by other companies. We believe that Adjusted EBITDAX is a widely followed measure of operating performance and is one of many metrics used by our management team and by other users of our consolidated financial statements. For example, Adjusted EBITDAX can be used to assess our operating performance and return on capital in comparison to other independent exploration and production companies without regard to financial or capital structure and to assess the financial performance of our assets and our company without regard to historical cost basis and certain items that affect the comparability of period to period operating results.

The following table provides a reconciliation of net income (loss) to Adjusted EBITDAX for the fiscal years ended:

	June 30,	
	2014	2013
(In thousands)		
Net income (loss) attributable to Magellan Petroleum Corporation	\$ 15,509	\$ (19,767)
Depletion, depreciation, amortization, and accretion expense	1,123	1,121
Exploration expense	3,484	7,907
Stock based compensation expense	2,009	848
Foreign transaction loss	165	18
Impairment expense	—	890
Net interest expense (income)	243	(298)
Fair value revision of contingent consideration payable	(2,403)	(458)
Other income	(146)	(698)
Net (income) loss from discontinued operations	(25,551)	2,938
Adjusted EBITDAX	<u>\$ (5,567)</u>	<u>\$ (7,499)</u>

For clarification purposes, the below table provides an alternative method for calculating Adjusted EBITDAX, which can also be calculated as revenue less (i) lease operating expense and (ii) general and administrative expense; plus (i) stock based compensation expense and (ii) foreign transaction loss.

The following table provides the alternative method for calculating Adjusted EBITDAX for the fiscal years ended:

	June 30,	
	2014	2013
(In thousands)		
Total revenues	\$ 7,601	\$ 6,131
Less:		
Lease operating	(6,257)	(4,851)
General and administrative	(9,085)	(9,645)
Plus:		
Stock based compensation expense	2,009	848
Foreign transaction loss	165	18
Adjusted EBITDAX	<u>\$ (5,567)</u>	<u>\$ (7,499)</u>

ITEM 1A: RISK FACTORS

In addition to the other information included in this report, the following risk factors should be carefully considered when evaluating an investment in us. These risk factors and other uncertainties may cause our actual future results or performance to differ materially from any future results or performance expressed or implied in the forward-looking statements contained in this report and in other public statements we make. In addition, because of these risks and uncertainties, as well as other variables affecting our operating results, our past financial performance is not necessarily indicative of future performance.

RISKS RELATING TO OUR BUSINESS

Our CO₂-EOR project at Poplar may not be successful.

In August 2013, we initiated a five-well CO₂-EOR pilot program for the Charles formation at the Poplar field to enhance oil recovery through the injection of CO₂ into the formation. All five wells have been drilled to total depth, and we have commenced the CO₂ injection phase of the program. Through June 30, 2014, we had incurred approximately \$19.1 million in capitalized costs in connection with the pilot program, and we currently estimate that additional costs of the program, including capital and certain operating expenditures, will be approximately \$6.9 million. While laboratory analysis and other preliminary tests indicate that a CO₂-EOR project at Poplar could be technically and economically viable on a full-field basis, the additional

production and reserves that may result from CO₂-EOR methods are inherently difficult to predict. For example, although CO₂ may be successfully injected through an injector well and initially result in satisfactory increased pressures, it is possible that such pressures may not be sustained at sufficient effective levels to sweep the oil across the formation to the productive wells. If the results of the pilot program do not support the continued use of CO₂-EOR methods at Poplar or if CO₂-EOR methods ultimately do not allow for the extraction of additional oil in the manner or to the extent that we anticipate, our future results of operations, cash flows, and financial condition could be materially adversely affected. In addition, our ability to utilize CO₂ as an enhanced recovery technique is subject to our ability to obtain sufficient quantities of CO₂. Although we currently have a two-year CO₂ supply agreement for the pilot program, if we become limited in the quantities of CO₂ available to us, we may not have sufficient CO₂ to produce oil in the manner or to the extent that we anticipate, and our future oil production volumes could be negatively impacted.

Substantially all of our currently producing properties are located in the Poplar field, making us vulnerable to risks associated with having revenue-producing operations currently concentrated in one geographic area.

Because our current revenue-producing operations are geographically concentrated in the Poplar field in the Montana portion of the Williston Basin, the success and profitability of our operations are disproportionately exposed to risks associated with regional factors. These include, among others, fluctuations in the prices of crude oil and natural gas produced from wells in the region, other regional supply and demand factors, including gathering, pipeline, and rail transportation capacity constraints, available rigs, equipment, oil field services, supplies, labor, and infrastructure capacity, and the effects of regional or local governmental regulations. In addition, our operations at Poplar may be adversely affected by seasonal weather and wildlife protection measures, which can intensify competition for the items described above during months when drilling is possible and may result in periodic shortages. The concentration of our operations in this region also increases exposure to unexpected events that may occur in this region such as natural disasters or labor difficulties. Any one of these events has the potential to cause a relatively significant number of our producing wells to be shut-in, delay operations and growth plans, decrease cash flows, increase operating and capital costs, and prevent development or production within originally anticipated time frames. Any of the risks described above could have a material adverse effect on our financial condition, results of operations, and cash flows.

Our Poplar production revenues and cash flows are concentrated with one purchaser, and that purchaser may reduce or discontinue purchases or become unable to meet its payment obligations to us.

Sales of our Poplar oil production are currently concentrated with an agreement with Plains Marketing, LP, who is the sole purchaser of our oil production at Poplar. If this purchaser reduces or discontinues purchases from us, or if we are unable to successfully negotiate a replacement agreement with this purchaser, who can terminate the agreement after a 90-day notice period, or if the replacement agreement has less favorable terms, the effect on us could be materially adverse if we are unable to obtain new purchasers for the oil produced at Poplar. In addition, if this purchaser were to experience financial difficulties or any deterioration in its ability to satisfy its payment obligations to us, our revenues and cash flows from Poplar could be adversely affected to a material extent.

Regulations related to hydraulic fracturing could result in increased costs and operating restrictions or delays that could affect the value of our potential unconventional play in the United Kingdom.

We along with Celtique Energie have a 50%-50% working interest in a potential unconventional play in the central Weald Basin in southern England that is operated by Celtique. Hydraulic fracturing is an important common practice that is used to stimulate production of hydrocarbons, particularly natural gas, from tight formations, including unconventional gas resources. The process involves the injection of water, sand, and chemicals under pressure into formations to fracture the surrounding rock and stimulate production. Although the UK government lifted a temporary moratorium on hydraulic fracturing in December 2012 and an Office of Unconventional Gas and Oil has been established in the UK to coordinate the related activities of various regulatory authorities, hydraulic fracturing remains a publicly controversial topic, with media and local community concerns regarding the use of fracturing fluids, impacts on drinking water supplies, and the potential for impacts to surface water, groundwater, and the environment generally. For example, local planning permission requirements in the UK may have the effect of restricting or delaying drilling activities in general or hydraulic fracturing in particular. If hydraulic fracturing is significantly restricted or delayed at our potential unconventional play in the UK, or made more costly, the volumes of natural gas that can be economically recovered could be reduced, which would adversely affect the value of the play.

Our use of 2-D and 3-D seismic data is subject to interpretation and may not accurately identify the presence of oil and natural gas, which could adversely affect the results of our Australian NT/P82 prospect and other exploration and development activities.

We have incurred significant expenditures to acquire extensive 2-D and 3-D seismic data with respect to our NT/P82 exploration permit area in the Bonaparte Basin, offshore Northern Territory, Australia, and we use 2-D and 3-D seismic data in our other exploration and development activities. Even when properly used and interpreted, 2-D and 3-D seismic data and visualization techniques are only tools used to assist geoscientists in identifying subsurface structures and hydrocarbon indicators, and do not enable the interpreter to know whether hydrocarbons are, in fact, present in those structures. In addition, the use of 3-D seismic and other advanced technologies requires greater predrilling expenditures than traditional drilling strategies, and we could incur losses as a result of such expenditures. As a result, our drilling activities may not be successful or economical.

We may not be successful in sharing the exploration and development costs of the fields, licenses, and permits in which we hold interests, such as our Australian NT/P82 prospect.

Our drilling plans depend, in certain cases, on our ability to enter into farm-in, farmout, joint venture, or other cost sharing arrangements with other oil and gas companies. For example, in April 2014 we commenced a farmout process for our NT/P82 exploration permit area, in which we expect to relinquish a portion of our working interest in, and operatorship of, NT/P82 in exchange for a commitment from the partner to drill exploration wells over the gas prospects identified in the block to meet our requirements under the terms of the permit. If we are not able to secure such farm-in, farmout, or other arrangements in a timely manner, or on terms which are economically attractive to us, we may be forced to bear higher exploration and development costs with respect to our fields and interests. We may also be unable to fully develop and/or explore certain fields if the costs to do so would exceed our available exploration budget and capital resources. In either case, our results of operations, financial condition, and cash flows could be adversely affected and the market price of our common stock could decline.

We may not realize the expected value from our significant investment in Central Petroleum Limited.

On March 31, 2014, we sold our non-core assets in the Amadeus Basin of Australia to Central Petroleum Limited, in exchange for AUD \$20.0 million in cash and 39.5 million shares of Central's stock, which are listed for trading on the Australian Securities Exchange ("ASX") and which represent an approximately 11% equity ownership interest in Central. Under the terms of the agreement for that transaction, the Central shares were valued at AUD \$15.0 million. As of June 30, 2014, the Central shares were carried on our balance sheet at a fair value of AUD \$12.6 million, based on the closing per share market price for Central stock as reported on the ASX on that date.

Central is a Brisbane, Australia based junior exploration and production company that operates one of the largest holdings of prospective onshore acreage in Australia. Accordingly, Central and the value of its stock are subject to similar business, industry, and oil and natural gas price fluctuation risk factors that we are subject to, as well as Central's own particular risk factors based on its current circumstances and operating areas in Australia. As a result, or for other reasons, the market price of Central stock may experience significant fluctuations, including significant decreases. We do not control Central, and our investment is subject to the risk that Central may make business, financial, or management decisions with which we do not agree. Although the shares of Central that we hold are not restricted and may be sold on the ASX, the average daily trading volumes for Central stock relative to the number of Central shares that we hold may mean that our Central shares would need to be sold over a substantial period of time, exposing our investment return to risks of downward movement in the market price during the intended disposition period. Accordingly, we may ultimately realize a lower value from our investment in Central than we expect.

Our acquisitions of or investments in new oil and gas properties or other assets may not be worth what we pay due to uncertainties in evaluating recoverable reserves and other expected benefits, as well as potential liabilities.

Successful property or other acquisitions or investments require an assessment of a number of factors sometimes beyond our control. These factors include exploration potential, future crude oil and natural gas prices, operating costs, and potential environmental and other liabilities. These assessments are not precise, and their accuracy is inherently uncertain.

In connection with our acquisitions or investments, we typically perform a customary review of the properties that will not necessarily reveal all existing or potential problems. In addition, our review may not allow us to fully assess the potential deficiencies of the properties. We do not inspect every well, and even when we inspect a well we may not discover structural, subsurface, or environmental problems that may exist or arise. We may not be entitled to contractual indemnification for pre-

closing liabilities, including environmental liabilities. Normally, we acquire interests or otherwise invest in properties on an "as is" basis with limited remedies for breaches of representations and warranties.

In addition, significant acquisitions can change the nature of our operations and business if the acquired properties have substantially different operating and geological characteristics or are in different geographic locations than our existing properties. To the extent acquired properties are substantially different than our existing properties, our ability to efficiently realize the expected economic benefits of such acquisitions may be limited.

Integrating acquired properties and businesses involves a number of other special risks, including the risk that management may be distracted from normal business concerns by the need to integrate operations and systems as well as retain and assimilate additional employees. Therefore, we may not be able to realize all of the anticipated benefits of our acquisitions.

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

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

Crude oil and natural gas drilling and production activities are subject to numerous risks, including the risk that no commercially producible crude oil or natural gas will be found. The cost of drilling and completing wells is often uncertain, and crude oil or natural gas drilling and production activities may be shortened, delayed, or canceled as a result of a variety of factors, many of which are beyond our control. These factors include:

- unexpected drilling conditions;
- title problems;
- disputes with owners or holders of surface interests on or near areas where we intend to drill;
- pressure or geologic irregularities in formations;
- engineering and construction delays;
- equipment failures or accidents;
- adverse weather conditions;
- compliance with environmental and other governmental requirements; and
- shortages or delays in the availability of or increases in the cost of drilling rigs and crews, equipment, pipe, water, and other supplies.

The prevailing prices for crude oil and natural gas affect the cost of, and demand for, drilling rigs, completion and production equipment, and other related services. However, changes in costs may not occur simultaneously with corresponding changes in commodity prices. The availability of drilling rigs can vary significantly from region to region at any particular time. Although land drilling rigs can be moved from one region to another in response to changes in levels of demand, an undersupply of rigs in any region may result in drilling delays and higher drilling costs for the rigs that are available in that region. In addition, general and industry economic and financial downturns can adversely affect the financial condition of some drilling contractors, which may constrain the availability of drilling services in some areas.

Another significant risk inherent in drilling plans is the need to obtain drilling permits from state, local, and other governmental authorities. Delays in obtaining regulatory approvals and drilling permits, including delays that jeopardize our ability to realize the potential benefits from leased or licensed properties within the applicable lease or license periods, the failure to obtain a drilling permit for a well, or the receipt of a permit with unreasonable conditions or costs could have a material adverse effect on our ability to explore on or develop the properties we have or may acquire.

The wells we drill may not be productive and we may not recover all or any portion of our investment in such wells. The seismic data and other technologies we use do not allow us to know conclusively prior to drilling a well if crude oil or natural gas is present, or whether it can be produced economically. The cost of drilling, completing, and operating a well is often uncertain, and cost factors can adversely affect the economics of a project. Drilling activities can result in dry holes or wells that are productive but do not produce sufficient net revenues after operating and other costs to cover initial drilling and completion costs.

Our future drilling activities may not be successful. Although we have identified potential drilling locations, we may not be able to economically produce oil or natural gas from them.

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

We depend, and will continue to depend in the foreseeable future, on the services of our executive management team and other key personnel. The ability to retain officers and key employees is important to our success and growth. The unexpected loss of the services of one or more of these individuals could have a detrimental effect on our business. Our drilling success and the success of other activities integral to our operations depends, in part, on our ability to attract and retain experienced geologists, engineers, landmen, and other professionals. Competition for many of these professionals is intense. If we cannot retain our technical personnel or attract additional experienced technical personnel and professionals, our ability to compete could be harmed.

There are risks inherent in foreign operations and investments, such as adverse changes in currency values and foreign regulations relating to MPA's, MPA's, and Central's exploration and development operations, and potential taxes or restrictions on dividends to MPC from foreign subsidiaries or investments.

The properties in which we have operating or investment interests that are located outside the US are subject to certain risks related to the indirect ownership and development of, or investment in, foreign properties, including government expropriation and nationalization, adverse changes in currency values and foreign exchange controls, foreign taxes, US taxes on the repatriation of funds to the US, and other laws and regulations, any of which may have a material adverse effect on our properties, investments, financial condition, results of operations, or cash flows. Although there are currently no foreign exchange controls on the payment of dividends to MPC by its subsidiaries or other entities in which it has invested, such payments could be restricted by foreign exchange controls, if implemented.

We have limited management and staff and are dependent upon partnering arrangements.

We had 26 total employees as of June 30, 2014. Due to our limited number of employees, we expect that we will continue to require the services of independent consultants and contractors to perform various professional services, including reservoir engineering, land, legal, environmental, and tax services. We also plan to pursue alliances with partners in the areas of geological and geophysical services and prospect generation, evaluation, and prospect leasing. Our dependence on third party consultants and service providers creates a number of risks, including but not limited to:

- the possibility that such third parties may not be available to us as and when needed;
and
- the risk that we may not be able to properly control the timing and quality of work conducted with respect to our projects.

If we experience significant delays in obtaining the services of such third parties or poor performance by such parties, our results of operations may be materially adversely affected.

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

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

- worldwide and domestic supplies of oil and gas, and the productive capacity of the oil and gas industry as a whole;
- changes in the supply and the level of consumer demand for such fuels;
- overall global and domestic economic conditions;
- political conditions in oil, natural gas, and other fuel-producing and fuel-consuming areas;
- the extent of US, UK, and Australian domestic oil and gas production and the consumption and importation of such fuels and substitute fuels in US, UK, Australian, and other relevant markets;
- the availability and capacity of gathering, transportation, processing, and/or refining facilities in regional or localized areas that may affect the realized price for crude oil or natural gas;
- the price and level of foreign imports of crude oil, refined petroleum products, and liquefied natural gas;
- weather conditions, including effects of weather conditions on prices and supplies in worldwide energy markets;
- technological advances affecting energy consumption and conservation;
- the ability of the members of the Organization of Petroleum Exporting Countries and other exporting countries to agree to and maintain crude oil prices and production controls;

- the competitive position of each such fuel as a source of energy as compared to other energy sources;
- strengthening and weakening of the US dollar relative to other currencies; and
- the effect of governmental regulations and taxes on the production, transportation, and sale of oil, natural gas, and other fuels.

These factors and the volatility of the energy markets make it extremely difficult to predict future oil and gas price movements with any certainty, but in general we expect oil and gas prices to continue to fluctuate significantly.

Sustained declines in oil and gas prices would not only reduce our revenues but also could reduce the amount of oil and gas that we can produce economically and, as a result, could have a material adverse effect on our financial condition, results of operations, cash flows, and reserves. Further, oil and gas prices do not necessarily move in tandem. Future gas sales not governed by existing contracts would generate lower revenue if natural gas prices were to decline. Prices for sales of our oil production are primarily affected by global oil prices, and the volatility of those prices will affect future oil revenues.

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

We face intense competition from major oil and gas companies and independent oil and gas exploration and production companies who seek oil and gas investments throughout the world, as well as the equipment, expertise, labor, and materials required to explore, develop, and operate crude oil and natural gas properties. Many of our competitors have financial, technical, and other resources vastly exceeding those available to us, and many crude oil and natural gas properties are sold in a competitive bidding process in which our competitors may be able and willing to pay more for development prospects and productive properties, or in which our competitors have technological information or expertise that is not available to us to evaluate and successfully bid for the properties. In addition, shortages of equipment, labor, or materials as a result of intense competition may result in increased costs or the inability to obtain those resources as needed. We may not be successful in acquiring, exploring, and developing profitable properties in the face of this competition.

We also compete for human resources. Over the last several years, the need for talented people across all disciplines in the industry has grown, while the number of talented people available has not grown at the same pace, and in many cases, is declining due to the demographics of the industry.

Our operations are subject to complex laws and regulations, including environmental laws and regulations that result in substantial costs and other risks.

US federal, state, tribal, and local authorities, and corresponding UK and Australian governmental authorities, extensively regulate the oil and natural gas industry. Legislation and regulations affecting the industry are under constant review for amendment or expansion, raising the possibility of changes that may become more stringent and, as a result, may affect, among other things, the pricing or marketing of crude oil and natural gas production. Noncompliance with statutes and regulations and more vigorous enforcement of such statutes and regulations by regulatory agencies may lead to substantial administrative, civil, and criminal penalties, including the assessment of natural resource damages, the imposition of significant investigatory and remedial obligations, and may also result in the suspension or termination of our operations. The overall regulatory burden on the industry increases the cost to place, design, drill, complete, install, operate, and abandon wells and related facilities and, in turn, decreases profitability.

Governmental authorities regulate various aspects of drilling for and the production of crude oil and natural gas, including the permit and bonding requirements of drilling wells, the spacing of wells, the unitization or pooling of interests in crude oil and natural gas properties, rights-of-way and easements, environmental matters, occupational health and safety, the sharing of markets, production limitations, plugging, abandonment, and restoration standards, and oil and gas operations. Public interest in environmental protection has increased in recent years, and environmental organizations have opposed, with some success, certain projects. Under certain circumstances, regulatory authorities may deny a proposed permit or right-of-way or impose conditions of approval to mitigate potential environmental impacts, which could, in either case, negatively affect our ability to explore or develop certain properties. Governmental authorities also may require any of our ongoing or planned operations on their leases or licenses to be delayed, suspended, or terminated. Any such delay, suspension, or termination could have a material adverse effect on our operations.

Our operations are also subject to complex and constantly changing environmental laws and regulations adopted by federal, state, tribal, and local governmental authorities in jurisdictions where we are engaged in exploration or production operations. New laws or regulations, or changes to current requirements, could result in material costs or claims with respect to properties we own or have owned. We will continue to be subject to uncertainty associated with new regulatory interpretations and inconsistent interpretations between various regulatory agencies. Under existing or future environmental laws and

regulations, we could incur significant liability, including joint and several liability or strict liability under federal, state, and tribal environmental laws for noise emissions and for discharges of crude oil, natural gas, and associated liquids or other pollutants into the air, soil, surface water, or groundwater. We could be required to spend substantial amounts on investigations, litigation, and remediation for these discharges and other compliance issues. Any unpermitted release of petroleum or other pollutants from our operations could result not only in cleanup costs but also natural resources, real or personal property, and other compensatory damages and civil and criminal liability. Existing environmental laws or regulations, as currently interpreted or enforced, or as they may be interpreted, enforced, or altered in the future, may have a material adverse effect on us.

In addition, we may be subject to increased environmental law enforcement initiatives. For example, the EPA's National Enforcement Initiatives for 2014 to 2016 include "Assuring Energy Extraction Sector Compliance with Environmental Laws." According to the EPA's website, "some techniques for natural gas extraction pose a significant risk to public health and the environment." To address these concerns, the EPA's goal is to "address incidences of noncompliance from natural gas extraction and production activities that may cause or contribute to significant harm to public health and/or the environment." This initiative could involve an investigation of our facilities and processes, and could lead to potential enforcement actions, penalties, or injunctive relief against us.

Legislative and regulatory initiatives related to global warming and climate change could have an adverse effect on our operations and the demand for crude oil and natural gas.

Due to concerns about the risks of global warming and climate change, a number of various national and regional legislative and regulatory initiatives to limit greenhouse gas emissions are currently in various stages of discussion or implementation. For example, the US Environmental Protection Agency has been adopting and implementing various rules regulating greenhouse gas emissions under the US Clean Air Act, the US Congress has from time to time considered other legislative initiatives to reduce emissions of greenhouse gases, and many states have already taken legal measures to reduce emissions of greenhouse gases, primarily through the planned development of greenhouse gas emission inventories and/or regional greenhouse gas emission allowance cap and trade programs. In addition, in 2013 the US President announced a Climate Action Plan which, among other things, directs US federal agencies to develop a strategy for the reduction of methane emissions, including emissions from the oil and natural gas industry.

Legislative and regulatory programs to reduce emissions of greenhouse gases could require us to incur substantially increased capital, operating, maintenance, and compliance costs, such as costs to purchase and operate emissions control systems, costs to acquire emissions allowances, and costs to comply with new regulatory or reporting requirements. Any such legislative or regulatory programs could also increase the cost of consuming, and thereby reduce demand for, the oil and natural gas we produce. Consequently, legislative and regulatory programs to reduce emissions of greenhouse gases could have an adverse effect on our business, financial condition, results of operations, and cash flows.

In addition, there has been public discussion that climate change may be associated with more extreme weather conditions, such as increased frequency and severity of storms, droughts, and floods. Extreme weather conditions can interfere with our development and production activities, increase our costs of operations or reduce the efficiency of our operations, and potentially increase costs for insurance coverage in the aftermath of such conditions. Significant physical effects of climate change could also have an indirect effect on our financing and operations by disrupting the transportation or process related services provided by midstream companies, service companies, or suppliers with whom we have a business relationship. We may not be able to recover through insurance some or any of the damages, losses, or costs that may result from potential physical effects of climate change.

Our estimated reserves are based on many assumptions that may turn out to be inaccurate. Any significant inaccuracies in these reserve estimates or underlying assumptions may materially affect the quantities and present value of our reserves.

This report contains estimates of our proved and probable reserves and the estimated future net revenues from our proved reserves. These estimates are based upon various assumptions, including assumptions required by the SEC relating to oil and gas prices, drilling and operating expenses, capital expenditures, taxes, and availability of funds. The process of estimating oil and gas reserves is complex. The process involves significant decisions and assumptions in the evaluation of available geological, geophysical, engineering, and economic data for each reservoir. Actual future production, oil and gas prices, revenues, taxes, development expenditures, operating expenses, and quantities of recoverable oil and gas reserves will most likely vary from these estimates. Any significant variation of any nature could materially affect the estimated quantities and present value of our proved reserves, and the actual quantities and present value may be significantly less than we have previously estimated. In addition, we may adjust estimates of proved reserves to reflect production history, results of

exploration and development drilling, prevailing oil and natural gas prices, costs to develop and operate properties, and other factors, many of which are beyond our control. Our properties may also be susceptible to hydrocarbon drainage from production by operators on adjacent properties. Probable reserves are less certain to be recovered than proved reserves.

The present value of future net cash flows from our proved reserves is not necessarily the same as the current market value of our estimated oil and natural gas reserves. We base the estimated discounted future net cash flows from our proved reserves on the average, first-day-of-the-month price during the 12-month period preceding the measurement date, in accordance with SEC rules. However, actual future net cash flows from our oil and natural gas properties also will be affected by factors such as:

- actual prices we receive for oil and natural gas;
- actual costs of development and production expenditures;
- the amount and timing of actual production;
- supply of and demand for oil and natural gas; and
- changes in governmental regulations or taxation, including severance and excise taxes.

The timing of production from oil and natural gas properties and of related expenses affects the timing of actual future net cash flows from proved reserves, and thus their actual present value. In addition, the 10% discount factor required by the SEC to be used to calculate discounted future net cash flows for reporting purposes may not be the most appropriate discount factor in view of actual interest rates, costs of capital, and other risks to which our business or the oil and natural gas industry in general are subject.

SEC rules could limit our ability to book additional proved undeveloped reserves in the future.

SEC rules require that, subject to limited exceptions, proved undeveloped reserves may only be booked if they relate to wells scheduled to be drilled within five years after the date of booking. This requirement may limit our ability to book additional proved undeveloped reserves as we pursue drilling programs on our undeveloped properties. In addition, we may be required to write down our proved undeveloped reserves if we do not drill the scheduled wells within the required five-year timeframe.

Substantial capital is required for our business.

Our exploration, development, and acquisition activities require substantial capital expenditures. Historically, we have funded our capital expenditures through a combination of cash flows from operations, farming-in other companies or investors to our exploration and development projects in which we have an interest, sales of non-core assets, and/or equity financings. Future cash flows are subject to a number of variables, such as the level of production from existing wells, prices for oil and natural gas, and our success in developing and producing new reserves. If revenues decrease as a result of lower oil or natural gas prices or decreased production, and our access to capital were limited, we would have a reduced ability to explore and develop our properties and replace our reserves. If our cash flows from operations are not sufficient to fund our planned capital expenditures, we must reduce our capital expenditures unless we can raise additional capital through debt, equity, or other financings or the divestment of assets. Debt or equity financing may not always be available to us in sufficient amounts or on acceptable terms, and the proceeds offered to us for potential divestitures may not always be of acceptable value to us.

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

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

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

We follow the successful efforts method of accounting for our oil and gas operations. Under this method, all property acquisition costs and costs of exploratory and development wells are capitalized when incurred, pending determination of whether proved reserves have been discovered. If proved reserves are not discovered with an exploratory well, the costs of drilling the well are expensed.

The capitalized costs of our oil and natural gas properties, on a depletion pool basis, cannot exceed the estimated undiscounted future net cash flows of that depletion pool. If net capitalized costs exceed undiscounted future net revenues, we generally must write down the costs of each depletion pool to the estimated discounted future net cash flows of that depletion pool. A significant decline in oil or natural gas prices from current levels, or other factors, could cause a future impairment write-down of capitalized costs and a non-cash charge against future earnings. Once incurred, a write-down of oil and natural gas properties cannot be reversed at a later date, even if oil or natural gas prices increase.

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

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

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

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

Weakness in economic conditions or uncertainty in financial markets may have material adverse impacts on our business that we cannot predict.

In recent years, the US, UK, Australian, and global economies and financial systems have experienced turmoil and upheaval characterized by extreme volatility and declines in prices of securities, diminished liquidity and credit availability, inability to access capital markets, the bankruptcy, failure, collapse, or sale of financial institutions, increased levels of unemployment, and an unprecedented level of government intervention. Although some portions of the economy appear to have stabilized and may be recovering, the extent and timing of a recovery, and whether it can be sustained, are uncertain. Renewed weakness in the US, UK, Australian, or other large economies could materially adversely affect our business, financial condition, results of operations, and cash flows. For example, purchasers of our oil and gas production may reduce the amounts of oil and gas they purchase from us and/or delay or be unable to make timely payments to us.

In addition, some of our oil and gas properties are operated by third parties that we depend on for timely performance of drilling and other contractual obligations and, in some cases, for distribution to us of our proportionate share of revenues from sales of oil and natural gas production. If weak economic conditions adversely impact our third party operators, we are exposed to the risk that drilling operations or revenue disbursements to us could be delayed or suspended.

We have limited control over the activities on properties we do not operate.

Some of the properties in which we have an ownership interest are operated by other companies. As a result, we have limited ability to exercise influence over, and control the risks associated with, the development and operation of those properties. The timing and success of drilling and development activities on those properties depend on a number of factors outside of our control, including the operator's:

- determination of the nature and timing of drilling and operational activities;
- determination of the timing and amount of capital expenditures;
- expertise and financial resources;
- approval of other participants in drilling wells; and
- selection of suitable technology.

The failure of an operator of our properties to adequately perform development and operational activities, an operator's breach of the applicable agreements, or an operator's failure to act in ways that are in our best interests could reduce our

production, revenues, and reserves, and have a material adverse effect on our financial condition, results of operations, and cash flows.

Currency exchange rate fluctuations may negatively affect our operating results.

The exchange rates between the US dollar and the British pound, as well as the exchange rates between the Australian dollar and the US dollar, have fluctuated in recent periods and may fluctuate substantially in the future. We expect that a majority of our revenues will be denominated in US dollars in the future. However, because of our UK development program, a portion of our expenses, including exploration costs and capital and operating expenditures, will continue to be denominated in British pounds. Accordingly, any material appreciation of the British pound against the US dollar could have a negative impact on our results of operations and financial condition. In addition, the strengthening of the US dollar against the Australian dollar in recent periods has had a negative impact on our prior revenues generated in the Australian dollar, as well as our operating income and net income on a consolidated basis. Our foreign exchange gain for the fiscal year ended June 30, 2014, was \$165 thousand and is included under general and administrative expenses in the consolidated statements of operations.

Proposed changes to US tax laws, if adopted, could have an adverse effect on our business, financial condition, results of operations, and cash flows.

The US President's Fiscal Year 2015 Budget Proposal includes recommendations that would, if enacted, make significant changes to US tax laws applicable to oil and natural gas exploration and production companies, and legislation has been introduced in the US Congress that would implement many of these proposals. These proposed changes include, but are not limited to:

- eliminating the current deduction for intangible drilling and development costs;
- eliminating the deduction for certain US production activities for oil and natural gas production;
- repealing the percentage depletion allowance for oil and natural gas properties; and
- extending the amortization period for certain geological and geophysical expenditures.

These proposed changes in the US tax laws, if adopted, or other similar changes that reduce or eliminate deductions currently available with respect to oil and natural gas exploration and development, could adversely affect our business, financial condition, results of operations, and cash flows.

One Stone has significant influence on our major corporate decisions, including veto power over some matters, and could take actions that could be adverse to other stockholders. In addition, One Stone has rights as a holder of preferred stock that are senior to, and could disadvantage, holders of our common stock.

In May 2013, we issued 19.2 million shares of Series A convertible preferred stock to an affiliate of One Stone for approximately \$23.5 million. Additional shares of Series A preferred stock have since been issued to the One Stone affiliate in payment of preferred stock dividends, and the One Stone affiliate held a total of 20.1 million shares of Series A preferred stock as of June 30, 2014, which represents approximately 31% of our outstanding common stock on an as-converted basis. The certificate of designations governing the Series A preferred stock provides the holder of such stock with certain rights relating to our business and management, including the right to appoint a specified number of members of our board of directors (currently two); the right to vote on an as-converted basis with our common stockholders on matters submitted to a stockholder vote; the right to veto certain corporate actions, including some related party transactions and changes to our capital budget; and the right to receive a cash payment providing it with a specified rate of return in the event of certain change of control transactions. As a result of the foregoing, One Stone has significant influence on our major corporate decisions, and matters requiring stockholder approval. The interests of One Stone may differ from the interests of our other stockholders in some circumstances, and the ability of One Stone to influence certain of our major corporate decisions may harm the market price of our common stock by delaying, deferring, or preventing transactions that are or are perceived to be in the best interest of other stockholders or by discouraging third-party investors. In addition, the Series A preferred stock is senior to our common stock in terms of the right to receive dividends and payments in the event of a liquidation. These preferences could disadvantage the holders of our common stock, and may make it more difficult for us to raise equity capital in the future.

Our interests in the United Kingdom are subject to licenses that could be forfeited if certain drilling requirements are not met.

We own certain interests in the UK that are subject to licenses issued by the Secretary of State for Energy and Climate Change under the UK Petroleum Act 1988. In order to retain the interests granted by the licenses, we are required to meet

certain drilling requirements. If these drilling requirements are not met or waived, the interests granted by the licenses would be forfeited.

Conservation measures and technological advances could reduce demand for oil and natural gas.

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices could reduce demand for oil and natural gas. The impact of changing demand for oil and natural gas may have a material adverse effect on our business, financial condition, results of operations, and cash flows.

RISKS RELATED TO OUR COMMON STOCK

The market price of our common stock may fluctuate significantly, which may result in losses for investors.

During the past several years, the stock markets in general and for oil and gas exploration and production companies in particular have experienced significant price and volume fluctuations that have often been unrelated or disproportionate to the operating results and asset values of the underlying companies. In addition, due to relatively low trading volumes for our common stock, the market price for our common stock may fluctuate significantly more than the markets as a whole. The market price of our common stock could fluctuate widely in response to a variety of factors, including factors beyond our control. These factors include:

- changes in crude oil or natural gas commodity prices;
- our quarterly or annual operating results;
- investment recommendations by securities analysts following our business or our industry;
- additions or departures of key personnel;
- changes in the business, earnings estimates, or market perceptions of comparable companies;
- changes in industry, general market, or regional or global economic conditions; and
- announcements of legislative or regulatory changes affecting our business or our industry.

Fluctuations in the market price of our common stock may be significant, and may result in declines in the market price and losses for investors.

We may issue a significant number of shares of common stock under outstanding stock options, future equity awards under our 2012 Omnibus Incentive Compensation Plan, and our outstanding Series A convertible preferred stock, and common stockholders may be adversely affected by the issuance and sale of those shares.

As of June 30, 2014, we had 10,492,291 stock options outstanding, of which 7,285,622 were fully vested and exercisable, and 20,089,436 shares of Series A convertible preferred stock outstanding. In addition, on July 1, 2014, we granted a total of 96,330 shares of common stock to non-employee directors under our 2012 Omnibus Incentive Compensation Plan, as annual equity awards pursuant to our compensation policy for non-employee directors. As of that date, there were 172,447 shares of common stock remaining available for future awards under that plan. If all of the 10,492,291 outstanding stock options, which have exercise prices ranging from \$0.79 to \$2.41 per share, are exercised, or the outstanding shares of Series A convertible preferred stock are converted, the shares of common stock issued would represent approximately 19% and 31%, respectively, of the outstanding common shares. Sales of those shares could adversely affect the market price of our common stock, even if our business is doing well.

If our common stock is delisted from the NASDAQ Capital Market, its liquidity and value could be reduced.

In order for us to maintain the listing of our shares of common stock on the NASDAQ Capital Market, the common stock must maintain a minimum bid price of \$1.00 as set forth in NASDAQ Marketplace Rule 5550(a)(2). If the closing bid price of the common stock is below \$1.00 for 30 consecutive trading days, which occurred in October-November 2012, then the closing bid price of the common stock must be \$1.00 or more for 10 consecutive trading days during a 180-day grace period to regain compliance with the rule, which occurred in January 2013. On September 8, 2014, the closing market price of our common stock was \$1.93 per share, but the closing market price of our common stock was as low as \$1.02 on certain trading days in 2014 and below \$1.00 on certain trading days in 2013. If our common stock is delisted from trading on the NASDAQ Capital Market, it may be eligible for trading on the OTCQB, but the delisting of our common stock from NASDAQ could adversely impact the liquidity and value of our common stock.

We do not intend to pay cash dividends on our common stock in the foreseeable future, and therefore only appreciation of the price of our common stock will provide a return to our common stockholders.

Subject to the satisfaction of the dividend rights of our Series A convertible preferred stock, which provide for a dividend equivalent of 7% per annum on the issue price plus any accumulated unpaid dividends, payable in the form of cash, in kind (in the form of additional shares of Series A preferred stock), or a combination thereof (at our option), we currently anticipate that we will retain future earnings, if any, to reduce our accumulated deficit and finance the growth and development of our business. The Series A preferred stock ranks senior to the common stock with respect to dividends and other rights, and we do not intend to pay cash dividends on our common stock in the foreseeable future. Any future determination as to the declaration and payment of cash dividends on our common stock will be at the discretion of our board of directors and will depend upon our financial condition, results of operations, contractual restrictions, capital requirements, business prospects, and any other factors that our board determines to be relevant. As a result, only appreciation of the price of our common stock, which may not occur, will provide a return to our common stockholders.

Our largest stockholder beneficially owns a significant percentage of our common stock, and its interests may conflict with those of our other stockholders.

One Stone Holdings II LP owns 20,089,436 shares of our Series A convertible preferred stock, and thereby currently beneficially owns approximately 31% of our common stock, assuming full conversion of the Series A preferred stock. The Series A preferred stock is entitled to vote on an as-converted basis with the common stock. In addition, two individuals affiliated with One Stone serve on our seven-member board of directors. As a result, One Stone is able to exercise significant influence over matters requiring stockholder approval, including the election of directors, changes to our organizational documents, and significant corporate transactions. Further, for so long as One Stone owns at least 10% of the fully diluted common stock, assuming full conversion of the Series A preferred stock, One Stone will hold veto rights with respect to capital expenditures greater than \$15.0 million that are not provided for in the then-current annual budget, changes in our principal line of business, an increase in the size of our board to more than 12 members, and certain other matters.

The concentration of ownership and voting power with One Stone may make it difficult for any other holder or group of holders of our common stock to be able to significantly influence the way we are managed or the direction of our business. The interests of One Stone with respect to matters potentially or actually involving or affecting us, such as future acquisitions, financings, and other corporate opportunities, and attempts to acquire us, may conflict with the interests of our other stockholders. This concentration of ownership may make it difficult for another company to acquire us and for stockholders to receive any related takeover premium unless One Stone approves the acquisition.

Provisions in our charter documents and Delaware law make it more difficult to effect a change in control of our company, which could prevent stockholders from receiving a takeover premium on their investment.

We are a Delaware corporation, and the anti-takeover provisions of Delaware law impose various barriers to the ability of a third party to acquire control of us, even if a change of control would be attractive to our existing stockholders. In addition, our certificate of incorporation and by-laws contain several provisions that may make it more difficult for a third party to acquire control of us without the approval of our board of directors. These provisions may make it more difficult or expensive for a third party to acquire a majority of our outstanding common stock. Among other things, these provisions:

- authorize us to issue preferred stock that can be created and issued by the board of directors without prior stockholder approval, with rights senior to those of the common stock;
- classify our board of directors so that only some of our directors are elected each year;
- prohibit stockholders from calling special meetings of stockholders; and
- establish advance notice requirements for submitting nominations for election to the board of directors and for proposing matters that can be acted upon by stockholders at a meeting.

These provisions also may delay, prevent, or deter a merger, acquisition, tender offer, proxy contest, or other transaction that might otherwise result in our stockholders receiving a premium over the market price of their common stock.

ITEM 1B: UNRESOLVED STAFF COMMENTS

None.

ITEM 3: LEGAL PROCEEDINGS

We may be involved from time to time in legal proceedings relating to disputes or claims arising out of our operations in the normal course of business. As of the filing date of this report, there are no pending legal proceedings that we believe could have a material adverse effect on our financial condition, results of operations, or cash flows.

ITEM 4: MINE SAFETY DISCLOSURES

Not applicable.

PART II**ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES****PRINCIPAL MARKET**

Magellan's common stock is traded on the NASDAQ Capital Market under the symbol **MPET**. The below table presents the quarterly high and low intraday prices during the periods indicated.

Quarter ended	High	Low
June 30, 2014	\$2.52	\$1.40
March 31, 2014	\$1.54	\$1.02
December 31, 2013	\$1.13	\$1.01
September 30, 2013	\$1.14	\$0.99
June 30, 2013	\$1.19	\$0.97
March 31, 2013	\$1.33	\$0.86
December 31, 2012	\$1.06	\$0.74
September 30, 2012	\$1.63	\$0.91

HOLDERS

As of September 8, 2014, the number of record holders of Magellan's common stock was 4,400 and, based upon inquiry, the number of beneficial owners was approximately 6,100.

FREQUENCY AND AMOUNT OF DIVIDENDS

Magellan has never paid a cash dividend on its common stock. The Company does not intend to pay cash dividends on its common stock in the foreseeable future.

ISSUER PURCHASES OF EQUITY SECURITIES

The below table provides information about purchases of the Company's common stock by the Company during the periods indicated.

The payment of dividends on our common stock is subject to the rights of holders of our Series A preferred stock, which ranks senior to the common stock with respect to dividend rights. For additional information see Note 10 to the consolidated financial statements included in this Form 10-K.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced program	Maximum value of shares that may yet be purchased under the program
April 1, 2014 - April 30, 2014	—	\$ —	—	\$ 1,863,022
May 1, 2014 - May 31, 2014	—	\$ —	—	\$ 1,863,022
June 1, 2014 - June 30, 2014	—	\$ —	—	\$ 1,863,022
Total	—	\$ —	—	\$ 1,863,022

On September 24, 2012, the Company announced that its Board of Directors had approved a stock repurchase program whereby the Company was authorized to repurchase up to a total of \$2.0 million in shares of its common stock. This authorization superseded the prior plan announced on December 8, 2000, and expired on August 21, 2014.

During Fiscal year 2013, the Company repurchased 149,539 shares of its common stock under the stock repurchase program between November 2012 and February 2013, and 9,264,637 shares of its common stock through a Collateral Agreement (see Note 11 to the consolidated financial statements included in this Form 10-K). During this period, the Company's share price was below \$1.00 per share. No further repurchases of the Company's common stock have occurred since.

ITEM 6: SELECTED FINANCIAL DATA

The Company is a smaller reporting company, as defined by 17 CFR § 229.10(f)(1), and therefore is not required to provide the information otherwise required by this Item.

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

The following discussion and analysis presents management's perspective of our business, financial condition, and overall performance. This information is intended to provide investors with an understanding of our past performance, current financial condition, and outlook for the future, and should be read in conjunction with *Items 1 and 2: Business and Properties* and *Item 8: Financial Statements and Supplementary Data* of this Form 10-K. Amounts expressed in British pounds sterling are indicated as "GBP" and in Australian dollars as "AUD".

Forward looking statements are not guarantees of future performance, and our actual results may differ significantly from the results expressed or implied in the forward looking statements. See "Forward Looking Statements" at the end of this section. Factors that might cause such differences include, but are not limited to, those discussed in *Item 1A: Risk Factors* of this Form 10-K. We assume no obligation to revise or update any forward looking statements for any reason, except as required by law.

OVERVIEW

During fiscal year 2014, the Company achieved a number of key milestones in the strategy of creating value from our existing assets. Through the rationalization of non-core assets in Australia and the implementation of key projects, the Company now believes it is sufficiently capitalized to confirm the value potential of its core assets during fiscal year 2015.

In March 2014, the Company significantly increased its financial stability and streamlined the Company's operations through the sale of its Amadeus Basin gas fields to Central. Through this transaction, we were able to convert a non-core asset into liquid proceeds that can be redeployed on our core projects in the US and UK. In addition, this sale created numerous other benefits for us, including an 11% ownership stake in Central, the opportunity for substantial G&A savings with the closing of our Brisbane office, and a simpler focus and strategy for the Company. Soon after the sale, we also began efforts to farmout our Australian offshore block, NT/P82, which we expect to complete during fiscal year 2015. By moving into a non-operated position in this block through a farmout, we hope to significantly reduce or eliminate further capital commitments and dedication of management resources with respect to Australia, leaving us able to fully focus on Poplar in the US and the Weald Basin in the UK.

At Poplar, we committed our efforts throughout the entire fiscal year to the development of the CO₂-EOR pilot. The Company permitted the pilot wells, secured a contract for CO₂ supply during the pilot phase, drilled and completed five wells and installed surface facilities, and began the injection phase of the pilot program in March 2014. After addressing certain technical issues with the pilot and adjusting our well completion program to improve expected results, the CO₂-EOR pilot is now fully underway. We believe that data gathered during the early stages of the pilot through the date hereof support our thesis that CO₂-EOR development is both technically and economically feasible at Poplar. We look forward to further corroborating this position over the course of fiscal year 2015.

In the UK, during fiscal year 2014 the Company continued its strategy of pursuing unconventional development in the central Weald while finding partners to develop conventional prospects on the periphery of the basin. During the year, Magellan and its partner Celtique obtained a key extension to its central Weald licenses from June 2014 to June 2016. This extension will grant sufficient time to further establish the potential of the unconventional prospects of these licenses and to allow the surrounding political process and social environment to unfold. During the same period, Magellan and its partner Celtique advanced plans to drill a first exploratory well in the central Weald, which is expected to be spud at Broadford Bridge. Outside of the central Weald, we executed a farmout of the Horse Hill prospect, a conventional gas target, to Angus Energy ("Angus"). Pursuant to the terms of the farmout, Angus is obligated to fund 100% of the cost of drilling a vertical exploratory well in order to earn a 65% working interest in, and operatorship of, the license. This agreement allows Magellan to maintain exposure to this conventional play while limiting our investment of capital and management resources.

SIGNIFICANT DEVELOPMENTS IN FISCAL YEAR 2014

During fiscal year 2014, the Company achieved a number of key milestones in the strategy of creating value from our existing assets.

Portfolio rationalization and funding of core projects

On March 31, 2014 (the "Central Closing Date"), pursuant to the Share Sale and Purchase Deed (the "Sale Deed") dated February 17, 2014 (the "Execution Date"), the Company sold its Amadeus Basin assets, the Palm Valley and Dingo gas fields ("Palm Valley" and "Dingo," respectively), to Central through the sale of the Company's wholly owned subsidiary, Magellan Petroleum (N.T.) Pty. Ltd, to Central's wholly owned subsidiary Central Petroleum PV Pty. Ltd ("Central PV"). In exchange for the assets, Central paid to Magellan cash in the total amount of AUD \$20.0 million, paid in two installments of AUD \$15.0 million and AUD \$5.0 million on March 31, 2014, and April 15, 2014, respectively, and 39.5 million newly issued shares of Central stock, worth AUD \$15.0 million as determined on the Execution Date, equivalent to an approximate 11% ownership interest in Central as of the Central Closing Date. Magellan is currently Central's single largest shareholder. Based on the Central closing price on September 5, 2014, these shares of stock represent a total value of AUD \$12.2 million, or an AUD \$2.8 million decrease over the issuance value on the Execution Date. In addition, Magellan is entitled to receive bonus payments from Central in the event that future gas sales revenues from Palm Valley exceed certain levels. The Company also maintained its right to the Mereenie Bonus, which it received as part of the asset swap agreement with Santos QNT Pty Ltd ("Santos") in September 2011, and which entitles the Company to potential total cash payments ranging from AUD \$5.0 million to AUD \$17.0 million based on certain gas sales thresholds at Mereenie.

This transaction represents a major step in the rationalization of the Company's non-core assets. Furthermore, the Company expects that the consideration from the transaction, including the consideration received in the form of shares of Central's common stock, combined with the Company's previous cash balances provide the Company with sufficient funds to complete the CO₂-EOR pilot project at Poplar, to participate in the drilling of its first exploratory wells in the UK, and to finance its ongoing operations. By selling Dingo, the Company avoided the need to finance an AUD \$20.0 million development, including necessary gas transportation facilities, which would have rendered the Australian operations cash flow negative over the next five years. The Company has also been able to close its Brisbane, Australia office, which is expected to reduce consolidated general and administrative expenses by approximately \$2.0 million to \$3.0 million per year and bring the Company closer to operating cash flow break-even levels. In addition, the 11% ownership stake in Central should allow the Company to maintain broader exposure to the Amadeus Basin through a player who controls most of the basin's acreage through farmouts to significant operators and represents an attractive investment opportunity with significant value appreciation potential.

For a summary of the key terms of the Sale Deed and further information on the Amadeus Basin Sale, please see the Company's Current Reports on Form 8-K filed with the SEC on February 18, 2014, and March 31, 2014.

Poplar CO₂-EOR pilot project

Fiscal year 2014 was a pivotal year for CO₂-EOR development at Poplar, during which period the Company finalized plans for, drilled five wells and installed the facilities for, and then began, the pilot program. In July 2013, the Company signed an approximate two-year CO₂ supply contract with Air Liquide for the purchase of CO₂ volumes necessary to complete the CO₂-EOR pilot project. In August 2013, the Company obtained permits from the US Bureau of Land Management to drill the five wells necessary for the pilot project. Between September and December 2013, the Company drilled all five pilot wells to total depth of approximately 5,800 feet. From January to March 2014, the Company completed and tested the wells and installed necessary surface facilities and CO₂ injection equipment. During this period, the Company collected various cores and logs, which contributed to a more refined 3-D reservoir model of the Charles formation at Poplar and will in turn improve our analysis of the performance of the CO₂-EOR pilot. At the end of March 2014, the Company began injecting CO₂ through the injection well, marking the beginning of the injection phase of the pilot. Between March and April 2014, the Company monitored and conducted preliminary tests of the effectiveness of CO₂ injection into the Charles formation. Between May and August 2014, the Company paused CO₂ injection in order to (i) resolve issues that were identified with the cementing of the wells, (ii) amend and simplify the completion equipment design of the wells to address certain technical issues with packers and improve the overall reliability of the completion equipment, and (iii) perform water shut-off treatments on all of the pilot wells. Water shut-off treatments conducted in the pilot wells are identical to the treatments generally performed in other wells at Poplar and require approximately one month to complete. Their purpose is to enhance the amount of CO₂ injected in the reservoir matrix through the injection well and to block water production from fractures in the producer wells and enhance the amount of oil produced from the reservoir. In late August 2014, the Company began CO₂ injection once again.

Based on the work completed to date, the Company has not identified any technical issues that would jeopardize the viability of CO₂-EOR at Poplar. Although results to date are very preliminary, the Company has already acquired critical data points that indicate that CO₂-EOR at Poplar could be technically viable. Initial CO₂ injection resulted in the relatively quick increase in down-hole pressures in the injector well bore to levels necessary, as determined by Core Labs in 2012, for the miscibility of CO₂ and oil at Poplar. This pressuring up indicated that CO₂ injection did not encounter a breakthrough, commonly called a "thief zone", through which CO₂ can by-pass the reservoir and thereby reduce the efficacy of the CO₂ in sweeping oil from the reservoir. Moreover, achieving miscibility pressure is essential for CO₂-EOR to be effective, and the ability to reach miscibility pressures relatively quickly implies that CO₂-EOR could be economically feasible at Poplar.

The Company has not yet opened the production wells. Once open, the primary production from these wells will provide a baseline against which we can measure the impact on production of CO₂ injection.

UK - Central Weald Licenses

During fiscal year 2014, the Company obtained a key extension to its central Weald licenses (PEDLs 231, 234, and 243), which it co-owns equally with Celtique Energie Holdings Ltd ("Celtique"). This extension should allow the Company sufficient time to establish the unconventional prospects in these licenses. Also during the period, Magellan and Celtique advanced plans to drill a first exploratory well on a conventional prospect at Broadford Bridge, located within the license area of PEDL 234, by the end of the second quarter of fiscal year 2015 depending on the finalization of the permitting process and rig availability.

In May 2014, the British Geological Survey ("BGS"), in association with the UK Department of Energy and Climate Change ("DECC"), publicly released a report (the "BGS Report") on the Jurassic shale formations in the Weald Basin. Maps presented in the BGS Report illustrate that the three licenses co-owned by Magellan cover most of the area prospective for unconventional development in the Weald Basin. In addition, tight conventional formations present between the thick shale packages of the Jurassic and Cretaceous sections may be prospective for development. These formations were previously tested with encouraging results by Cuadrilla at the Balcombe-1 well, which offsets Magellan's central Weald licenses to the east.

UK - Peripheral Weald Licenses

During fiscal year 2014, the Company executed a farmout of PEDLs 137 and 246, which contain the Horse Hill prospect, to Angus Energy ("Angus"), a privately owned UK based exploration and development company. Pursuant to the terms of the farmout, Angus is obligated to fund 100% of the cost of drilling a vertical exploratory well in order to earn a 65% working interest in, and operatorship of, the license. The Horse Hill prospect was identified on 2-D seismic data reprocessed by the Company. The conventional hydrocarbon prospect, which is Triassic in age, is approximately 10,000 feet deep and is expected to primarily contain gas. Angus spud the Horse Hill-1 exploratory well in August 2014, and, as of the date hereof, the drilling of this well is ongoing. During the drilling of the Horse Hill-1 well, logs and cores are planned to be collected from the Kimmeridge and Liassic formations, which constitute the main potential unconventional formations in the Weald Basin and will contribute to the Company's overall understanding of the potential for unconventional development in the Weald Basin.

During the fiscal year, the Company also rationalized the portfolio of other licenses in which it owns interests on the periphery of the Weald Basin. Effective from March 2014, the Company, together with its partners in the respective licenses, relinquished PEDLs 155 and 256 due to a determination of limited development prospectivity within the license areas, and PEDL 240, which was located on the Isle of Wight, due to inability to secure a suitable drill site. In June 2014, PEDL 232, co-owned equally by Magellan and Celtique, was relinquished several weeks prior to its expiration date of June 30, 2014. The Company did not believe these licenses contained material hydrocarbon resources and did not consider them core to its UK strategy. The Company does not face abandonment or restoration liabilities with respect to these licenses.

With respect to PEDL 126, which contains the Markwells Wood-1 well, during fiscal year 2014 the Company and its partners contracted Schlumberger to undertake a study of the unconventional resource potential of the license area. This study indicated that the area is probably immature for oil or gas generation and therefore unlikely to have unconventional shale oil or gas potential. This finding was consistent with the Company's understanding of the geology of the Basin.

Following the study, the joint venture reached an agreement with the DECC to relinquish all of the license area except for 11.2 square kilometers (2,768 acres) around and including the Markwells Wood-1 well bore in exchange for an extension of the exploration term by one year to June 30, 2015. During fiscal year 2015, the Company and its partners plan to evaluate the sale or farmout of the remaining license area to a third party on the basis of the relatively small conventional reservoir contained therein and the potential value of the wellbore to a third party. If the Company and its partners are unable to sell or farmout PEDL 126, the Company may face a plugging and abandonment liability of approximately \$394 thousand net to its interest.

OUTLOOK FOR FISCAL YEAR 2015

During fiscal year 2015, Magellan intends to continue executing on its strategy of proving the potential of its existing assets. The Company will be particularly focused on the following projects:

- progressing the CO₂-EOR pilot project at Poplar to such a point that the Company will be able to assess the technical and economic viability of a full CO₂-EOR program at the field;
- drilling one and possibly two wells in the UK to evaluate the potential of the various conventional and unconventional formations in our licenses there; and
- executing a farmout of NT/P82 to a partner qualified in offshore drilling that will result in the drilling of at least one test well over the license area by May 2016.

The Company believes that each of these projects has significant potential that, if realized, could materially impact the Company's reserves and the underlying net asset value per share and eventually allow the Company to generate positive cash flow from operations and raise financing on attractive terms. Specific steps and milestones for each of these key areas are discussed below. By pursuing these courses of action in parallel, the Company expects that, over the next 12 months, it will be able to validate the value potential of these assets and will be able to determine the most appropriate course of action with respect to each asset to achieve the best value for its shareholders.

CO₂-EOR Pilot Project

During fiscal year 2015, the Company will continue to conduct the CO₂-EOR pilot at Poplar with the objective of obtaining meaningful preliminary results in the third quarter of fiscal year 2015. Following implementation of improvements in well completion design and surface facility injection systems and the re-initiation of CO₂ injection during the summer of 2014, CO₂ injection is expected to be continuous over the coming months. The Company will also soon open for production the four pilot producer wells. Once open, the primary production from these wells will provide a baseline against which we can measure the impact on production of CO₂ injection. Over the upcoming months, the Company will be continuously monitoring key data in real-time, including CO₂ injection pressures, volumes, and rates, and production from the producer wells. The Company will then integrate this data into its 3-D reservoir model to enhance its interpretation of the reservoir and its understanding of the efficacy of CO₂-EOR at Poplar.

With these results, and with additional data from the pilot to be received over the remainder of the fiscal year, the Company anticipates that it will be able to quantify with greater certainty the incremental volume of oil that could be recoverable from Poplar through the use of CO₂-EOR techniques, and the corresponding increase in the quantity of reserves the Company can record with respect to CO₂-EOR.

UK - Central Weald Licenses

In fiscal year 2015, the Company will work with its partner, Celtique, to spud the Broadford Bridge-1 well, the first exploratory well in the Central Weald licenses. The Broadford Bridge-1 well is designed and permitted to test a conventional prospect in a Triassic-age formation, similar to the prospect targeted at Horse Hill. The Company and its partner Celtique also intend to collect logs and cores, where appropriate, from the Kimmeridge and Liaissic formations, which hold potential for unconventional development. According to an agreement with the DECC, this well, which is located within the license area of PEDL 234, will satisfy the drilling obligations for both PEDLs 234 and 243. Currently, the process of obtaining relevant regulatory and planning permissions is substantially complete, and the timing of spudding this well will depend primarily on rig availability. Currently, the Company expects the well to be spud late in the second or early in the third quarter of fiscal year 2015.

In parallel, the Company will continue efforts with Celtique to permit additional drilling locations within the Central Weald licenses. The Company expects that it can permit well sites successfully such that it can meet its drilling obligations for these licenses within the required time frame of before June 30, 2016. Although the UK regulatory and permitting process can be challenging, particularly with respect to locally granted permits, the UK government has made significant efforts to improve the efficiency of such processes with various proposed changes to incentive schemes, regulatory processes, and laws relevant to onshore unconventional oil and gas development. The Company expects that such proposed changes will become effective during fiscal year 2015.

During fiscal year 2015, there are a number of wells scheduled to be drilled onshore in the UK by other industry players, some of which will be hydraulically fractured. As these various new wells are permitted and drilled, the Company expects that the permitting and regulatory processes will become smoother and more efficient.

UK - Peripheral Weald Licenses

On September 3, 2014, Angus commenced drilling operations on the Horse Hill-1 well. The well is expected to be drilled to a depth of approximately 8,700 feet and to test a number of Jurassic-aged conventional stacked oil formations, including the Portland Sandstone, Corallian Sandstone, and Great Oolite formations, and a Triassic-aged conventional gas target. The well will be drilled vertically and will not be hydraulically fractured. The Horse Hill-1 well lies within the license area of PEDL 137. Pursuant to a farmout agreement executed in December 2013, Horse Hill Development Limited, a majority-owned subsidiary of Angus Energy, will carry Magellan for its share of the costs of this well in exchange for having received operatorship of, and a 65% interest in, both the well and the license.

During drilling, Magellan will have the opportunity to core and log at its own expense several shale and tight formations in the Cretaceous and Jurassic sections, including the Kimmeridge Clay and Liassic formations. The Company expects that the information gained through these activities will provide valuable insights into the technical and economic viability of unconventional development elsewhere in the Weald Basin.

With respect to the Company's interests in its two other licenses on the periphery of the Weald Basin, P1916 and PEDL 126, the Company currently has no plans to pursue exploration or drilling activities. The Company does not believe that a suitable drilling location can be permitted for P1916. As such, the Company is considering, together with its joint venture partners, the relinquishment of this license. During fiscal year 2015, the Company and its partners in PEDL 126 will evaluate the sale or farmout of the remaining license area to a third party on the basis of the relatively small conventional reservoir contained therein.

During fiscal year 2015, the UK government will hold the 14th Annual Landward Licensing Round, through which companies will be able to apply for various oil and gas exploration permits onshore in the UK. Magellan does not intend to participate in this round, since we believe that our central Weald licenses cover substantially all of Weald Basin's acreage prospective for unconventional development, and we have not identified attractive conventional targets in other areas.

NT/P82, Offshore Australia

Based on the results of 2-D and 3-D seismic interpretation completed in fiscal year 2014, the Company began a process in the fourth quarter of fiscal year 2014 to identify a farmout partner experienced in offshore drilling. In completing a farmout, the Company expects to relinquish a portion of its working interest in, and operatorship of, NT/P82, in exchange for a commitment from the partner to drill exploration wells by May 2016 over the large gas prospects identified in the block. Given the high level of offshore drilling activity in the Bonaparte Basin, the network of installed gas infrastructure in the relative vicinity of our block, and the relatively shallow depths of water in the license, the Company believes it is well positioned to successfully execute a farmout agreement during fiscal year 2015.

SUMMARY RESULTS OF OPERATIONS FOR THE YEAR ENDED JUNE 30, 2014

As a result of the sale of the Amadeus Basin assets in March 2014, results of operations related to these assets have been reclassified as discontinued operations. Accordingly, the revenue and adjusted EBITDAX figures presented immediately below for fiscal years 2013 and 2014 exclude the impact of these assets on such figures.

Revenues. Revenues for the year ended June 30, 2014, totaled \$7.6 million, compared to \$6.1 million in the prior year, an increase of 24%. The \$1.5 million increase in revenue over the prior year was primarily due to both an increase in production volumes (\$1.2 million) resulting from the favorable impact of workovers and water shut-off treatments on several wells during the year, and an increase in WTI benchmark pricing (\$0.7 million), which increases were partially offset by a decrease in the pricing differential realized at Poplar (\$0.4 million).

Net Income and Earnings per Share. Net income totaled \$13.8 million (\$0.30/basic share), compared to a net loss of \$20.5 million (\$0.41/basic share) in the prior year. The increase in net income was primarily the result of a gain on sale of assets of \$30.0 million recognized as a result of the sale of the Amadeus Basin assets in March 2014.

Adjusted EBITDAX. Adjusted EBITDAX (see *Non-GAAP Financial Measures and Reconciliation* under Part 1, Items 1 and 2: *Business and Properties*) totaled negative \$5.6 million, compared to negative \$7.5 million in the prior year, a change of 26%. The improvement in Adjusted EBITDAX resulted from an increase in revenues of \$1.5 million and a reduction in general

and administrative expense (excluding stock based compensation and foreign transaction loss) of \$1.9 million, partially offset by an increase in lease operating expense of \$1.4 million.

Cash. As of June 30, 2014, Magellan had \$16.4 million in cash and cash equivalents, compared to \$32.5 million at the end of the prior fiscal year. The decrease of \$16.0 million was the result of net cash used in operating activities of \$11.7 million, net cash used in investing activities of \$2.4 million, net cash used in financing activities of \$0.7 million, and net cash used in discontinued operations of \$1.4 million, offset by a \$0.1 million increase in cash from the effect of exchange rates. The \$2.4 million of net cash used in investing activities was the result of \$20.9 million of capital expenditures primarily relating to the CO₂-EOR pilot at Poplar, partially offset by \$18.6 million in proceeds from the sale of the Company's Amadeus Basin assets.

Securities available-for-sale. As of June 30, 2014, Magellan had \$11.9 million in securities available for sale, consisting primarily of the Company's investment in the shares of Central stock. The Company faces no restrictions other than insider trading restrictions relevant to this stock and can liquidate a portion or all of these shares if needed to fund its other projects or obligations.

CONSOLIDATED LIQUIDITY AND CAPITAL RESOURCES

Historically, we have funded our activities from cash from operations, asset sales, farmout agreements, an issuance of preferred equity, and our existing cash balance. Based on (i) our existing cash position, including the cash received from the sale of the Company's Amadeus Basin assets in fiscal year 2014; (ii) the flexibility in the implementation and timing of various operational projects; (iii) the ability to implement and/or raise additional funds from farmout transactions and/or partial or complete sales of certain of our international assets; and (iv) the potential to raise funds from debt and equity financings; the Company believes it has sufficient financial resources to fund its ongoing operations and its exploration projects, including the remainder of the CO₂-EOR pilot project and the participation in the drilling of exploratory wells in the UK.

Uses of Funds

Capital Expenditure Plans. At Poplar, the Company does not face significant mandatory capital expenditure requirements to maintain its acreage position. Substantially all of the leases are held by production and contain producing wells with reserves adequate to sustain multi-year production. Approximately 80% of the acreage has been unitized as a federal exploratory unit, which is held by economic production from any one well in the unit. Currently, Poplar contains 34 productive wells. In the Shallow Intervals, which are 100% owned and operated by the Company, discretionary capital expenditure plans over the next two years will be determined primarily by the results of the CO₂-EOR pilot project, which is expected to continue through December 2015. The total cost of the CO₂-EOR pilot, including capital expenditures and certain operating expenses, is estimated at approximately \$26.0 million, which amount includes approximately \$4.0 million related to the cost of purchasing sufficient volumes of CO₂ over a two year period. As of June 30, 2014, the Company has incurred approximately \$19.1 million in relation to the CO₂-EOR pilot and expects that, in total, a further \$6.9 million will be required to both complete all the wells (approximately \$2.9 million) and inject sufficient volumes of CO₂ (approximately \$4.0 million). The final cost of the injected volumes of CO₂ will depend on the total amount injected. Additionally, the Company will incur capital expenditures related to water shut-off treatments, workovers and drilling of certain newly identified PUD locations.

In the Deep Intervals, which are operated by the Company and in which the Company has a working interest of 50% in the majority of the leases, the Company does not intend to incur material capital expenditures in fiscal year 2015.

In the UK, the Company's interests are governed by various PEDLs and one Seaward Production License. PEDLs 231, 234, and 243, which the Company co-owns equally with Celtique, are subject to "drill-or-drop" obligations with a deadline of June 2016. The Company is currently focused on securing potential drilling locations, applying for drilling permits, preparing to drill the Broadford Bridge-1 well, and evaluating the potential of its unconventional prospects in these licenses. The Company expects to fund its share of the cost related to the Broadford Bridge-1 well, currently estimated to be approximately \$5.0 million. The Company is also considering other options to fund its share of the drilling cost of the Broadford Bridge-1 well, which include a potential partial or full farmout transaction. This well will meet the drill-or-drop obligations for both PEDLs 234 and 243. Pending the results of this well, the Company may participate in a second exploratory well within these PEDLs in fiscal year 2016.

In the Bonaparte Basin, offshore Australia, the Company holds a 100% interest in NT/P82. Under the terms of the permit, the Company is required to drill one exploratory well on the license by May 2016. Following the successful completion of seismic surveys in the license area and the associated processing and interpretation, the Company is actively engaged in a farmout process to identify a partner experienced in offshore exploratory drilling to drill at least one exploratory well on our

behalf. The Company does not expect to incur further significant capital expenditures of its own until after the first exploration well has been drilled.

Series A preferred dividend. Based on the Series A Preferred Stock shares outstanding at June 30, 2014, and assuming that the Company will elect to pay in cash the dividend that holders of Series A preferred stock are entitled to, the total amount of the dividend for fiscal year ending June 30, 2015, is estimated to amount to approximately \$1.7 million. As long as the Company's share price is materially higher than the Conversion Price of \$1.22149381, the Company intends to pay the preferred dividend in cash. The Company may decide to issue shares of common stock to finance the dividend, which would represent a positive arbitrage between the Conversion Price and the issuance price of the newly issued common shares.

Discontinued Operations. As a result of the sale of the Amadeus Basin Assets, the Company will be able to avoid development costs at Dingo of approximately AUD \$20.0 million, including necessary gas transportation facilities, which would have rendered the Australian operations cash flow negative over the next five years. In addition, the closing of the Brisbane office in April 2014 should result in reduced consolidated general and administrative expenditures of approximately \$2.0 million to \$3.0 million per year.

Contractual Obligations. The following table summarizes our obligations and commitments as of June 30, 2014, to make future payments under certain contracts, aggregated by category of contractual obligation, for specified time periods as follows:

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(In thousands)				
Asset retirement obligations	\$ 2,873	\$ 397	\$ —	\$ —	\$ 2,476
Contingent consideration payable ⁽¹⁾	1,852	—	1,852	—	—
Operating leases	893	262	541	90	—
Total	<u>\$ 5,618</u>	<u>\$ 659</u>	<u>\$ 2,393</u>	<u>\$ 90</u>	<u>\$ 2,476</u>

⁽¹⁾ Assumptions for the timing of these payments are based on our reserve report and planned drilling activity.

Share Repurchase Program. On September 24, 2012, the Company announced that its Board of Directors had approved a stock repurchase program whereby the Company was authorized to repurchase up to a total of \$2.0 million in shares of its common stock. As of June 30, 2014, \$1.9 million remained authorized for stock repurchases under this program. This program expired on August 21, 2014. See Issuer Purchases of Equity Securities under *Part II, Item 5* of this report for additional information.

Sources of Funds

Cash and Cash Equivalents. On a consolidated basis, the Company had approximately \$16.4 million of cash and cash equivalents at June 30, 2014, compared to \$32.5 million as of June 30, 2013. As of June 30, 2014, \$4.3 million and \$1.9 million of the Company's consolidated cash and cash equivalents were deposited in accounts held by MPUK and MPA, respectively, all of which was held in bank accounts and time deposit accounts having terms of 90 days or less. During fiscal year 2014, the Company repatriated approximately \$11.1 million in the form of distributions from MPA to MPC at a weighted average AUD:USD exchange rate of 0.9361. These distributions are not expected to result in any cash tax expenditures. 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 changes in interest rates.

Due to the international nature of its operations, the Company is exposed to certain legal and tax constraints in matching the capital needs of its assets and its cash resources. To the extent that the Company repatriates cash amounts from MPA to the US, the Company is potentially liable for incremental US Federal and State Income Tax, which may be reduced by the US Federal and State net operating loss and foreign tax credit carry forwards available to the Company at that time.

Existing Credit Facilities. As of June 30, 2014, the Company had no outstanding borrowings and had no undrawn credit facilities. The Company, through its wholly owned subsidiary NP, maintained a credit facility with Jonah Bank of Wyoming through June 2014. As of June 30, 2014, the facility had been repaid in full and canceled according to its term of expiry. On September 17, 2014, the Company entered into a Line of Credit facility with West Texas State Bank, which allows the Company to borrow up to \$8.0 million at a floating interest rate equivalent to Prime, which is currently 3.25%. This facility will give the Company the ability to finance some of its activity at Poplar, including the implementation of water shut-off treatments on certain wells.

Central Shares. Based on the Company's current balance sheet position, the expected costs of its current projects, and the potential value appreciation of Central's shares, the Company currently intends to continue holding its position in Central's stock. The Company is not constrained in its ability to sell its shares in Central by contractual arrangements with Central. In the future, Magellan may decide to dispose of part or all of its position in Central's stock to fund some of the Company's activities. Based on the Central closing price on September 5, 2014, these shares of stock represent a total value of AUD \$12.2 million, or an AUD \$2.8 million decrease over the issuance value on the Execution Date.

Other Sources of Financing. In addition to its existing liquid capital resources the Company has various alternatives to fund the development of its assets. These alternatives could potentially include conventional bank debt, a reserve-based loan facility, a project finance loan facility, mezzanine financing from a bank and the alternative investment markets, equity issuances via a PIPE or secondary offering, and a partial or complete divestiture or farmout of a portion of the development program of some of the Company's assets.

Cash Flows

The following table presents the Company's cash flow information for the fiscal years ended:

	June 30,	
	2014	2013
	(In thousands)	
Cash (used in) provided by:		
Operating activities	\$ (11,668)	\$ (17,265)
Investing activities	(2,369)	(2,732)
Financing activities	(680)	12,357
Discontinued operations	(1,443)	(958)
Effect of exchange rate changes on cash and cash equivalents	113	(148)
Net decrease in cash and cash equivalents	<u>\$ (16,047)</u>	<u>\$ (8,746)</u>

Cash used in operating activities during the year ended June 30, 2014, was \$11.7 million, compared to cash used of \$17.3 million in 2013. The decrease in cash used in operating activities primarily resulted from a combination of an increase in revenues of \$1.5 million and timing differences related to the payment of accounts payable and accrued liabilities of continuing operations.

Cash used in investing activities during the year ended June 30, 2014, was \$2.4 million, compared to cash used of \$2.7 million in 2013. During the fiscal year 2014, \$18.6 million in cash proceeds were received from Central pursuant to the Sale Deed for the sale of Palm Valley and Dingo. This amount was offset by \$20.9 million of capital expenditures spent on the development of our assets. The increase in cash used in investing activities was due to the capital expenditures related primarily to the CO₂-EOR pilot project at Poplar.

Cash used in financing activities during the year ended June 30, 2014, was \$0.7 million, compared to cash provided of \$12.4 million in 2013. Cash used in financing activities primarily related to the repayment of short term debt and increased in fiscal year 2014 as a result of prior year proceeds of \$23.0 million from issuing preferred stock, partially offset by the repurchase of common stock and warrants from Sopak in the amount of \$10.1 million.

Cash used in discontinued operations is related to the activities of Palm Valley and Dingo. No continuing impact on cash flows is expected from discontinued operations.

During the year ended June 30, 2014, the effect of changes in foreign currency exchange rates positively impacted the translation of our GBP and AUD denominated cash and cash equivalent balances into US dollars and resulted in an increase of \$113 thousand in cash and cash equivalents, compared to a decrease of \$148 thousand in 2013.

COMPARISON OF FINANCIAL RESULTS AND TRENDS BETWEEN FISCAL 2014 AND 2013

The following table presents results of operations information for the fiscal years ended:

	June 30,		Difference	Percent change
	2014	2013		
Poplar:				
Oil revenue (In thousands)	\$ 7,601	\$ 6,131	\$ 1,470	24%
Oil sales volume (Mbbls)	88	72	16	22%
Oil sales volume (boepd)	241	197	44	22%
Average realized oil price (\$/boe)	\$86.38	\$84.91	\$1.47	2%

Oil Revenue

Revenues for the year ended June 30, 2014, totaled \$7.6 million, compared to \$6.1 million in the prior year, an increase of 24%. The \$1.5 million increase in revenue over the prior year was primarily due to the increased production volume.

Oil Sales Volume

Sales volume for the year ended June 30, 2014, totaled 88 Mbbls (241 boepd), compared to 72 Mbbls (197 boepd) sold in the prior year, an increase of 22%. The increase was primarily the result of increased production from water shut-off treatments and workovers.

Average Realized Oil Price

The average realized price for the year ended June 30, 2014, was \$86.38/boe, compared to \$84.91/boe in the prior year, an increase of 2%. The increase was primarily the result of decreasing differentials relative to the benchmark pricing (WTI) realized at the Poplar field. The Company does not currently engage in any oil and gas hedging activities.

Operating and Other Expenses

The following table presents selected operating expenses for the fiscal years ended:

	June 30,		Difference	Percent change
	2014	2013		
(In thousands)				
Selected operating expenses:				
Lease operating	\$ 6,257	\$ 4,851	\$ 1,406	29 %
Depletion, depreciation, amortization, and accretion	\$ 1,123	\$ 1,121	\$ 2	*
Exploration	\$ 3,484	\$ 7,907	\$ (4,423)	(56)%
General and administrative	\$ 9,085	\$ 9,645	\$ (560)	(6)%
Selected operating expenses (\$/boe):				
Lease operating	\$ 71	\$ 67	\$ 4	6 %
Depletion, depreciation, amortization, and accretion	\$ 13	\$ 16	\$ (3)	(19)%
Exploration	\$ 40	\$ 110	\$ (70)	(64)%
General and administrative	\$ 103	\$ 134	\$ (31)	(23)%

(*) Not meaningful.

Lease Operating Expenses. Lease operating expenses increased by \$1.4 million to \$6.3 million, or \$71/boe, during the year ended June 30, 2014. The increase is related to increased production tax due to increased production, increased workover activity and significant road repairs.

Depletion, Depreciation, Amortization, and Accretion. The following table presents depletion, depreciation, amortization, and accretion for the fiscal years ended:

	<u>June 30,</u>		<u>Difference</u>	<u>Percent change</u>
	<u>2014</u>	<u>2013</u>		
	(In thousands)			
Depreciation and amortization	\$ 210	\$ 196	\$ 14	7 %
Depletion	749	768	(19)	(2)%
ARO accretion ⁽¹⁾	164	157	7	4 %
Total	<u>\$ 1,123</u>	<u>\$ 1,121</u>	<u>\$ 2</u>	<u>*</u>

(*) Not meaningful.

⁽¹⁾ Accretion expense related to continuing operations.

Depletion, depreciation, amortization, and accretion expenses increased by \$2 thousand to \$1.1 million, or \$13/boe, during the year ended June 30, 2014.

Exploration Expenses. Exploration expenses decreased by \$4.4 million to \$3.5 million, or \$40/boe, during the year ended June 30, 2014. The Company allowed petroleum exploration and development licenses in the amount of \$0.7 million in the UK to expire at the end of their term, compared to the prior year write off of \$2.2 million of the Company's interest in the Markwells Wood-1 well in the UK, which resulted from the Company's determination that it had no further development plans with respect to this well. Most of the \$3.5 million was incurred in relation to the licenses operated by Celtique in the UK and primarily represent timewriting by consultants and long term lead analysis by geologists and other geological expenses related to the PEDL 234 in the UK. Exploration expense during the prior fiscal year included \$3.7 million incurred for seismic activities over the NT/P82 license area in Australia.

General and Administrative Expenses. The following table presents general and administrative expenses for the fiscal years ended:

	<u>June 30,</u>		<u>Difference</u>	<u>Percent change</u>
	<u>2014</u>	<u>2013</u>		
	(In thousands)			
General and administrative (excluding stock based compensation and foreign transaction loss)	\$ 6,912	\$ 8,778	\$ (1,866)	(21)%
Stock based compensation	2,009	848	1,161	137 %
Foreign transaction loss	165	18	147	817 %
Total	<u>\$ 9,085</u>	<u>\$ 9,645</u>	<u>\$ (558)</u>	<u>(6)%</u>

General and administrative expenses decreased by \$0.6 million to \$9.1 million, during the year ended June 30, 2014. General and administrative expenses, excluding stock based compensation and foreign transaction losses, amounted to \$6.9 million, a decrease of \$1.9 million. This decrease primarily resulted from a \$0.8 million reduction in non-recurring severance benefits from the prior year, a \$0.5 million decrease in legal and professional services, a \$0.3 million decrease in travel expenditures and a decrease of \$0.2 million related to director costs. The increase in non-cash stock based compensation expense is primarily related to the recent issuance of equity based compensation awards to officers and employees, and to non-employee directors pursuant to the terms of the Company's compensation policy related to their annual base compensation for Board service. Foreign transaction loss is expected to be minimal in the future.

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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion of financial condition and results of operations is based upon the information reported in our consolidated financial statements. The preparation of these statements requires us to make certain assumptions and estimates that affect the reported amounts of assets, liabilities, revenues, and expenses as well as the disclosure of contingent assets and liabilities at the date of our financial statements. We base our assumptions and estimates on historical experience and other sources that we believe to be reasonable at the time. Actual results may differ from these estimates and assumptions used in preparation of our consolidated financial statements. We provide expanded discussion of our more significant accounting

policies, estimates, and judgments made by management in Note 1 to our consolidated financial statements. We have outlined below certain more significant estimates and assumptions used in preparation of our consolidated financial statements.

Oil and Gas Properties

Successful Efforts Accounting. We account for our oil and gas operations using the successful efforts method of accounting. Under this method, all property acquisition costs and costs of exploratory and development wells are capitalized when incurred, pending determination of whether proved reserves have been discovered. If an exploratory well does not find proved reserves, the costs of drilling the well are charged to exploration expense as dry hole costs and included within the consolidated statement of operations. Exploration expenses include dry hole costs and geological and geophysical expenses. Exploration expenses is also included within the consolidated statement of cash flows and reported as capital expenditures under investing activities when initially incurred. The costs of development wells are capitalized whether those wells are successful or unsuccessful. The application of the successful efforts method of accounting requires managerial judgment to determine the proper classification of wells designated as developmental or exploratory, which classification will ultimately determine the proper accounting treatment of the costs incurred.

Oil and Gas Reserve Quantities. Reserve quantities and the related estimates of future net cash flows affect our periodic calculations of depletion and the assessment of impairment. As a result, adjustments to depletion and evaluation of impairment are made concurrently with changes to reserves estimates. Reserve quantities and future cash flows included in this report are prepared in accordance with guidelines established by the SEC and the Financial Accounting Standards Board (the "FASB"). Our independent third party engineering firm adheres to the same guidelines when auditing our reserve reports. The accuracy of our reserve estimates is a function of many factors, including the following: the quality and quantity of available data, the interpretation of that data, the accuracy of various mandated economic assumptions, and the judgments of the individuals preparing the reserves estimates. Estimates prepared by others may be higher or lower than our estimates. Because these estimates depend on many assumptions, all of which may differ substantially from actual results, reserve estimates may be different from the quantities of oil and gas that are ultimately recovered. As a result, material revisions to existing reserves estimates may occur from time to time. Although every reasonable effort is made to ensure that the reported reserves estimates represent the most accurate assessments possible, the subjective decisions and variances in available data for various fields make these estimates generally less precise than other estimates included in our financial statements.

Depreciation, Depletion, and Amortization. The provision for depletion of oil and gas properties is calculated on a field-by-field basis using the unit-of-production method and is dependent upon our estimates of total proved and proved developed reserves, which estimates incorporate various assumptions regarding future development and abandonment costs as well as our level of capital spending. If the estimates of total proved or proved developed reserves decline, the rate at which we record depreciation, depletion and amortization ("DD&A") expense increases, which in turn, increases DD&A expense. This decline may result from lower market prices, which may make it uneconomic to drill for and produce higher cost fields. We are unable to predict changes in reserve quantity estimates with a high level of precision as such quantities are dependent on the success of our exploitation and development program, as well as future economic conditions.

Impairment of Oil and Gas Properties. Oil and gas properties are assessed quarterly, or more frequently as economic events dictate, for potential impairment. Any impairment loss is the difference between the carrying value of the asset and its fair value. We compare the carrying value of properties to the expected future cash flows on an undiscounted basis to determine if the carrying amount is recoverable. If the carrying amount exceeds the estimated undiscounted future cash flows, the cost of the property is written down to fair value, which is determined using net discounted future cash flows from the producing property. Different pricing assumptions (see Note 19) or discount rates could result in a different calculated impairment.

Asset Retirement Obligation. Our asset retirement obligations ("AROs") consist primarily of estimated future costs associated with the plugging and abandonment of oil and gas properties. The discounted fair value of an ARO liability is required to be recognized in the period in which it is incurred, with the associated asset retirement cost capitalized as part of the carrying cost of the oil and gas asset. The recognition of an ARO requires that management make numerous estimates, assumptions, and judgments regarding such factors as costs to satisfy plugging and abandonment and other obligations, future advances in technology, timing of settlements, the credit-adjusted risk-free rate, and inflation rates. In periods subsequent to the initial measurement of the ARO, we must recognize period-to-period changes in the liability resulting from the passage of time and revisions to either the timing or the amount of the original estimate of undiscounted cash flows. Increases in the ARO liability due to the passage of time impact operating results as accretion expense. The related capitalized cost, net of estimated salvage values, including revisions thereto, is charged to expense through DD&A over the life of the oil and gas property.

Revenue Recognition

We record revenues from the sale of oil in the month in which the delivery to the purchaser occurred and title transferred. We receive payment approximately one month after delivery. At the end of each month, we estimate the amount of production delivered to purchasers and the price we will receive. Variances between our estimated revenue and actual payment are recorded in the month the payment is received. Historically, any differences have been insignificant.

Stock Based Compensation

We recognize compensation expense for all share-based payment awards made to employees and directors. Stock based compensation expense is measured at the grant date based on the fair value of the award. Judgments and estimates are made regarding, among other things, the appropriate valuation methodology to follow in valuing stock compensation awards and the related inputs required by those valuation methodologies. The Company estimates the fair value of PBOs and time based stock options using the Black-Scholes-Merton pricing model. The fair value for market based stock options is estimated using Monte Carlo simulation techniques. These valuation methods use assumptions regarding expected volatility of our common stock, risk-free interest rates, expected term of the awards, and other assumptions regarding a number of complex and subjective variables, which are subject to change. Any such changes could result in different valuations and thus impact the amount of stock based compensation expense recognized.

Costs related to time based stock options are recognized as an expense on a straight-line basis over the requisite service period, which is generally the vesting period. Market based options are expensed based on a graded amortized method, the expense is recognized if the derived service period is satisfied, even if the market condition is not achieved. Performance based options are recognized over the performance period when the achievement of the performance conditions is considered probable. Management re-assesses whether satisfaction of performance conditions are probable at the end of each reporting period. As of June 30, 2014, 2,175,000 stock options with market based vesting provisions or PBOs were outstanding. If changes in the estimated outcome of the performance conditions affect the quantity of the awards expected to vest, the cumulative effect of the change is recognized in the period of change.

Income Taxes and Uncertain Tax Positions

We record deferred tax assets and liabilities to account for the expected future tax consequences of events that have been recognized in our financial statements and our tax returns. We routinely assess the realizability of our deferred tax assets. If we conclude that it is more likely than not that some portion or all of our deferred tax assets will not be realized, the tax asset is reduced by a valuation allowance. We consider future taxable income in making such assessments. Numerous judgments and assumptions are inherent in the determination of future taxable income, including factors such as future operating conditions.

Accounting guidance for recognizing and measuring uncertain tax positions prescribes a more likely than not recognition threshold that a tax position must meet for any of the benefit of the uncertain tax position to be recognized in the financial statements. Previously recognized uncertain tax positions that no longer meet the more-likely-than-not threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. There are no uncertain tax positions that would meet the more-likely-than-not recognition threshold for the fiscal year ended June 30, 2014.

Foreign Currencies and Foreign Currency Adjustment of Intercompany Loans

When intercompany foreign currency transactions between entities included in the consolidated financial statements are of a long term investment nature (i.e., those for which settlement is not planned or anticipated in the foreseeable future) foreign currency translation adjustments resulting from those transactions are included in stockholders' equity as accumulated other comprehensive income (loss). When intercompany transactions are deemed to be of a short term nature, translation adjustments are required to be included in the consolidated statement of operations.

A component of accumulated other comprehensive income will be released into income when the Company executes a partial or complete sale of an investment in a foreign subsidiary or a group of assets of a foreign subsidiary considered a business and/or when the Company no longer holds a controlling financial interest in a foreign subsidiary or group of assets of a foreign subsidiary considered a business. In the event certain intercompany transactions and/or investments are no longer considered long term in nature, any subsequent foreign currency translation adjustments associated with such items could be required to be reflected in the Company's future statements of operations. Accordingly, if foreign currency translation adjustments are required to be reported in our future statements of operations, exchange rate volatility could have a significant effect on future period results of operations.

During fiscal 2014, all remaining investments and intercompany transactions continue to be considered long term in nature, and as a result, all foreign currency translation adjustments were recorded as a separate component of stockholders' equity as accumulated other comprehensive income (loss).

Accounting for Business Combinations

The Company continues to pursue acquisitions as opportunities arise in order to grow our business. We have accounted for all of our business combinations to date in accordance with guidelines established by the Financial Accounting Standards Board, using the acquisition method of accounting, which involves the use of significant judgment.

In estimating the fair values of assets acquired and liabilities assumed in a business combination, we make various assumptions. The most significant assumptions relate to the estimated fair values assigned to proved and unproved crude oil and natural gas properties. We estimate future prices to apply to the estimated reserves quantities acquired, and estimate future operating and development costs, to arrive at estimates of future net cash flows. For estimated proved reserves, the future net cash flows are discounted using a market based weighted average cost of capital rate, adjusted for risk, determined to be appropriate at the time of the acquisition.

The calculation of the contingent consideration payable is a significant management estimate and is calculated using production projections and the estimated timing of production payouts. The Company also utilized a discount which is consistent with the Company's credit adjusted incremental borrowing rate.

Authoritative Accounting Matters

See "Recently Issued Accounting Standards" under Note 1 for additional information on the recent adoption of new authoritative accounting guidance in *Part II, Item 8: Financial Statements and Supplementary Data* of this Form 10-K.

MANAGEMENT ANALYSIS OF CERTAIN MARKET RISK ISSUES

The Company is exposed to market risk in the form of foreign currency exchange rate risk, commodity price risk related to world prices for crude oil, and equity price risk related to investments in marketable securities. The exchange rates between the Australian dollar and the US dollar and the exchange rates between the US dollar and the British pound have changed in recent periods, and may fluctuate substantially in the future. Any appreciation of the US dollar against the Australian dollar is likely to result in decreased net income. Because of our UK development program, a portion of our expenses, including exploration costs and capital and operating expenditures, will continue to be denominated in British pounds. Accordingly, any material appreciation of the British pound against the Australian and US dollars could have a negative impact on our business, operating results, and financial condition.

For the twelve months ended June 30, 2014, oil sales represented 100% of total oil and gas revenues. Based on fiscal year 2014 sales volume and revenues, a 10% change in oil price would increase or decrease oil revenues by \$0.8 million.

At June 30, 2014, the fair value of our investments in securities available-for-sale was \$11.9 million, with \$11.9 million of that amount attributable to the 39.5 million shares of Central received as part of the consideration for the sale of the Amadeus Basin assets. Central's stock is traded on the Australian Securities Exchange (the "ASX"), and we determined the fair value of our investment in Central using Central's closing stock price on the ASX on June 30, 2014, of AUD \$0.320 per share, which translated to \$0.301 per share in US dollars on that date. Due to the number of Central shares that we own and Central's general daily trading volumes, we may not be able to obtain the currently quoted market price in the event we elect to sell our Central shares. In addition, a 10% across-the-board change in the underlying equity market price per share for our investment would result in a \$1.2 million change in the fair value of our investments.

At June 30, 2014, the carrying value of cash and cash equivalents was approximately \$16.4 million, which approximates the fair value.

FORWARD LOOKING STATEMENTS

This report contains forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this report that addresses activities, events, or developments with respect to our financial condition, results of operations, or economic performance that we expect, believe, or anticipate will or may occur in the future, or that address plans and objectives of management for future operations, are forward looking statements. The words "anticipate," "assume," "believe," "budget," "estimate," "expect," "forecast," "initial," "plan,"

"potential," "project," "will," and similar expressions are intended to identify forward looking statements. These forward looking statements about the Company and its subsidiaries appear in a number of places in this report and may relate to statements about our businesses and prospects, planned capital expenditures, availability of liquidity and capital resources, increases or decreases in oil and gas production, the acquisition or disposition of oil and gas properties and related assets, the ability to enter into acceptable farmout arrangements, revenues, expenses, operating cash flows, borrowings, and other matters that involve a number of risks and uncertainties that may cause actual results to differ materially from results expressed or implied in the forward looking statements. These risks and uncertainties include the following: the uncertainties associated with our planned CO₂-EOR program at Poplar, including uncertainties about the technical and economic viability of CO₂-EOR techniques at Poplar, drilling results from the recently initiated pilot project, the results of CO₂ injection, including the ability to sustain CO₂ pressures at sufficient effective levels to sweep the oil across the formation to production wells, and our ability to acquire a long term CO₂ supply for the program; uncertainties regarding the ability to realize the expected benefits from the sale of the Amadeus Basin assets to Central pursuant to the Sale Deed, including through the future value of Central's stock and through uncertain estimates of annual savings in general and administrative expenses; our ability to attract and retain key personnel; the likelihood of success of a water shut-off program at Poplar; our limited amount of control over activities on our operational properties; our reliance on the skill and expertise of third party service providers; the ability of our vendors to meet their contractual obligations; the uncertain nature of the anticipated value and underlying prospects of our UK acreage position; government regulation and oversight of drilling and completion activity in the UK, including possible restrictions on hydraulic fractures that could affect our ability to develop unconventional resource projects in the UK; the uncertain nature of oil and gas prices in the US, UK, and the Australia; uncertainties inherent in projecting future rates of production from drilling and CO₂-EOR activities; the uncertainty of drilling and completion conditions and results; the availability of drilling, completion, and operating equipment and services; the results and interpretation of 2-D and 3-D seismic data related to our NT/P82 interest in offshore Australia; and our ability to obtain an attractive farmout arrangement; and other matters discussed in the Risk Factors section of this report. For a more complete discussion of the risk factors that may apply to any forward looking statements, you are directed to the discussion presented in Item 1A ("Risk Factors") of this Form 10-K. Any forward looking statements in this report should be considered with these factors in mind. Any forward looking statements in this report speak as of the filing date of this report. The Company assumes no obligation to update any forward looking statements contained in this report, whether as a result of new information, future events or otherwise, except as required by securities laws.

Estimates of probable reserves are by their nature more uncertain than estimates of proved reserves and accordingly are subject to substantially greater risk of not actually being realized by the Company.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is a smaller reporting company, as defined by 17 CFR § 229.10(f)(1), and therefore is not required to provide the information otherwise required by this Item.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Magellan Petroleum Corporation
Denver, Colorado

We have audited the consolidated balance sheets of Magellan Petroleum Corporation and subsidiaries (the "Company") as of June 30, 2014 and 2013, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for the years ended June 30, 2014 and 2013. Magellan Petroleum Corporation's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Magellan Petroleum Corporation and subsidiaries as of June 30, 2014 and 2013, and the results of their operations and their cash flows for the years ended June 30, 2014 and 2013, in conformity with accounting principles generally accepted in the United States of America.

/s/ EKS&H LLLP
Denver, Colorado
September 18, 2014

MAGELLAN PETROLEUM CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	June 30,	
	2014	2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 16,422	\$ 32,469
Securities available-for-sale	11,935	44
Accounts receivable — trade	886	852
Inventories	739	555
Prepaid and other assets	2,105	1,378
Total current assets	32,087	35,298
PROPERTY AND EQUIPMENT, NET (SUCCESSFUL EFFORTS METHOD):		
Proved oil and gas properties	29,335	35,377
Less accumulated depletion, depreciation, amortization, and accretion	(3,575)	(5,814)
Unproved oil and gas properties	550	5,312
Wells in progress	21,296	923
Land, buildings, and equipment (net of accumulated depreciation of \$483 and \$1,810 as of June 30, 2014, and 2013, respectively)	368	1,382
Net property and equipment	47,974	37,180
OTHER NON-CURRENT ASSETS:		
Goodwill	1,174	2,174
Deferred income taxes	—	7,217
Other long term assets	200	403
Total other non-current assets	1,374	9,794
Total assets	\$ 81,435	\$ 82,272
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Short term line of credit	\$ —	\$ 51
Current portion of note payable	—	390
Current portion of asset retirement obligations	397	476
Accounts payable	3,586	1,948
Accrued and other liabilities	2,121	2,757
Accrued dividends	429	202
Total current liabilities	6,533	5,824
LONG TERM LIABILITIES:		
Asset retirement obligations	2,476	6,403
Contingent consideration payable	1,852	3,940
Other long term liabilities	118	163
Total long term liabilities	4,446	10,506

COMMITMENTS AND CONTINGENCIES (Note 14)**PREFERRED STOCK (Note 10):**

Series A convertible preferred stock (par value \$0.01 per share): Authorized 28,000,000 shares; issued and outstanding 20,089,436 and 19,239,734 shares as of June 30, 2014, and 2013, respectively; liquidation preference of \$28,220 and \$27,227, respectively

	24,539	23,502
Total preferred stock	<u>24,539</u>	<u>23,502</u>

EQUITY:

Common stock (par value \$0.01 per share): Authorized 300,000,000 shares, issued, 55,004,838 and 54,057,159 as of June 30, 2014, and 2013, respectively

	550	540
Treasury stock (at cost): 9,425,114 and 9,414,176 shares as of June 30, 2014 and 2013, respectively	(9,344)	(9,333)
Capital in excess of par value	92,986	90,786
Accumulated deficit	(36,266)	(50,079)
Accumulated other comprehensive (loss) income	(2,009)	10,526
Total equity attributable to common stockholders	<u>45,917</u>	<u>42,440</u>
Total liabilities, preferred stock and equity	<u>\$ 81,435</u>	<u>\$ 82,272</u>

The accompanying notes are an integral part of these consolidated financial statements.

MAGELLAN PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share amounts)

	For the years ended June 30,	
	2014	2013
REVENUE FROM OIL PRODUCTION	\$ 7,601	\$ 6,131
OPERATING EXPENSES:		
Lease operating	6,257	4,851
Depletion, depreciation, amortization, and accretion	1,123	1,121
Exploration	3,484	7,907
General and administrative	9,085	9,645
Impairment	—	890
Total operating expenses	<u>19,949</u>	<u>24,414</u>
Loss from operations	(12,348)	(18,283)
OTHER (EXPENSE) INCOME:		
Net interest (expense) income	(243)	298
Fair value revision of contingent consideration payable	2,403	458
Other income	146	698
Total other income	<u>2,306</u>	<u>1,454</u>
Loss from continuing operations	(10,042)	(16,829)
DISCONTINUED OPERATIONS:		
Loss from discontinued operations, net of tax	(4,461)	(2,938)
Gain on disposal of discontinued operations, net of tax	30,012	—
Net income (loss) from discontinued operations	<u>25,551</u>	<u>(2,938)</u>
Net income (loss) attributable to Magellan Petroleum Corporation	15,509	(19,767)
Preferred stock dividends and accretion of preferred stock	(1,696)	(722)
Net income (loss) attributable to common stockholders	<u>\$ 13,813</u>	<u>\$ (20,489)</u>
Earnings per common share (Note 12):		
Weighted average number of basic shares outstanding	45,348,840	49,642,083
Weighted average number of diluted shares outstanding	45,348,840	49,642,083
Basic earnings (loss) per common share:		
Loss from continuing operations	\$(0.26)	\$(0.35)
Net income (loss) from discontinued operations	\$0.56	\$(0.06)
Net income (loss) attributable to common stockholders	\$0.30	\$(0.41)
Diluted earnings (loss) per common share:		
Loss from continuing operations	\$(0.26)	\$(0.35)
Net income (loss) from discontinued operations	\$0.56	\$(0.06)
Net income (loss) attributable to common stockholders	\$0.30	\$(0.41)

The accompanying notes are an integral part of these consolidated financial statements.

MAGELLAN PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

	<u>For the years ended June 30,</u>	
	<u>2014</u>	<u>2013</u>
Net income (loss) attributable to Magellan Petroleum Corporation	\$ 15,509	\$ (19,767)
Other comprehensive loss, net of tax:		
Foreign currency translation gain (loss)	488	(569)
Reclassification of foreign currency translation gain to earnings upon sale of foreign subsidiary	(5,767)	—
Unrealized holding losses on securities available-for-sale	(7,256)	(112)
Other comprehensive loss, net of tax	(12,535)	(681)
Comprehensive income (loss) attributable to Magellan Petroleum Corporation	<u>\$ 2,974</u>	<u>\$ (20,448)</u>

The accompanying notes are an integral part of these consolidated financial statements.

MAGELLAN PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In thousands, except share and per share amounts)

	Common Stock		Capital in Excess of Par Value	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount					
Fiscal year ended June 30, 2012	53,835,594	\$ 538	\$ 90,753	\$ —	\$ (29,590)	\$ 11,207	\$ 72,908
Net loss	—	—	—	—	(19,767)	—	(19,767)
Other comprehensive loss, net of tax	—	—	—	—	—	(681)	(681)
Stock and stock based compensation	221,565	2	846	—	—	—	848
Common stock repurchased	—	—	—	(9,333)	—	—	(9,333)
Warrants repurchased and retired	—	—	(813)	—	—	—	(813)
Preferred stock accretion to fair value	—	—	—	—	(520)	—	(520)
Preferred stock dividend	—	—	—	—	(202)	—	(202)
Fiscal year ended June 30, 2013	54,057,159	540	90,786	(9,333)	(50,079)	10,526	42,440
Net income	—	—	—	—	15,509	—	15,509
Other comprehensive loss, net of tax	—	—	—	—	—	(12,535)	(12,535)
Stock and stock based compensation	716,664	7	2,002	—	—	—	2,009
Net shares repurchased for employee tax costs upon vesting of restricted stock	—	—	—	(11)	—	—	(11)
Stock options exercised, net of shares withheld to satisfy employee tax obligations	231,015	3	198	—	—	—	201
Preferred stock dividend	—	—	—	—	(1,696)	—	(1,696)
Fiscal year ended June 30, 2014	55,004,838	\$ 550	\$ 92,986	\$ (9,344)	\$ (36,266)	\$ (2,009)	\$ 45,917

The accompanying notes are an integral part of these consolidated financial statements.

MAGELLAN PETROLEUM CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	For the years ended June 30,	
	2014	2013
OPERATING ACTIVITIES:		
Net income (loss) attributable to Magellan Petroleum Corporation	\$ 15,509	\$ (19,767)
Adjustments to reconcile net loss to net cash used in operating activities:		
Foreign transaction loss	165	18
Depletion, depreciation, amortization, and accretion	1,123	1,121
Fair value revision of contingent consideration payable	(2,403)	(458)
Accretion expense of contingent consideration payable	315	326
Gain on disposal of Amadeus Basin assets	(30,012)	—
Exploration costs previously capitalized	733	2,299
Stock based compensation	2,009	848
Impairment loss	—	890
Severance benefit costs	—	418
Net changes in operating assets and liabilities:		
Accounts receivable	52	84
Inventories	(184)	(47)
Prepayments and other current assets	(694)	82
Accounts payable and accrued liabilities	1,719	(3,079)
Net cash used in operating activities	<u>(11,668)</u>	<u>(17,265)</u>
INVESTING ACTIVITIES:		
Additions to property and equipment	(20,923)	(2,732)
Proceeds from Amadeus Basin sale	18,554	—
Net cash used in investing activities	<u>(2,369)</u>	<u>(2,732)</u>
FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	201	—
Repurchase of common stock	(11)	(9,333)
Repurchase of warrant	—	(813)
Proceeds from issuance of preferred stock, net of \$520 issuance cost	—	22,982
Short term debt issuances	1,000	2,000
Short term debt repayments	(1,441)	(1,999)
Long term debt repayments	—	(480)
Payment of Preferred stock dividend	(429)	—
Net cash (used in) provided by financing activities	<u>(680)</u>	<u>12,357</u>

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CASH FLOWS FROM DISCONTINUED OPERATIONS:

Net cash used in operating activities of discontinued operations	(31)	(766)
Net cash used in investing activities of discontinued operations	(1,412)	(192)
Net cash used in discontinued operations	<u>(1,443)</u>	<u>(958)</u>
Effect of exchange rate changes on cash and cash equivalents	113	(148)
Net decrease in cash and cash equivalents	(16,047)	(8,746)
Cash and cash equivalents at beginning of period	32,469	41,215
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 16,422</u>	<u>\$ 32,469</u>

Cash (receipts) payments:

Interest paid	\$ 18	\$ 63
Interest received	\$ (102)	\$ (698)

Supplemental schedule of non-cash investing and financing activities:

Preferred stock dividends paid in kind	\$ 1,037	\$ —
Securities available-for-sale received upon sale of Amadeus Basin assets (Note 3)	\$ 19,147	\$ —
Unrealized holding loss on securities available-for-sale	\$ (7,256)	\$ (112)
Revision to estimate of asset retirement obligation	\$ —	\$ (758)
Accounts payable related to capital expenditure	\$ 846	\$ 81
Accrued preferred stock dividends	\$ 429	\$ 202
Accretion of preferred stock to fair value	\$ —	\$ 520
Amounts in accrued and other liabilities related to Sopak (See Note 14)	\$ 1,571	\$ 1,000
Amounts in prepaid and other assets related to Sopak (See Note 14)	\$ 1,571	\$ 1,000

The accompanying notes are an integral part of these consolidated financial statements.

MAGELLAN PETROLEUM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - Basis of Presentation

Description of Operations

Magellan Petroleum Corporation (the "Company" or "Magellan" or "we") is an independent oil and gas exploration and production company focused on the development of a CO₂-enhanced oil recovery ("CO₂-EOR") program at Poplar Dome ("Poplar") in eastern Montana and the exploration of conventional and unconventional hydrocarbon resources in the Weald Basin, located in Sussex County, England, onshore United Kingdom ("UK"). Magellan also owns an exploration block, NT/P82, in the Bonaparte Basin, offshore Northern Territory, Australia, which the Company currently plans to farmout; and an 11% ownership stake in Central Petroleum Limited (ASX: CTP), a Brisbane based exploration and production company that operates one of the largest holdings of prospective onshore acreage in Australia. The Company conducts its operations through three wholly owned subsidiaries corresponding to the geographic areas in which the Company operates: Nautilus Poplar LLC ("NP") in the US, Magellan Petroleum (UK) Limited ("MPUK") in the UK, and Magellan Petroleum Australia Pty Ltd ("MPA") in Australia.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Magellan and its wholly owned subsidiaries, NP, MPUK and MPA, and have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") and the instructions to Form 10-K and Regulation S-X published by the US Securities and Exchange Commission (the "SEC"). All intercompany accounts and transactions have been eliminated. Certain prior year amounts have been reclassified to conform to the current year presentation. Such reclassifications had no effect on the prior year net income, accumulated deficit, net assets, or total shareholders' equity. The Company has evaluated events or transactions through the date of issuance of this report in conjunction with the preparation of these consolidated financial statements. All amounts presented are in US dollars, unless otherwise noted. Amounts expressed in Australian currency are indicated as "AUD."

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of oil and gas reserves, assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Foreign Currency Translation

The functional currency of our foreign subsidiaries is their local currency. Assets and liabilities of foreign subsidiaries are translated to US dollars at period-end exchange rates, and our consolidated statements of operations and cash flows are translated at average exchange rates during the reporting periods. Resulting translation adjustments are recorded in accumulated other comprehensive income, a separate component of stockholders' equity. A component of accumulated other comprehensive income will be released into income when the Company executes a partial or complete sale of an investment in a foreign subsidiary or a group of assets of a foreign subsidiary considered a business and/or when the Company no longer holds a controlling financial interest in a foreign subsidiary or group of assets of a foreign subsidiary considered a business.

Transactions denominated in currencies other than the local currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in foreign currency transaction gains and losses that are reflected in results of operations as unrealized (based on period end translation) or realized (upon settlement of the transactions) and reported under general and administrative expenses in the consolidated statements of operations.

Cash and Cash Equivalents and Concentration of Credit Risk

The Company considers all highly liquid short term investments with original maturities of three months or less at the date of acquisition to be cash equivalents. The carrying value of cash and cash equivalents approximates fair value due to the short term nature of these instruments.

The Company's financial instruments exposed to concentrations of credit risk consist primarily of cash and cash equivalents. Cash and cash equivalents are held in several UK and Australian bank accounts and time deposit accounts

that have terms of 90 days or less. The Company regularly assesses the level of credit risk we are exposed to and whether there are better ways of managing credit risk. The Company invests its cash and cash equivalents with reputable financial institutions. At times, balances deposited may exceed FDIC insured limits. The Company has not incurred any losses related to these deposits.

Securities Available-for-Sale

Securities available-for-sale are comprised of investments in publicly traded securities and are carried at quoted market prices. Unrealized gains and losses are excluded from earnings and recorded as a component of accumulated other comprehensive income in stockholders' equity, net of deferred income taxes. The Company recognizes gains or losses when securities are sold. On a quarterly basis, we perform an assessment to determine whether there have been any events or economic circumstances to indicate that a security with an unrealized loss has suffered other-than-temporary impairment. As a result of this review, no impairment was recorded for the years ended June 30, 2014, or 2013, respectively.

Accounts Receivable

Trade accounts receivable consist mainly of receivables from oil and gas purchasers. For receivables from working interest partners, the Company typically has the ability to withhold future revenue disbursements to recover non-payment of joint interest billings. Generally, oil and gas receivables are collected within two months. The collectability of accounts receivable is continuously monitored and analyzed based upon historical experience. The use of judgment is required to establish a provision for allowance for doubtful accounts for specific customer collection issues identified. The allowance for doubtful accounts was \$0 as of June 30, 2014, and 2013, respectively.

Inventories

Our inventories consist of oil and gas drilling or repair items such as tubing, casing, chemicals, operating supplies, ordinary maintenance materials, and parts and production equipment for use in future drilling operations or repair operations. All inventories are carried at the lower of cost or net realizable value.

Oil and Gas Exploration and Production Activities

The Company follows the successful efforts method of accounting for its oil and gas exploration and production activities. Under this method, all property acquisition costs, and costs of exploratory and development wells are capitalized until a determination is made that the well has found proved reserves or is deemed noncommercial. If an exploratory well is deemed to be noncommercial, the well costs are charged to exploration expense as dry hole cost. Exploration expenses include dry hole costs, geological and geophysical expenses. Noncommercial development well costs are charged to impairment expense if circumstances indicate that a decline in the recoverability of the carrying value may have occurred.

Depreciation, depletion, and amortization ("DD&A") of capitalized costs related to proved oil and gas properties is calculated on a property-by-property basis using the units-of-production method based upon proved reserves. The computation of DD&A takes into consideration restoration, dismantlement, and abandonment costs as well as the anticipated proceeds from salvaging equipment. The Company records its proportionate share in joint venture operations in the respective classifications of assets, liabilities, and expenses.

The sale of a partial interest in a proved oil and gas property is accounted for as normal retirement, and no gain or loss is recognized as long as the treatment does not significantly affect the units-of-production depletion rate. A gain or loss is recognized for all other sales of producing properties and is included in the accompanying consolidated statements of operations.

The Company reviews its proved oil and gas properties for impairment whenever events and circumstances indicate that a decline in the recoverability of their carrying value may have occurred. The Company estimates the expected undiscounted future cash flows of its oil and gas properties and compares such undiscounted future cash flows to the carrying amount of the oil and gas properties to determine if the carrying amount is recoverable. If the carrying amount exceeds the estimated undiscounted future cash flows, the Company will adjust the carrying amount of the oil and gas properties to fair value. The factors used to determine fair value include, but are not limited to, recent sales prices of comparable properties, the present value of estimated future cash flows, net of estimated operating and development costs, using estimates of reserves, future commodity pricing, future production estimates, anticipated capital expenditures, and various discount rates commensurate with the risk and current market conditions associated with realizing the expected cash flows projected.

Land, Buildings, and Equipment

Land, buildings, and equipment are recorded at cost. Costs of renewals and improvements that substantially extend the useful lives of the assets are capitalized. Maintenance and repair costs are expensed when incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets, which range from three to fifteen years.

Goodwill

Goodwill represents the excess of the purchase price over the estimated fair value of the assets acquired net of the fair value of liabilities assumed in an acquisition. GAAP requires goodwill to be evaluated on an annual basis for impairment, or more frequently if events occur or circumstances change that could potentially result in impairment.

As of June 30, 2014 and 2013, management concluded that there is no impairment of goodwill. The qualitative factors used in our assessment include macroeconomic conditions, industry and market conditions, cost factors, and overall financial performance.

As of June 30, 2014, \$0.7 million of recorded goodwill related to NP, \$0.2 million related to MPUK, and \$0.3 million related to MPA. Changes in goodwill can be summarized as follows for the years ended:

	June 30,	
	2014	2013
	(In thousands)	
Fiscal year opening balance	\$ 2,174	\$ 2,174
Sale of Amadeus Basin assets (see Note 3)	(1,000)	—
Fiscal year closing balance	<u>\$ 1,174</u>	<u>\$ 2,174</u>

Asset Retirement Obligations

The Company recognizes an estimated liability for future costs associated with the plugging and abandonment of its oil and gas properties. A liability for the fair value of an asset retirement obligation and corresponding increase in the carrying value of the related long-lived asset are recorded at the time a well is acquired or the liability to plug is legally incurred. The increase in carrying value is included in proved oil and gas properties in the accompanying consolidated balance sheets. The Company depletes the amount added to proved oil and gas property costs, net of estimated salvage values, and recognizes expense in connection with the accretion of the discounted liability over the remaining estimated economic lives of the respective oil and gas properties (see Note 6).

Revenue Recognition

The Company derives revenue primarily from the sale of produced oil. Oil revenues are recognized when production is sold to a purchaser at a fixed or determinable price, when delivery has occurred and title has transferred, and collectability of the revenue is probable. Transportation costs are included in production costs.

Major Customers

The Company's consolidated oil production revenue is derived from its NP segment and is generated from a single customer for the years ended June 30, 2014, and 2013, respectively.

Stock Based Compensation

Stock option grants may contain time based, market based, or performance based vesting provisions. Time based options are expensed on a straight-line basis over the vesting period. Market based options are expensed based on a graded amortization method, the expense is recognized if the derived service period is satisfied, even if the market condition is not achieved. Performance based options ("PBOs") are recognized when the achievement of the performance conditions is considered probable. Accordingly, PBOs are expensed over the period of time the performance condition is expected to be achieved. Management re-assesses whether achievement of performance conditions is probable at the end of each reporting

period. If changes in the estimated outcome of the performance conditions affect the quantity of the awards expected to vest, the cumulative effect of the change is recognized in the period of change.

The fair value of the stock options is determined on the grant date and is affected by our stock price and other assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the term of the awards, risk free interest rates, expected dividends, and the expected option exercise term. The Company estimates the fair value of PBOs and time based stock options using the Black-Scholes-Merton pricing model. The simplified method is used to estimate the expected term of stock options due to a lack of related historical data regarding exercise, cancellation, and forfeiture. For market based stock options, the fair value is estimated using Monte Carlo simulation techniques.

Accounting for 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.

GAAP prescribes a comprehensive model for recognizing, measuring, presenting, and disclosing in the financial statements uncertain tax positions that the Company has taken or expects to take in its tax returns. Under GAAP, the Company recognizes tax positions when it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the Company has presumed that its positions will be examined by the appropriate taxing authority that has full knowledge of all relevant information. The next step consists of measurement. A tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. A tax position is measured at the largest amount of benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. An uncertain income tax position will not be recognized if it does not meet the more-likely-than-not threshold. To appropriately account for income tax matters, the Company is required to make 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 that would meet the more-likely-than-not recognition threshold for the fiscal years ended June 30, 2014, or 2013, respectively.

The Company has adopted an accounting policy to record all tax related interest under interest expense and tax related penalties under general and administrative expense in the consolidated statement of operations.

Financial Instruments

The carrying value for cash and cash equivalents, accounts receivable, accounts payable, and debt approximates fair value based on the timing of the anticipated cash flows and current market conditions.

Segment Information

As of June 30, 2014, the Company determined, based on the criteria of Financial Accounting Standards Board (the "FASB") ASC Topic 280, it operates in three segments, NP, MPUK and MPA, as well as a head office, Magellan ("Corporate"), which is treated as a cost center. As of June 30, 2014, these three operating segments met the minimum quantitative threshold to qualify for separate segment reporting.

The Company's chief operating decision maker is J. Thomas Wilson (President and CEO of the Company), who reviews the results and manages operations of the Company in the three reporting segments of NP, MPUK, MPA, and Corporate. The presentation of all segment information herein reflects the manner in which the Company's management monitors performance and allocates resources. For information pertaining to our reporting segments, see Note 13.

Earnings (Loss) per Common Share

Income and losses per common share are based upon the weighted average number of common and common equivalent shares outstanding during the period. The effect of potential dilutive securities in the determinations of diluted earnings per share are the dilutive effect of stock options, non-vested restricted stock, and the shares of Series A convertible preferred stock.

The potential dilutive impact of stock options, and non-vested restricted stock is determined using the treasury stock method. The potential dilutive impact of the shares of Series A convertible preferred stock is determined using the "if-converted" method. In applying the if-converted method, conversion is not assumed for purposes of computing dilutive shares if the effect would be antidilutive. The preferred stock is convertible at a rate of one common share to one preferred share. We did not include any stock options or common stock issuable upon the conversion of the Series A convertible preferred stock in the calculation of diluted earnings (loss) per share during the fiscal year ended June 30, 2014, and 2013, respectively, as they would be antidilutive.

Accumulated Other Comprehensive Income (Loss)

Comprehensive income (loss) is presented net of applicable income taxes in the accompanying consolidated statements of stockholders' equity and comprehensive income (loss). Other comprehensive income (loss) is comprised of revenues, expenses, gains, and losses that under GAAP are reported as separate components of stockholders' equity instead of net income (loss).

Recently Issued Accounting Standards

In February 2013, the FASB issued Accounting Standards Update ("ASU") No. 2013-02 which requires additional disclosures regarding the reporting of reclassifications out of accumulated other comprehensive income. ASU No. 2013-02 requires an entity to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. This guidance is effective for reporting periods beginning after December 15, 2012. The Company adopted this guidance effective July 1, 2013. The Company's adoption of this standard did not have a significant impact on its consolidated financial statements.

In March 2013, the FASB issued ASU No. 2013-05, which permits an entity to release cumulative translation adjustments into net income when a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of a foreign subsidiary or foreign group of assets comprising a business. The Company's adoption of this standard did not have a significant impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, which establishes a comprehensive new revenue recognition standard designed to depict the transfer of goods or services to a customer in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In doing so, companies may need to use more judgment and make more estimates than under current revenue recognition guidance. The ASU allows for the use of either the full or modified retrospective transition method, and the standard will be effective for us in the first quarter of our fiscal year 2018; early adoption is not permitted. The Company is currently evaluating which transition approach to use and the impact of the adoption of this standard on its consolidated financial statements.

There are no new significant accounting standards applicable to the Company that have been issued but not yet adopted by the Company as of June 30, 2014.

Note 2 - Sale of Amadeus Basin Assets

On March 31, 2014 (the "Central Closing Date"), pursuant to the Share Sale and Purchase Deed dated February 17, 2014 (the "Sale Deed"), the Company sold its Amadeus Basin assets, the Palm Valley and Dingo gas fields ("Palm Valley" and "Dingo," respectively), to Central Petroleum Limited ("Central") through the sale of the Company's wholly owned subsidiary, Magellan Petroleum (N.T.) Pty. Ltd, to Central's wholly owned subsidiary Central Petroleum PV Pty. Ltd ("Central PV"). In exchange for the assets, on March 31, 2014, Central paid to Magellan (i) a first cash payment of AUD \$15.0 million, and (ii) 39.5 million newly issued shares of Central stock (ASX: CTP), equivalent to an ownership interest in Central of approximately 11%. Central also made a second and final cash payment of AUD\$5.0 million to Magellan on April 15, 2014. The Sale Deed provides for certain customary purchase price adjustments, including the payment by Central of capital expenditures incurred by Magellan during the period from October 1, 2013, and March 31, 2014, less AUD \$485 thousand.

The Sale Deed also provides that the Company is entitled to receive 25% of the revenues generated at the Palm Valley gas field from gas sales when the volume-weighted gas price realized at Palm Valley exceeds AUD \$5.00/Gigajoule ("GJ") and AUD \$6.00/GJ for the first 10 years following the Central Closing Date and for the following 5 years, respectively, with such

prices to be escalated in accordance with the Australian CPI. Between the third and fifth anniversaries of the Central Closing Date, inclusive, the Company may seek from Central a one-time payment (the "Bonus Discharge Amount") corresponding to the present value, assuming an annual discount rate of 10%, of any expected remaining bonus payments in exchange for foregoing future bonus payments. If the Company receives the Bonus Discharge Amount, bonus payments and the Bonus Discharge Amount together may not exceed AUD \$7.0 million. The Company also retained its rights to receive any and all bonuses (the "Mereenie Bonus") payable by Santos Ltd ("Santos") and contingent upon production at the Mereenie oil and gas field achieving certain threshold levels. The Mereenie Bonus was established in fiscal year 2011 pursuant to the terms of the asset swap agreement between the Company and Santos for the sale of the Company's interest in Mereenie to Santos and the Company's purchase of the interests of Santos in the Palm Valley and Dingo gas fields. The Company has not recognized a contingent asset related to the Bonus Discharge Amount or Mereenie Bonus, as such amounts are not reasonably assured. For additional information, see Note 3.

Note 3 - Discontinued Operations

As discussed in detail in Note 2, on March 31, 2014, pursuant to the Sale Deed, the Company completed the sale of Palm Valley and Dingo to Central PV. The assets of Palm Valley and Dingo were previously reported under the MPA segment, accordingly, results of operations associated with this sale were reclassified to discontinued operations for fiscal year 2014. Prior year amounts related to discontinued operations in the consolidated statements of operations and statements of cash flows have also been reclassified to conform to the current year presentation. Summarized results of the Company's discontinued operations are as follows:

	June 30,	
	2014	2013
	(In thousands)	
Revenue	\$ 814	\$ 939
Loss from discontinued operations, net of tax	\$ (4,461)	\$ (2,938)

As of June 30, 2014, the gain on disposal of discontinued operations can be summarized as follows:

	June 30,	
	2014	2013
	(In thousands)	
Assets and liabilities sold:		
Property and equipment, net	\$ (10,100)	\$ (9,627)
Deferred income taxes	(7,217)	(7,217)
Goodwill allocated to the disposal group	(1,000)	(1,000)
Asset retirement obligations	4,457	4,575
Purchase price adjustments	743	—
Total assets and liabilities of discontinued operations	(13,117)	(13,269)
Consideration:		
First cash installment - received on Central Closing Date	13,859	
Second cash installment - received on April 15, 2014	4,695	
Stock of Central	19,147	
Total consideration	37,701	
Reclassification of foreign currency translation gains to earnings upon sale of foreign subsidiary	5,767	
Transaction costs	(339)	
Gain on disposal of discontinued operations, net of tax	\$ 30,012	

Note 4 - Securities Available-for-Sale

The following table presents the amortized cost, gross unrealized gains, gross unrealized losses and fair market value of available-for-sale equity securities as follows:

	June 30, 2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Equity securities	\$ 19,339	\$ —	\$ (7,404)	\$ 11,935

	June 30, 2013			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Equity securities	\$ 192	\$ —	\$ (148)	\$ 44

Note 5 - Debt

The outstanding principal of a \$1.7 million note payable by NP, re-issued in January 2011 (the "Note Payable"), was fully amortized as of June 30, 2014. As of June 30, 2013, the minimum future principal maturities of the Note Payable, totaling \$390 thousand, were considered a current liability.

The variable interest rate of the Note Payable is based upon the Wall Street Journal Prime Rate (the "Index") plus 1.00%, subject to a floor rate of 6.25%. As of June 30, 2013, the Index was 3.25%, resulting in an interest rate of 6.25% per annum. Under the Note Payable, NP is subject to certain customary financial and restrictive covenants. As of June 30, 2013, NP was in compliance with all financial and restrictive covenants.

As of June 30, 2013, the Note Payable and Line of Credit were collateralized by a first mortgage and an assignment of production from Poplar and were guaranteed by Magellan up to \$6.0 million, not to exceed the amount of the principal owed. The carrying amount of the Note Payable approximates its fair value, due to its variable interest rate, which resets based on market rates.

Note 6 - Asset Retirement Obligations

The estimated valuation of asset retirement obligations ("AROs") is based on the Company's historical experience and management's best estimate of plugging and abandonment costs by field. Assumptions and judgments made by management when assessing an ARO include: (i) the existence of a legal obligation; (ii) estimated probabilities, amounts, and timing of settlements; (iii) the credit-adjusted risk-free rate to be used; and (iv) inflation rates. Accretion expense is recorded under depletion, depreciation, amortization, and accretion in the consolidated statements of operations. If the recorded value of ARO requires revision, the revision is recorded to both the ARO and the asset retirement capitalized cost.

The following table summarizes the asset retirement obligation activity for the fiscal years ended:

	June 30,	
	2014	2013
	(In thousands)	
Fiscal year opening balance	\$ 6,879	\$ 7,784
Liabilities assumed	7	3
Accretion expense	367	433
Sale of assets ⁽¹⁾	(4,457)	—
Revision to estimate ⁽²⁾	—	(758)
Effect of exchange rate changes	77	(583)
Fiscal year closing balance	2,873	6,879
Less current asset retirement obligations	397	476
Long term asset retirement obligations	\$ 2,476	\$ 6,403

⁽¹⁾ Related to the sale of the Amadeus Basin assets

⁽²⁾ The revision primarily resulted from a change in the expected timing of estimated abandonment cost for our oil and gas properties.

Note 7 - Fair Value Measurements

The Company follows authoritative guidance related to fair value measurement and disclosure, which establishes a three level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy categorizes assets and liabilities measured at fair value into one of three different levels depending on the observability of the inputs employed in the measurement using market participant assumptions at the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows:

- Level 1: Quoted prices in active markets for identical assets.

- Level 2: Significant other observable inputs – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3: Significant inputs to the valuation model are unobservable inputs.

The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and the consideration of factors specific to the asset or liability. The Company's policy is to recognize transfers in or out of a fair value hierarchy as of the end of the reporting period for which the event or change in circumstances caused the transfer. The Company has consistently applied the valuation techniques discussed above for all periods presented. During the years ended June 30, 2014, and 2013, there have been no transfers in or out of Level 1, Level 2, or Level 3.

Assets and liabilities measured on a recurring basis

The Company's financial instruments, including cash and cash equivalents, accounts receivable and accounts payable are carried at cost, which approximates fair value due to the short term maturity of these instruments. The recorded value of the Line of Credit and Note Payable (see Note 5), approximates fair value due to their variable rate structure.

The following table presents items required to be measured at fair value on a recurring basis by the level in which they are classified within the valuation hierarchy as follows:

	June 30, 2014			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Securities available-for-sale	\$ 11,935	\$ —	\$ —	\$ 11,935
Liabilities:				
Contingent consideration payable	\$ —	\$ —	\$ 1,852	\$ 1,852

	June 30, 2013			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Assets:				
Securities available-for-sale	\$ 44	\$ —	\$ —	\$ 44
Liabilities:				
Contingent consideration payable	\$ —	\$ —	\$ 3,940	\$ 3,940

The contingent consideration payable is a standalone liability that is measured at fair value on a recurring basis for which there is no available quoted market price, principal market, or market participants. The inputs for this instrument are unobservable and therefore classified as Level 3 inputs. The calculation of this liability is a significant management estimate and uses drilling and production projections, consistent with the Company's reserve report for NP, to estimate future production bonus payments, and a discount rate that is reflective of the Company's credit adjusted borrowing rate. Inputs are reviewed by management on an annual basis and the liability is estimated by converting estimated future production bonus payments to a single net present value using a discounted cash flow model. Payments of future production bonuses are sensitive to Poplar's 60 days rolling gross production average. The contingent consideration payable would increase with significant production increases and/or a reduction in the discount rate.

The following table presents information about significant unobservable inputs to the contingent consideration payable measured at fair value on a recurring basis for the fiscal years ended:

Description	Valuation technique	Significant unobservable inputs	June 30,	
			2014	2013
Contingent consideration payable	Discounted cash flow model	Discount rate	8.0%	8.0%
		First production payout	June 30, 2015	December 31, 2015
		Second production payout	NA	December 31, 2016

Revisions to the fair value estimate of the contingent consideration payable is recorded in the consolidated statements of operations under fair value revision of contingent consideration payable. Accretion expense related to the contingent consideration payable is recorded in the consolidated statements of operations under net interest (expense) income. As of June 30, 2014, the downward revision were a result of the fact that a second production payout cannot be reasonably assumed on the basis of current production estimates corresponding to the estimated proved reserves of Poplar at June 30, 2014.

The following table presents a roll forward of the contingent consideration payable for the fiscal years ended:

	June 30,	
	2014	2013
	(In thousands)	
Fiscal year beginning balance	\$ 3,940	\$ 4,072
Accretion expense	315	326
Revision to estimate	(2,403)	(458)
Fiscal year closing balance	<u>\$ 1,852</u>	<u>\$ 3,940</u>

Assets and liabilities measured on a nonrecurring basis

Due to the unobservable nature of the significant inputs required to measure these items at fair value, they are classified within Level 3. The Company also utilizes fair value to perform an annual impairment test on its oil and gas properties, or whenever events and circumstances indicate that a decline in the recoverability of their carrying value may have occurred. Fair value is estimated using expected undiscounted future cash flows from oil and gas properties. The inputs used to determine such fair value are primarily based upon internally developed cash flow models and are also classified within Level 3. For the fiscal years ended June 30, 2014, or 2013, no events or circumstances were identified that would indicate that an impairment of our oil and gas properties has occurred.

Note 8 - Income Taxes

The domestic and foreign components of our income (loss) from continuing operations are as follows for the fiscal years ended:

	June 30,	
	2014	2013
	(In thousands)	
United States	\$ 4,262	\$ (9,449)
Australia	(11,563)	(3,333)
United Kingdom	(2,741)	(4,047)
Loss from continuing operations	<u>\$ (10,042)</u>	<u>\$ (16,829)</u>

The following reconciles the Company's effective tax rate to the federal statutory tax rate for the fiscal years ended:

	June 30,	
	2014	2013
	(In thousands)	
Tax provision computed per federal statutory rate	\$ (3,013)	\$ (5,048)
State taxes, net of federal benefit	549	(40)
Foreign rate differential	417	(60)
Non taxable Australian revenue	(3,144)	288
Goodwill write off	(58)	—
Decreases related to lapse of applicable statute of limitations	—	685
Change in valuation allowance	3,476	999
Taxable dividends from subsidiaries, net of foreign tax credits	3,586	(1,053)
Foreign tax credit adjustment	(761)	787
Capital loss adjustment	73	309
Impact of rate change	291	140
Foreign currency translation differential	(434)	2,912
Contingent consideration payable write off	(710)	(45)
Other items	(272)	126
Consolidated income tax expense (benefit)	<u>\$ —</u>	<u>\$ —</u>

The following summarizes components of our income tax provision for the fiscal years ended:

	June 30,	
	2014	2013
	(In thousands)	
Consolidated current income tax provision	—	—
Consolidated deferred income tax provision	—	—
Consolidated income tax provision	\$ —	\$ —

The consolidated income tax provision is summarized as follows:

Continuing operations	\$ —	\$ —
Discontinued operations	\$ 7,217	\$ (1,267)

Effective tax rate for continuing operations	—%	—%
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Significant components of the Company's deferred tax assets and liabilities can be summarized as follows for the fiscal years ended:

	June 30,	
	2014	2013
	(In thousands)	
Deferred tax liabilities:		
Land, buildings and equipment	\$ (4,030)	\$ (2,946)
Other items	(157)	(124)
Total deferred tax liabilities	(4,187)	(3,070)
Deferred tax assets:		
Asset retirement obligations	923	817
Net operating losses, capital losses, and foreign tax credit carry forwards	13,891	10,342
United Kingdom exploration costs and net operating losses	3,851	3,555
Investments	2,378	32
Stock option compensation	2,839	1,971
Australian capitalized legal costs	143	258
Other items	141	219
Total deferred tax asset	24,166	17,194
Valuation allowance	(19,979)	(14,124)
Net long term deferred tax asset	\$ —	\$ —

For the fiscal year ended June 30, 2014, the valuation allowance increased by \$5.9 million, primarily due to additional book losses on continuing operations. Of the \$5.9 million increase, \$2.3 million was recorded to other comprehensive income and is related to the unrealized loss on Central shares.

During fiscal year 2014 the Company sold its Amadeus Basin assets held by MPA, which is reported under discontinued operations. The current year reduction in gain reported in discontinued operations of \$7.2 million is related to the disposal of the Australian Petroleum Resource Rent Tax deferred tax asset, refer Note 3.

The US gross deferred tax assets and liabilities as of June 30, 2014, and 2013, respectively, consist primarily of foreign tax credits, property, plant and equipment, and stock options. The Australian deferred tax assets and liabilities from continuing operations as of June 30, 2014 consist primarily of unrealized capital loss, and net operating loss carry forwards. As of June 30, 2013, the Australian deferred tax assets from continuing operations consisted primarily of legal expenses. The Australian capital loss and net operating losses are carried forward indefinitely. The UK deferred tax assets and liabilities as of June 30, 2014, and 2013, respectively, consist primarily of capital allowance carry forwards which are carried forward indefinitely.

After reviewing all positive and negative evidence, a valuation allowance is recorded against all the net deferred tax assets in the US, Australia and the UK. As a result, the Company has recorded no deferred tax assets as of June 30, 2014.

As of June 30, 2014, the Company remains subject to examination in the following major tax jurisdictions for the tax years indicated below:

Jurisdiction	Tax Years Subject to Examination:
US Federal	2011 - 2013
Colorado	2011 - 2013
Connecticut	2010
Maine	2011 - 2013
Montana	2010 - 2013
Australia	2010 - 2013
United Kingdom	2010 - 2013

At June 30, 2014, the Company had net operating loss and foreign tax credit carry forwards for US Federal and State Income Tax purposes, respectively, which are scheduled to expire periodically as follows:

	State Net	Federal
	Operating Losses	Foreign Tax Credit
(In thousands)		
Expires:		
2017	\$ 7	\$ 310
2018	—	—
2019	—	1,411
2020	399	624
2021	176	1,443
2022	—	3,655
2023 and thereafter	—	2,716
Total	\$ 582	\$ 10,159

There are no uncertain tax positions that would meet the more-likely-than-not recognition threshold for the fiscal years ended June 30, 2014, or 2013.

Note 9 - Stock Based Compensation

The 2012 Stock Incentive Plan

On January 16, 2013, the Company's shareholders approved the Magellan Petroleum Corporation 2012 Omnibus Incentive Compensation Plan (the "2012 Stock Incentive Plan"). The 2012 Stock Incentive Plan replaced the Company's 1998 Stock Incentive Plan (the "1998 Stock Plan"). The 2012 Stock Incentive Plan provides for the granting of stock options, stock appreciation rights, restricted stock and/or restricted stock units, performance shares and/or performance units, incentive awards, cash awards, and other stock based awards to employees, including officers, directors, and consultants of the Company (or subsidiaries of the Company) who are selected to receive incentive compensation awards by the Compensation, Nominating and Governance Committee (the "CNG Committee") of the Board of Directors of the Company (the "Board"), which is the plan administrator for the 2012 Stock Incentive Plan. The stated maximum number of shares of the Company's common stock authorized for awards under the 2012 Stock Incentive Plan is 5,000,000 shares plus the remaining number of shares under the 1998 Stock Plan immediately before the effective date of the 2012 Stock Incentive Plan, which was 288,435 as of January 15, 2013. The maximum aggregate annual number of common shares or options that may be granted to one participant is 1,000,000, and the maximum annual number of performance shares, performance units, restricted stock, or restricted stock units that may be granted to any one participant is 500,000. The maximum term of the 2012 Stock Incentive Plan is ten years.

Stock Option Grants

Under the 2012 Stock Incentive Plan, stock option grants may contain time based, performance based, or market based vesting provisions. During the fiscal year ended June 30, 2014, the Company granted a total of 3,000,000 stock options under the 2012 Stock Incentive Plan, of which 1,500,000 were granted as PBOs, and 1,500,000 were granted with market based

vesting provisions. Performance metrics used to measure the potential vesting of the PBOs consist of: (i) completing the drilling of the CO₂-EOR pilot program at Poplar (weighted 10%); (ii) board approval of a full field CO₂-EOR development project at Poplar (weighted 40%); (iii) sale of substantially all of the Amadeus Basin assets (weighted 20%); (iv) approval of a farmout agreement or the ability to participate in drilling one well in the Weald Basin with internally developed funding, including proceeds from a sale of assets (weighted 20%); and (v) approval and execution of a farmout agreement for drilling one well in the Bonaparte Basin (weighted 10%). Potential vesting of the market based stock options are subject to the Company maintaining a \$2.35 per share closing price for 10 consecutive trading days and median stock price of \$2.35 over a period of 90 days. As of June 30, 2014, performance metrics (i), (iii) and (iv) were met.

As of June 30, 2014, 2,175,000 stock options with market based vesting provisions or PBOs had not vested, and 365,107 shares, including forfeited shares, were available for future issuance. During the fiscal year ended June 30, 2014, zero options were issued outside of the 2012 Stock Incentive Plan. Options outstanding have expiration dates ranging from November 28, 2015, through October 15, 2023.

The following table summarizes the stock option activity for the fiscal years ended:

	June 30,			
	2014		2013	
	Number of Shares	WAEPS ⁽¹⁾	Number of Shares	WAEPS ⁽¹⁾
Fiscal year beginning balance	7,888,957	\$1.34	6,753,125	\$1.44
Granted	3,000,000	\$1.03	1,627,500	\$1.23
Exercised	(275,000)	\$1.07	—	\$0.00
Forfeited ⁽²⁾	(121,666)	\$1.03	(491,668)	\$1.23
Options outstanding at end of fiscal year	<u>10,492,291</u>	<u>\$1.26</u>	<u>7,888,957</u>	<u>\$1.34</u>
Weighted average remaining contractual term of outstanding options		6.0 years		5.9 years

⁽¹⁾ Weighted average exercise price per share.

⁽²⁾ Fiscal year 2013 includes the effect of 100,000 historically granted stock options forfeited erroneously.

The total fair value of stock options vesting during the fiscal years ended June 30, 2014, and 2013, was \$1.2 million, and \$0.8 million, respectively. During the fiscal year ended June 30, 2014, 275,000 stock options were exercised for a number of 231,015 common stock shares, net of shares withheld to satisfy employee tax obligations. During the fiscal year ended June 30, 2013, zero stock options were exercised. Cash received from the exercise of stock options for the fiscal years ended June 30, 2014, and 2013, respectively, was \$201 thousand, and zero. The following table summarizes options outstanding and exercisable as of June 30, 2014:

Range of exercise prices	Options outstanding			Options exercisable		
	Number of shares	Weighted average remaining contractual life	WAEPS ⁽¹⁾	Number of shares	Weighted average remaining contractual life	WAEPS ⁽¹⁾
\$0.79 - \$1.04	3,057,500	9.2 years	\$1.02	827,500	9.1 years	\$1.02
\$1.05 - \$1.11	1,415,000	8.0 years	\$1.08	1,004,998	7.6 years	\$1.09
\$1.12 - \$1.18	1,191,666	7.7 years	\$1.13	624,999	7.2 years	\$1.13
\$1.19 - \$1.40	3,100,000	1.9 years	\$1.20	3,100,000	1.9 years	\$1.20
\$1.41 - \$2.41	1,728,125	5.0 years	\$2.03	1,728,125	5.0 years	\$2.03
	<u>10,492,291</u>	6.0 years	\$1.26	<u>7,285,622</u>	4.7 years	\$1.36
Aggregate intrinsic value	<u>\$ 9,857,615</u>			<u>\$ 6,152,424</u>		

⁽¹⁾ Weighted average exercise price per share.

The fair value of shares issued under the 2012 Stock Incentive Plan were estimated using the following weighted-average assumptions for the fiscal years ended:

	June 30,		
	2014		2013
	PBOs ⁽¹⁾	Market Based ⁽²⁾	Time based and PBOs
Number of options	1,500,000	1,500,000	1,627,500
Weighted-average grant date fair value per share	\$0.57	\$0.69	\$0.61
Expected dividend	\$0.00	\$0.00	\$0.00
Forfeiture rate	0	0	0
Risk free interest rate	1.5% - 1.7%	2.8%	0.6% - 1.3%
Expected life (years)	0.4 - 1.6	2.6	5.1 - 6.0
Expected volatility (based on historical price)	61.7% - 61.9%	66.6%	60.3% - 63.5%

⁽¹⁾ The terms related to these PBOs were estimated using an average probabilistic weighted method.

⁽²⁾ The Company assumed market based options will be voluntarily exercised at the midpoint of vesting, and the contractual term.

Stock Compensation Expense

The Company recorded \$2.0 million and \$0.8 million of stock compensation expense for the fiscal years ended June 30, 2014, and 2013, respectively. Stock based compensation is included under general and administrative expense in the consolidated statements of operations. At June 30, 2014, there was a total of \$1.2 million in unrecognized stock compensation expense related to stock options granted. This cost is expected to be recognized over a weighted-average period of 1.7 years. The amount of unrecognized compensation expense noted above does not necessarily represent the amount that will ultimately be realized by the Company in its consolidated statement of operations. During the fiscal year ending June 30, 2015, it is expected that an additional 1,315,832 stock options will vest.

The Company's compensation policy is designed to provide the Company's non-employee directors with a portion of their annual base Board service compensation in the form of equity. Between July 1, 2013, and June 30, 2014, the Company issued a total of 266,664 shares of its common stock to non-employee directors pursuant to this policy.

Note 10 - Preferred Stock

The Company's certificate of incorporation provides for the issuance of up to 50.0 million preferred shares. Pursuant to the Series A Purchase Agreement discussed below, 28.0 million of the total authorized preferred shares was allocated to the Series A Preferred Stock class.

Series A Convertible Preferred Stock Financing

On May 10, 2013, the Company entered into a Series A Convertible Preferred Stock Purchase Agreement (the "Series A Purchase Agreement") with One Stone Holdings II LP ("One Stone"), an affiliate of One Stone Energy Partners, L.P. Pursuant to the terms of the Series A Purchase Agreement, on May 17, 2013 (the "Closing Date"), the Company issued to One Stone 19,239,734 shares of Series A Convertible Preferred Stock, par value \$0.01 per share (the "Series A Preferred Stock"), at a purchase price of \$1.22149381 per share (the "Purchase Price"), for aggregate proceeds of approximately \$23.5 million. Subject to certain conditions, each share of Series A Preferred Stock and any related unpaid accumulated dividends are convertible into one share of the Company's Common Stock, par value \$0.01 per share (the "Common Stock"), at an initial conversion price equal to the Purchase Price.

The Series A Purchase Agreement also includes the following key terms:

- **Dividends.** Holders of Series A Preferred Stock are entitled to a dividend equivalent to 7.0% per annum on the face value, which is the Purchase Price plus any accumulated unpaid dividends, payable quarterly in arrears. Dividends are generally payable in kind ("PIK") (in the form of additional shares of Series A Preferred Stock) or in cash, at the Company's option.
- **Conversion.** Each share of Series A Preferred Stock is convertible at any time, at the holder's option, into one share of Common Stock, based on an initial face amount and conversion price equal to the Purchase Price. The Series A Preferred Stock is entitled to customary anti-dilution protections.

- Voting. The Series A Preferred Stock is entitled to vote on an as-converted basis with the Common Stock.
- Forced Conversion. At any time after the third anniversary of the Closing Date, the Company will have the right to cause the holders to convert all, but not less than all, of the shares of Series A Preferred Stock into shares of Common Stock, if, among other conditions: (i) the average per share price of Common Stock equals or exceeds 200% of the Conversion Price for a period of 20 out of 30 consecutive trading days, (ii) the average daily trading volume of shares of Common Stock exceeds an amount equal to the number of shares of Common Stock issuable upon the conversion of all outstanding shares of Series A Preferred Stock divided by 45, and (iii) the resale of shares of Common Stock into which such shares are converted is covered by an effective shelf registration statement, or such shares of Common Stock can be sold under Rule 144 under the US Securities Act of 1933, as amended (the "Securities Act").
- Redemption. At any time after the third anniversary of the Closing Date, and upon 30 days prior written notice, the Company may elect to redeem all, but not less than all, shares of Series A Preferred Stock for an amount equal to the greater of (i) the closing sale price of the Common Stock on the date the Company delivers such notice multiplied by the number of shares of Common Stock issuable upon conversion of the outstanding Series A Preferred Stock, and (ii) a cash payment that, when considering all cash dividends already paid, allows the holders of Series A Preferred Stock to achieve a 20% annualized internal rate of return on the then outstanding Series A Preferred Stock. The holders of Series A Preferred Stock will have the right to convert the Series A Preferred Stock into shares of Common Stock at any time prior to the close of business on the redemption date.
- Change in Control. In the event of a Change in Control (as defined in the Certificate of Designations) of the Company, holders of Series A Preferred Stock will have the option to (i) convert Series A Preferred Stock into Common Stock immediately prior to the Change in Control, (ii) in certain circumstances, receive stock or securities in the acquirer of the Company having substantially identical terms as those of the Series A Preferred Stock, or (iii) receive a cash payment that, when considering all cash dividends already paid, allows the holders of Series A Preferred Stock to achieve a 20% annualized internal rate of return on the then outstanding Series A Preferred Stock.

The Company has determined that a Change in Control (as defined in the Certificate of Designations) is not solely within the Company's control, and therefore the Series A Preferred Stock is presented in the consolidated balance sheets under temporary equity, outside of permanent equity.

- Liquidation. Upon a liquidation event, holders of Series A Preferred Stock are entitled to a non-participating liquidation preference per share of Series A Preferred Stock equal to (i) 115% of the Purchase Price until the second anniversary of the Closing Date, (ii) 110% of the Purchase Price after the second anniversary of the Closing Date until the third anniversary of the Closing Date, (iii) 105% of the Purchase Price after the third anniversary of the Closing Date until the fourth anniversary of the Closing Date, and (iv) thereafter, at the Purchase Price, plus, in each case, any accrued and accumulated dividends on such share.
- Ranking. Series A Preferred Stock ranks senior to Common Stock with respect to dividend rights and rights on liquidation, winding up, and dissolution.
- Board Representation. For so long as One Stone owns at least 15% or 10% of the fully diluted shares of Common Stock (assuming full conversion of the Series A Preferred Stock), the holders of a majority of the then outstanding shares of Series A Preferred Stock have the right to appoint two members or one member, respectively, to the Company's Board. These directors are not subject to director elections by the holders of Common Stock at the Company's annual meetings of shareholders.
- Minority Veto Rights. For so long as One Stone owns at least 10% of the fully diluted Common Stock (assuming full conversion of the Series A Preferred Stock), the holders of a majority of the then outstanding shares of Series A Preferred Stock will hold veto rights with respect to (i) capital expenditures greater than \$15.0 million that are not provided for in the then-current annual budget; (ii) certain related-party transactions; (iii) changes to the Company's principal line of business; and (iv) an increase in the size of the Board to a number greater than 12.

The Series A Purchase Agreement and a related separate Registration Rights Agreement also include the following key terms:

- Standstill. For a period of two years following the date of the Series A Purchase Agreement, One Stone is generally prohibited from (i) acquiring direct or beneficial control of any additional equity securities of the Company or any rights thereto; (ii) making, or in any way participating in, directly or indirectly, any solicitation of proxies to vote in any election contest or initiate, propose or otherwise solicit stockholders of the Company for approval of any stockholder proposals; (iii) participating in or forming any voting group or voting trust with respect to any voting securities of the Company; and (iv) seeking to influence, modify, or control management, the Board, or any

business, policies, or actions of the Company. Until such time as One Stone no longer holds any Series A Preferred Stock, One Stone is prohibited from engaging, directly or indirectly, in any short selling of the Common Stock.

- Registration Rights. Holders of Series A Preferred Stock are entitled to resale registration rights with respect to the shares of Common Stock issuable upon conversion of the Series A Preferred Stock.

The Company has analyzed the embedded features of the Series A Preferred Stock and has determined that none of the embedded features is required under US GAAP to be bifurcated from the Series A Preferred Stock and accounted for separately as a derivative. The Company recorded the transaction by recognizing the fair value of the Series A Preferred Stock at the time of issuance in the amount of \$23.5 million. The Company will accrete the Series A Preferred Stock to the redemption value if events or circumstances indicate that redemption is probable.

For the fiscal years ended June 30, 2014, and 2013, respectively, the Company recorded preferred stock dividends of \$1.7 million and \$0.5 million, and accrued dividends in the amount of \$429 thousand and \$202 thousand related to the Series A Preferred Stock. For the fiscal year ended June 30, 2013, the Company recorded accretion in the amount of \$202 thousand to reflect the initial estimated fair value at which the preferred stock was recorded.

The following table summarizes the Series A Preferred Stock activity for the fiscal years ended:

	June 30,			
	2014		2013	
	Number of shares issued	Amount	Number of shares issued	Amount
	(In thousands, except share amounts)			
Fiscal year opening balance	19,239,734	\$ 23,502	—	\$ —
Issuance of Series A Preferred Stock	—	—	19,239,734	23,502
PIK dividend shares issued, for previously accrued dividend	164,607	202	—	—
Current year PIK dividends shares issued	685,095	835	—	—
Fiscal year closing balance	20,089,436	\$ 24,539	19,239,734	\$ 23,502

Note 11 - Stockholders' Equity

Treasury Stock

On September 24, 2012, the Company announced that its Board had approved a stock repurchase program authorizing the Company to repurchase up to a total value of \$2.0 million in shares of its Common Stock. During November 2012, the Company repurchased 149,539 shares pursuant to this program. As of June 30, 2014, \$1.9 million in shares of Common Stock remained authorized for repurchase under this program. The authorization expired on August 21, 2014, with no further repurchases of stock.

On January 14, 2013, the Company entered into a Collateral Purchase Agreement (the "Collateral Agreement") with Sopak AG, a Swiss subsidiary of Glencore International plc ("Sopak"), pursuant to which the Company agreed to purchase: (i) 9,264,637 shares of the Company's Common Stock, (ii) a warrant granting Sopak the right to purchase from the Company an additional 4,347,826 shares of Common Stock, and (iii) a Registration Rights Agreement, dated as of June 29, 2009, and amended as of October 14, 2009, and June 23, 2010, between the Company, Young Energy Prize S.A., a Luxembourg corporation ("YEP"), and ECP Fund, SICAV-FIS, a Luxembourg corporation ("ECP"), which is a subsidiary of Yamalco Investments Limited, a Cyprus company ("Yamalco"), for a purchase price of \$10.0 million. The Collateral Agreement was subsequently amended on January 15, 2013, and completed on January 16, 2013. The Company accounted for the Collateral Agreement by allocating the purchase price of \$10.0 million to the fair value of the warrant, which was estimated at \$0.8 million, and the remaining \$9.2 million to the purchase of the 9,264,637 shares of Common Stock, resulting in a value per share of \$0.993 for the shares of Common Stock purchased. YEP, ECP, and Yamalco are entities affiliated with Nikolay V. Bogachev, a former director of the Company.

All repurchased common stock shares are currently being held in treasury at cost, including direct issuance cost. The following table summarizes the Company's treasury stock activity for the fiscal years ended:

	June 30,			
	2014		2013	
	Number of shares issued	Amount	Number of shares issued	Amount
	(In thousands, except share amounts)			
Fiscal year opening balance	9,414,176	\$ 9,333	—	\$ —
Repurchases through the stock repurchase program	—	—	149,539	137
Repurchase through the Collateral Agreement ⁽¹⁾	—	—	9,264,637	9,196
Net shares repurchased for employee tax costs upon vesting of restricted stock	10,938	11	—	—
Fiscal year closing balance	9,425,114	\$ 9,344	9,414,176	\$ 9,333

⁽¹⁾ Purchase price of \$10.0 million reduced by the fair value of the warrant.

Retired Warrant

The Company formally retired the warrant purchased from Sopak pursuant to the Collateral Agreement described above. The fair value of the warrant was estimated using the Black-Scholes-Merton pricing model and determined to be approximately \$0.8 million, which

was included as a reduction of additional paid in capital in the consolidated balance sheet.

Assumptions used in estimating the fair value of the warrant included: (i) the Common Stock market price on the repurchase date of \$0.90 per share; (ii) the warrant exercise price of \$1.15 per share; (iii) an expected dividend of \$0; (iv) a risk free interest rate of 0.2%; (v) a remaining contractual term of 1.5 years; and (vi) an expected volatility based on historical prices of 60.8%.

Note 12 - Earnings Per Share

The following table summarizes the computation of basic and diluted earnings (loss) per share for the fiscal years ended:

	June 30,	
	2014	2013
	(In thousands, except share and per share amounts)	
Loss from continuing operations	\$ (10,042)	\$ (16,829)
Preferred stock dividend	(1,696)	(722)
Net loss from continuing operations, net of dividends attributable to preferred stock	(11,738)	(17,551)
Net income (loss) from discontinued operations	25,551	(2,938)
Net income (loss) attributable to common stockholders	<u>\$ 13,813</u>	<u>\$ (20,489)</u>
Basic weighted-average shares outstanding	45,348,840	49,642,083
Add: dilutive effects of in-the-money stock options and non-vested restricted stock grants ⁽¹⁾	—	—
Diluted weighted-average common shares outstanding	<u>45,348,840</u>	<u>49,642,083</u>
Basic net (loss) earnings per common share:		
Net loss from continuing operations, net of dividends attributable to preferred stock ⁽²⁾	\$(0.26)	\$(0.35)
Net income (loss) from discontinued operations	\$0.56	\$(0.06)
Net income (loss) attributable to common stockholders	\$0.30	\$(0.41)
Diluted net (loss) earnings per common share		
Net loss from continuing operations, net of dividends attributable to preferred stock ⁽²⁾	\$(0.26)	\$(0.35)
Net income (loss) from discontinued operations	\$0.56	\$(0.06)
Net income (loss) attributable to common stockholders	\$0.30	\$(0.41)

⁽¹⁾ All diluted earnings per share calculations are dictated by the results from continuing operations, accordingly there was no dilutive effect on earnings per share in the periods presented.

⁽²⁾ Loss from continuing operations is reduced by the contractual amount of Preferred stock dividends that must be expensed for the current period.

There is no dilutive effect on earnings per share in periods with net losses from continuing operations. Stock options or shares of Common Stock issuable upon the conversion of the Series A Preferred Stock were not considered in the calculation of diluted weighted average common shares outstanding, as they would be antidilutive. Potentially dilutive securities excluded from the calculation of diluted shares outstanding in fiscal years with net losses from continuing operations are as follows:

	June 30,	
	2014	2013
In-the-money stock options	6,335,622	75,000
Non-vested restricted stock	450,000	50,000
Total potentially dilutive securities	<u>6,785,622</u>	<u>125,000</u>

Note 13 - Segment Information

The Company conducts its operations through three wholly owned subsidiaries: NP, which operates in the US; MPUK, which includes our operations in the UK; and MPA, which is primarily active in Australia. Oversight for these subsidiaries is provided by Corporate which is treated as a cost center. Due to the sale of the Amadeus Basin assets held by MPA, results of operations related to Palm Valley and Dingo are included in results of operations from discontinued operations.

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The following table presents segment information for the fiscal years ended:

	June 30,	
	2014	2013
(In thousands)		
Revenue from NP oil production	\$ 7,601	\$ 6,131
Net income (loss) from continuing operations:		
NP ⁽¹⁾	\$ 1,828	\$ (326)
MPA	(934)	(3,555)
MPUK	(2,585)	(4,726)
Corporate	(8,351)	(8,222)
Consolidated net losses from continuing operations	\$ (10,042)	\$ (16,829)
Assets:		
NP	\$ 27,299	\$ 26,093
MPA	14,073	32,735
MPUK ⁽²⁾	4,486	2,021
Corporate	111,113	96,229
Inter-segment eliminations ⁽³⁾	(75,536)	(74,806)
Consolidated assets	\$ 81,435	\$ 82,272
Expenditures for additions to long lived assets:		
NP	\$ 20,334	\$ 2,124
MPUK	526	350
Corporate	63	258
Consolidated expenditures for long lived assets	\$ 20,923	\$ 2,732

⁽¹⁾ The downward revision of the contingent consideration payable resulted in \$2.1 million of other income associated with our NP segment, refer Note 7.

⁽²⁾ Refer Note 20 for disclosures relating to non-cash charges to capitalized costs.

⁽³⁾ Asset inter-segment eliminations are primarily derived from investments in subsidiaries.

The following table summarizes other significant items for the fiscal years ended:

	June 30,	
	2014	2013
(In thousands)		
Depletion, depreciation, amortization, and accretion:		
NP	\$ 977	\$ 988
Corporate	146	133
Consolidated depletion, depreciation, amortization, and accretion	\$ 1,123	\$ 1,121
Lease operating:		
NP	\$ 6,257	\$ 4,851
Exploration:		
NP	\$ 541	\$ 398
MPA	436	3,809
MPUK	2,507	3,700
Consolidated exploration	\$ 3,484	\$ 7,907

Note 14 - Commitments and Contingencies

Operating leases. The following table summarizes the Company's future minimum rental commitments under non-cancelable operating leases, net of guaranteed sublease income, as of June 30, 2014:

	Total
	(In thousands)
Amounts payable in fiscal year:	
2015	\$ 262
2016	268
2017	273

2018	90
Total	\$ 893

Rental expenses for each of the years ended June 30, 2014, and 2013, were \$0.6 million and, \$0.6 million, respectively.

Contingent production payments. In September 2011, the Company entered into a Purchase and Sale Agreement (the "Nautilus PSA") among the Company and the non-controlling interest owners of NP for the Company's acquisition of the sellers' interests in NP (the "Nautilus Transaction"). The Nautilus PSA provides for potential future contingent production payments, payable by the Company in cash to the sellers, of up to a total of \$5.0 million if certain increased average daily production milestones for the underlying properties are achieved. J. Thomas Wilson, a director and chief executive officer of the Company, has an approximate 52% interest in such contingent payments. See Note 7 above for information regarding the estimated discounted fair value of the future contingent consideration payable related to the Nautilus Transaction.

Sopak Collateral Agreement. The Company has estimated that there is the potential for a statutory liability for required US Federal tax withholdings, and related penalties and interest, related to the Collateral Agreement as described in Note 11. As a result, we have recorded a total liability of approximately \$1.6 million and \$1.0 million as of June 30, 2014, and 2013, respectively, under accrued and other liabilities in the consolidated balance sheets included in this report. The Company has a legally enforceable right to collect from Sopak any amounts owed to the IRS as a result of the Collateral Agreement. As a result, we have recorded a corresponding receivable of \$1.6 million and \$1.0 million as of June 30, 2014, and 2013, respectively, under prepaid and other assets in the consolidated balance sheets.

Note 15 - Related Party Transactions

US Federal tax withholding. During the third quarter of fiscal year 2012, the Company identified a potential liability of approximately \$2.0 million related to the Company's non-payment of required US Federal tax withholdings in the course of its initial acquisition of a part of NP. In October 2009, Magellan acquired 83.5% of the membership interests in NP (the "Poplar Acquisition") from the two majority owners of NP, White Bear LLC ("White Bear"), and YEP I, SICAV-FES ("YEP I"). Both of these entities are affiliated with Nikolay V. Bogachev, a foreign national who was a director of Magellan at the time of the Poplar Acquisition but has since resigned. Because YEP I was a foreign entity and the members of White Bear were foreign nationals, Magellan was required to make US Federal tax withholdings from the payments to or for the benefit of White Bear and YEP I. Of the \$2.0 million liability, \$1.3 million was estimated to relate to the interest sold by White Bear, \$0.6 million to the interest sold by YEP I, and \$0.1 million to Magellan's interest on the late payment of the US Federal tax withholdings.

With regards to White Bear, Mr. Bogachev filed his US income tax return and paid taxes due on the Poplar Acquisition, and Magellan has no further related potential liability. With regards to YEP I, which is now a defunct entity, Magellan concluded that it was unlikely that one of YEP I's successor entities would be filing the corresponding US income tax return. As a result, the Company initiated a disclosure process with the IRS. During October 2013, the Company received a letter from the IRS stating that the disclosure process was completed. The effect of this transaction on the consolidated statements of operations for the year ended June 30, 2013, resulted in other income of \$0.4 million representing the difference between the original estimate and the estimated final liability of \$0.1 million related to the YEP I withholding obligation. This transaction had no effect on the Company for the fiscal year ended June 30, 2014.

Key Energy Services. J. Robinson West, the Chairman of the Board of Directors of the Company, also serves as a non-employee director on the board of directors for Key Energy Services Inc. ("KES"). KES performed contract drilling rig services for the Company in Poplar during the second quarter of fiscal year 2014. The total contract fees paid to KES during the fiscal year ended June 30, 2014, was \$2.2 million. As of June 30, 2014, there were no unpaid contract fees related to KES.

Devizes International Consulting Limited. A director of Celtique, with which the Company co-owns equally several licenses in the UK, is also the sole owner of Devizes International Consulting Limited ("Devizes"). Devizes performs consulting related services to MPUK. The Company recorded \$161 thousand and \$82 thousand of consulting fees related to Devizes for the fiscal years ended June 30, 2014, and 2013, respectively.

Note 16 - Employee Severance Costs

The Company is required to record charges for one-time employee severance benefits and other associated costs as incurred. In July 2012, the Company incurred severance costs payable in connection with the termination of the employment of certain employees pursuant to the terms of their employment agreements. For the fiscal year ended June 30, 2013, the Company expensed total employee-related severance costs of \$0.8 million to general and administrative expense in the consolidated statements of operations.

On March 31, 2014, the Company sold its interests in Palm Valley and Dingo to Central. Pursuant to the Sale Deed, the Company incurred severance costs payable in connection with the termination of certain MPA employees. For the fiscal year ended June 30, 2014, the Company expensed total employee-related severance costs of \$1.2 million to loss from discontinued operations, net of tax, in the consolidated statement of operations.

The Company does not expect any additional benefits or other associated costs related to the terminations of employment as discussed above. The liability related to these severance costs, as of June 30, 2013, is included in the consolidated balance sheets under accrued and other liabilities. A reconciliation of the beginning and ending liability balance for charges to the consolidated statements of operations and cash payments is as follows for the fiscal years ended:

	June 30,		
	2014		2013
	Severance - Discontinued Operations	Severance - Termination Benefits	Severance - Termination Benefits
	(In thousands)		
Fiscal year beginning balance	\$ —	\$ 418	\$ —
Charges to general and administrative expense	—	—	837
Charges to loss from discontinued operations, net of tax	1,210	—	—
Cash payments	(1,210)	(418)	(419)
Fiscal year closing balance	\$ —	\$ —	\$ 418

Note 17 - Accumulated Other Comprehensive Income (Loss)

The following table represents the changes in components of accumulated other comprehensive income (loss), net of tax, for the fiscal year ended:

	June 30, 2014		
	Foreign currency translation	Unrealized investment holding loss	Total
	(In thousands)		
Fiscal year opening balance	\$ 10,674	\$ (148)	\$ 10,526
Changes in comprehensive income (loss):			
Other comprehensive income (loss) before reclassification	488	(7,256)	(6,768)
Amounts reclassified from other comprehensive loss ⁽¹⁾	(5,767)	—	(5,767)
Net current period other comprehensive loss	(5,279)	(7,256)	(12,535)
Fiscal year ended June 30, 2014	\$ 5,395	\$ (7,404)	\$ (2,009)

⁽¹⁾ Reclassification of foreign currency translation gain to earnings upon the sale or substantially complete liquidation of an investment in a foreign entity. The reclassified gain is reported in the consolidated statement of operations under gain on disposal of discontinued operations, net of tax.

Note 18 - Subsequent Events

Stock Based Compensation. Pursuant to the Company's compensation policy, a total of 96,330 shares of common stock were issued to non-employee directors on July 1, 2014.

On July 16, 2014 (effective August 15, 2014), C. Mark Brannum resigned as Vice President - General Counsel and Secretary of the Company. As a result Mr. Brannum forfeited 980,210 unvested stock options and 100,000 unvested shares of restricted stock.

Subsequent to the fiscal year ended June 30, 2014, 266,666 stock options were exercised resulting in the issuance of 203,360 shares of common stock, which number is net of shares withheld to satisfy certain employee tax and exercise price obligations.

Based on the activity related to our outstanding stock options and restricted stock after June 30, 2014, the Company had 819,323 shares, including forfeited shares, available for future issuance.

Line of Credit. On September 17, 2014, NP entered into a senior secured \$8.0 million revolving line of credit note (the "LCN") with West Texas State Bank. The LCN will mature on September 30, 2015. The LCN is subject to quarterly floating interest payments based on the Prime Rate (currently approximately 3.25%) and a floor rate of 3.25%. The LCN is secured by substantially all of NP's assets including a first lien on NP's oil and gas leases from the surface to the top of the Bakken, but excluding any rights to assets within or below the Bakken. MPC provided a guarantee of the LCN secured by a pledge of its membership interest in NP. MPC and NP are subject to certain customary restrictive covenants under the terms of this loan.

Note 19 - Supplemental Oil and Gas Information (Unaudited)

Supplemental Oil and Gas Reserve Information

The Company relies upon a combination of internal technical staff and third party consulting arrangements for reserve estimation and review. The reserve information presented below is based on estimates of net proved reserves as of June 30, 2014, and 2013, and was prepared in accordance with guidelines established by the SEC.

Reserve estimates were prepared by Hector Wills of MI3 Petroleum Engineering, a Golden, Colorado, based petroleum engineering firm, for the fiscal year ended June 30, 2014, and by the Company's Operations Manager, Blaine Spies, for the fiscal year ended June 30, 2013. For both periods, the reserve estimates were audited by the Company's independent petroleum engineering firm, Allen & Crouch Petroleum Engineers ("A&C"). A copy of the summary reserve audit report of A&C is provided as Exhibit 99.1 to this Annual Report on Form 10-K. A&C does not own an interest in any of Magellan's oil and gas properties and is not employed by Magellan on a contingent basis.

Proved reserves are the estimated quantities of oil, gas, and natural gas liquids, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined and the price to be used is the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions. All of the Company's estimated proved reserves are located in the US.

Analysis of Changes in Proved Reserves

The following table sets forth information regarding the Company's estimated proved oil and gas reserve quantities. The Company emphasizes that reserve estimates are inherently imprecise and that estimates of new discoveries and undeveloped locations are more imprecise than estimates of established producing oil and gas properties. Accordingly, these estimates are expected to change as future information becomes available.

	United States	Australia ⁽¹⁾	Total	
	Oil (Mbbls)	Gas (Bcf)	Oil (Mbbls)	Gas (Bcf)
Fiscal year ended June 30, 2012	8,905.2	11.5	8,905.2	11.5
Revision of previous estimates	(1,215.7)	0.2	(1,215.7)	0.2
Production	(320.9)	(0.3)	(320.9)	(0.3)
Fiscal year ended June 30, 2013	7,368.6	11.4	7,368.6	11.4
Revision of previous estimates	(1,515.0)	—	(1,515.0)	—
Sales of minerals in place	—	(11.4)	—	(11.4)
Production	(117.9)	—	(117.9)	—
Fiscal year ended June 30, 2014	5,735.7	—	5,735.7	—

Proved Developed Reserves:

Fiscal year ended June 30, 2013	1,581.5	11.4	1,581.5	11.4
Fiscal year ended June 30, 2014	2,494.6	—	2,494.6	—

Proved Undeveloped Reserves:

Fiscal year ended June 30, 2013	5,787.1	—	5,787.1	—
Fiscal year ended June 30, 2014	3,241.1	—	3,241.1	—

⁽¹⁾ The amount of proved reserves applicable to Australia gas reflects the amount of gas committed to specific long term supply contracts.

Revision of previous estimates. Revisions of estimates represent upward (downward) changes in previous estimates attributable to new information gained primarily from development activity, production history, and changes to the economic conditions present at the time of each estimate. During the year ended June 30, 2014, in the US, there was a 1,515 Mbbls downward revision of estimates related to the net removal from the reserves projections of seven PUD wells. During the fiscal year, we did not convert any proved undeveloped reserves to proved developed reserves. The proved undeveloped reserves as of June 30, 2013, which were related to the planned drilling of 16 wells, were originally identified and recorded in fiscal year 2010 in relation to a 20-well infill drilling program at Poplar. However, in light of the Company's increasing focus on CO₂-EOR and the fact that no wells for this drilling program have been drilled to date, the Company decided to change its plans such that those locations are currently not scheduled to be drilled within five years from the date of original booking, and to remove all of the related proved undeveloped reserves from its books as of June 30, 2014. During the fiscal year ended June 30, 2014, the Company added new proved undeveloped reserves amounting to 3,241 Mbbls and attributable to a new 9-well drilling program at Poplar. The nine well locations in this program are at Poplar in the immediate vicinity of the five wells that have been recently drilled for the CO₂-EOR pilot project. The Company plans to drill these wells as infill drilling locations for primary production from the Charles formation, with the additional benefit of potentially being converted for the purpose of CO₂-EOR development given their location as offsets to the pilot producer wells. The proved undeveloped reserves recorded with respect to these nine wells correspond only to primary production from the Charles Formation, although if CO₂-EOR has the desired impact, these wells may yield an additional tertiary component of production. During the fiscal year ended June 30, 2013, in the US, there was a 1,216 Mbbls downward revision of estimates related to the removal from the reserves projections of four PUD wells to be drilled during calendar year 2015. These wells were removed because the Company determined it would be beneficial to use only one as opposed to two drilling rigs for its PUD drilling program, and, as a result, it would not be feasible to drill these four wells within the projected time frame.

Divestitures of minerals in place. During the fiscal year ended June 30, 2014, in Australia, the Company sold its Palm Valley gas field to Central, resulting in an 11.4 Bcf adjustment and the elimination of all Australian reserves. There were no adjustments to reserves quantities relating to divestitures of minerals in place for the year ended June 30, 2013.

Standardized Measure of Oil and Gas

The Company computes a standardized measure of future net cash flows and changes therein relating to estimated proved reserves in accordance with authoritative accounting guidance. Certain information concerning the assumptions used in computing the valuation of proved reserves and their inherent limitations are discussed below. The Company believes such information is essential for a proper understanding and assessment of the data presented.

The "standardized measure" is the present value of estimated future cash inflows from proved oil and natural gas reserves, less future development and production costs and future income tax expenses, using prices and costs as of the date of estimation without future escalation, without giving effect to hedging activities, non-property related expenses such as general and administrative expenses, debt service, depreciation, depletion, and amortization, and tax, and are discounted using an annual discount rate of 10% to reflect timing of future cash flows.

The assumptions used to calculate estimated future cash inflows do not necessarily reflect the Company's expectations of actual revenues or costs, nor their present worth. In addition, variations from the expected production rate also could result directly or indirectly from factors outside of the Company's control, such as unexpected delays in development, changes in prices, or regulatory or environmental policies. The reserve valuation further assumes that all reserves will be disposed of by production. However, if reserves are sold in place, additional economic considerations could also affect the amount of cash eventually realized.

Prices. All prices used in calculation of our reserves are based upon a twelve month unweighted arithmetic average of the first day of the month price for the twelve months of the fiscal year, unless prices were defined by contractual arrangements. Prices are adjusted for local differentials and gravity and, as required by the SEC, held constant for the life of the projects (i.e., no escalation). The following table summarizes the resulting prices used for proved reserves for the fiscal years ended:

	June 30,			
	2014		2013	
	United States	Australia	United States	Australia
Oil (per Bbl)	\$86.11	NA	\$82.90	NA
Gas (per Mcf)	NA	NA	NA	\$4.92

Costs. Future development and production costs are calculated by estimating the expenditures to be incurred in developing and producing the proved oil and gas reserves at the end of the year, based on year-end costs and assuming continuation of existing economic conditions.

Income taxes. Future income tax expenses are calculated by applying the appropriate year-end statutory tax rates, with consideration of future tax rates already legislated, to the future pre-tax net cash flows relating to the Company's proved oil and gas reserves. Permanent differences in oil and gas related tax credits and allowances are recognized.

Discount. The present value of future net cash flows from the Company's proved reserves is calculated using a 10% annual discount rate. This rate is not necessarily the same as that used to calculate the current market value of our estimated oil and natural gas reserves.

The following table presents the standardized measure of discounted future net cash flows related to proved oil and gas reserves:

	United States	Australia	Total
	(In thousands)		
Fiscal year ended June 30, 2014			
Future cash inflows	\$ 493,901	\$ —	\$ 493,901
Future production costs	(226,464)	—	(226,464)
Future development costs	(23,594)	—	(23,594)
Future income tax expense	(73,820)	—	(73,820)
Future net cash flows	170,023	—	170,023
10% annual discount	(82,980)	—	(82,980)
Standardized measures of discounted future net cash flows	\$ 87,043	\$ —	\$ 87,043

	United States	Australia	Total
	(In thousands)		
Fiscal year ended June 30, 2013			
Future cash inflows	\$ 610,853	\$ 55,947	\$ 666,800
Future production costs	(244,703)	(38,576)	(283,279)
Future development costs	(28,922)	(4,095)	(33,017)
Future income tax expense	(112,193)	—	(112,193)
Future net cash flows	225,035	13,276	238,311
10% annual discount	(127,644)	(2,991)	(130,635)
Standardized measures of discounted future net cash flows	\$ 97,391	\$ 10,285	\$ 107,676

A summary of changes in the standardized measure of discounted future net cash flows is as follows:

	United States	Australia	Total
	(In thousands)		
Fiscal year ended June 30, 2012			
Net change in prices and production costs	\$ 121,496	\$ 8,579	\$ 130,075
Revisions of previous quantity estimates	(7,955)	(624)	(8,579)
Changes in estimated future development costs	(26,503)	192	(26,311)
Sales and transfers of oil and gas produced	3,473	5	3,478
Previously estimated development cost incurred during the period	(20,178)	556	(19,622)
Accretion of discount	3,419	7	3,426
Net change in income taxes	19,269	1,016	20,285
Net change in timing and other ⁽¹⁾	22,258	1,577	23,835
Fiscal year ended June 30, 2013	(17,888)	(1,023)	(18,911)
Net change in prices and production costs ⁽²⁾	97,391	10,285	107,676
Revisions of previous quantity estimates ⁽³⁾	(10,222)	—	(10,222)
Divestiture of reserves	(34,441)	—	(34,441)
Changes in estimated future development costs	—	(10,285)	(10,285)
Sales and transfers of oil and gas produced	3,161	—	3,161
Previously estimated development cost incurred during the period	(4,720)	—	(4,720)
Accretion of discount	1,723	—	1,723
Net change in income taxes	14,632	—	14,632
Net change in timing and other	16,746	—	16,746
Fiscal year ended June 30, 2014	2,773	—	2,773
Fiscal year ended June 30, 2014	\$ 87,043	\$ —	\$ 87,043

⁽¹⁾ For fiscal year 2013, in the US, there was a \$17.9 million downward revision in reserves value due to changes in timing and other. This revision primarily relates to the change, relative to the prior year reserves projections, in the expected timing of drilling and completing PUD wells and the attendant cash flow expected from these wells. During fiscal year 2013, the Company focused its activities at Poplar on executing water shut-off treatments due to their potential attractive economics. As a result, PUDs previously estimated to be drilled during fiscal year 2013 were postponed, resulting in a change in the annual quantity and timing of PUD wells to be drilled in the current reserves projections.

⁽²⁾ For fiscal year 2014, in the US there was a \$10.2 million downward revision in reserves value due to the net change in prices and production costs. This change was the result of increased production cost estimates that more than offset impact of the increase in the assumed price per barrel of oil between fiscal year 2013 and 2014. The Company revised its estimated future production costs upwards following a detailed bottom-up analysis of historical and projected production costs undertaken during fiscal year 2014.

⁽³⁾ This revision is related to our PUDs and is discussed in greater detail above under the heading "Analysis of Changes in Proved Reserves."

Note 20 - Oil and Gas Activities (Unaudited)

Costs Incurred in Oil and Gas Producing Activities

Costs incurred in oil and gas property acquisition, exploration, and development activities, whether capitalized or expensed, are summarized as follows:

	United States	Australia	United Kingdom	Total
	(In thousands)			
Fiscal year ended June 30, 2014				
Proved	\$ 1,729	\$ —	\$ —	\$ 1,729
Unproved	8	—	—	8
Exploration Costs	541	436	2,507	3,484
Development Costs	21,174	—	551	21,725
Total, including asset retirement obligation	<u>\$ 23,452</u>	<u>\$ 436</u>	<u>\$ 3,058</u>	<u>\$ 26,946</u>
Fiscal year ended June 30, 2013				
Proved	\$ 3,399	\$ —	\$ —	\$ 3,399
Unproved	157	—	335	492
Exploration Costs	398	3,809	3,700	7,907
Development Costs	2,045	—	—	2,045
Total, including asset retirement obligation	<u>\$ 5,999</u>	<u>\$ 3,809</u>	<u>\$ 4,035</u>	<u>\$ 13,843</u>

Net Changes in Capitalized Costs

The net changes in capitalized costs that are currently not being depleted pending the determination of proved reserves can be summarized as follows:

	United States	Australia	United Kingdom	Total
	(In thousands)			
Fiscal year ended June 30, 2014				
Fiscal year beginning balance	\$ 497	\$ 3,976	\$ 1,762	\$ 6,235
Additions to capitalized costs ⁽¹⁾	19,459	1,104	948	21,511
Assets sold or held for sale	—	(5,258)	—	(5,258)
Charged to expense	—	—	(733)	(733)
Exchange adjustment	—	178	(87)	91
Fiscal year closing balance	<u>\$ 19,956</u>	<u>\$ —</u>	<u>\$ 1,890</u>	<u>\$ 21,846</u>
Fiscal year ended June 30, 2013				
Fiscal year beginning balance	\$ 1,823	\$ 4,388	\$ 4,624	\$ 10,835
Additions to capitalized costs	1,954	—	335	2,289
Reclassified to producing properties	(3,223)	—	—	(3,223)
Charged to expense	(57)	—	(3,035)	(3,092)
Exchange adjustment	—	(412)	(162)	(574)
Fiscal year closing balance	<u>\$ 497</u>	<u>\$ 3,976</u>	<u>\$ 1,762</u>	<u>\$ 6,235</u>

⁽¹⁾ The Company began implementing a CO₂-enhanced oil recovery pilot project at NP in the first quarter of fiscal year 2014.

During the third quarter of fiscal year 2014, the Company allowed petroleum exploration and development licenses in the UK to expire at the end of their term. As a result, \$0.7 million of exploration expense was recorded in the consolidated statement of operations. During the third quarter of fiscal year 2013, the Company allowed a petroleum exploration and development license in the UK to expire at the end of its term. As a result, an impairment of \$0.9 million was recorded in the consolidated statements of operations. Additionally, the Company recorded a write-down related to the Markwells Wood-1

exploration well in the UK operated by Northern Petroleum. As a result, an exploration expense of \$2.2 million was recorded in the consolidated statements of operations. No further write-downs were recorded during the fiscal year ended June 30, 2014.

At June 30, 2014, the Company had no costs capitalized for exploratory wells in progress for a period of greater than one year after the completion of drilling.

Note 21 - Quarterly Financial Data (Unaudited)

The following table summarizes the unaudited quarterly financial data, including continuing (loss) income before income taxes, net (loss) income, and net (loss) income per common share for the fiscal years ended:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	June 30, 2014
(In thousands, except per share data)					
Fiscal year ended June 30, 2014					
Revenue from oil production	\$ 2,134	\$ 1,632	\$ 1,907	\$ 1,928	\$ 7,601
Total operating expenses	\$ 6,591	\$ 5,047	\$ 4,311	\$ 4,000	\$ 19,949
Continuing operations:					
(Loss) income from continuing operations ⁽¹⁾	\$ (4,497)	\$ (3,437)	\$ (2,813)	\$ 705	\$ (10,042)
Net (loss) income per basic common share outstanding	\$(0.11)	\$(0.09)	\$(0.07)	\$0.01	\$(0.26)
Net (loss) income per diluted common share outstanding	\$(0.11)	\$(0.09)	\$(0.07)	\$0.01	\$(0.26)
Attributable to common stockholders:					
Net (loss) income	\$ (5,250)	\$ (4,533)	\$ 24,089	\$ (493)	\$ 13,813
Net (loss) income per basic common share outstanding	\$(0.12)	\$(0.10)	\$0.53	\$(0.01)	\$0.30
Net (loss) income per diluted common share outstanding	\$(0.12)	\$(0.10)	\$0.53	\$(0.01)	\$0.30

⁽¹⁾ A downward revision of the contingent consideration payable during the fourth quarter of fiscal year 2014 resulted in \$2.1 million of other income associated with our NP segment, refer Note 7.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	June 30, 2013
(In thousands, except per share data)					
Fiscal year ended June 30, 2013					
Revenue from oil production	\$ 1,460	\$ 1,442	\$ 1,706	\$ 1,523	\$ 6,131
Total operating expenses	\$ 6,101	\$ 7,319	\$ 6,515	\$ 4,479	\$ 24,414
Continuing operations:					
Loss from continuing operations	\$ (4,405)	\$ (5,746)	\$ (3,726)	\$ (2,952)	\$ (16,829)
Net loss per basic common share outstanding	\$(0.08)	\$(0.11)	\$(0.08)	\$(0.08)	\$(0.35)
Net loss per diluted common share outstanding	\$(0.08)	\$(0.11)	\$(0.08)	\$(0.08)	\$(0.35)
Attributable to common stockholders:					
Net loss	\$ (5,310)	\$ (9,783)	\$ (4,332)	\$ (1,064)	\$ (20,489)
Net loss per basic common share outstanding	\$(0.10)	\$(0.18)	\$(0.09)	\$(0.04)	\$(0.41)
Net loss per diluted common share outstanding	\$(0.10)	\$(0.18)	\$(0.09)	\$(0.04)	\$(0.41)

During the third quarter of fiscal year 2014, pursuant to the Sale Deed, the Company completed the sale of Palm Valley and Dingo to Central PV (see Note 2). The transaction resulted in a gain on disposal of discontinued operations, net of tax in the amount of \$30.0 million.

ITEM 9: CHANGES IN, AND DISAGREEMENTS WITH, ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A: CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

We maintain a system of disclosure controls and procedures that are designed to reasonably ensure that information required to be disclosed in our SEC reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and to reasonably ensure that such information is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure.

The effectiveness of our disclosure controls and procedures and our internal control over financial reporting is subject to various inherent limitations, including resource constraints and judgments about the expected benefits of control alternatives relative to their costs, assumptions about the likelihood of future events, the possibility of human error, and the risk of fraud. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions and the risk that the degree of compliance with policies or procedures may deteriorate over time. Because of these limitations, there can be no assurance that any system of disclosure controls and procedures or internal control over financial reporting will be successful in preventing all errors or fraud or in making all material information known in a timely manner to the appropriate levels of management.

An evaluation of the effectiveness of the design and operation of our disclosure controls and procedures was performed as of the end of the period covered by this report. This evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures are effective.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. The Company's internal control over financial reporting is designed 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. The Company's internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that have a material effect on the financial statements.

Management assessed the effectiveness of the Company's internal control over financial reporting as of June 30, 2014. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (1992 Framework). Based on our assessment and these criteria, we believe that internal control over financial reporting is effective as of June 30, 2014.

This annual report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Our internal controls over financial reporting were not subject to attestation by the Company's registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management's report in this annual report.

CHANGE IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth fiscal quarter of the Company's fiscal year ended June 30, 2014, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B: OTHER INFORMATION

We have elected to include the following information in this Form 10-K in lieu of reporting it in a separately filed Form 8-K. This information would otherwise have been reported in a Form 8-K under the headings "Item 1.01 Entry into a Material Definitive Agreement" and "Item 2.03 Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant."

On September 17, 2014, NP entered into a senior secured \$8.0 million revolving line of credit note (the "LCN") with West Texas State Bank. The LCN will mature on September 30, 2015. The LCN is subject to quarterly floating interest payments based on the Prime Rate (currently approximately 3.25%) and a floor rate of 3.25%. The LCN is secured by substantially all of NP's assets including a first lien on NP's oil and gas leases from the surface to the top of the Bakken, but excluding any rights to assets within or below the Bakken. MPC provided a guarantee of the LCN secured by a pledge of its membership interest in NP. MPC and NP are subject to certain customary restrictive covenants under the terms of this loan.

PART III

Pursuant to General Instruction G(3), the information called for by *Items 10*, (except for information concerning the executive officers of the Company) *11, 12, 13, and 14* is hereby incorporated by reference to the Company's definitive proxy statement for the 2014 annual meeting of stockholders to be filed within 120 days from June 30, 2014. Certain information concerning the executive officers of the Company is included under *Item 10: Directors, Executive Officers, and Corporate Governance* of this report.

ITEM 10: DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The following table sets forth the names, ages, and positions held by the Company's executive officers. The ages of our executive officers are listed as of September 18, 2014.

Name	Age	Office Held	Length of Service as Officer
J. Thomas Wilson	62	President and Chief Executive Officer	Since September 2011
Antoine J. Lafargue	40	VP - Chief Financial Officer and Treasurer	Since August 2010

For further information regarding the named executive officers, see the Company's definitive proxy statement for the 2014 annual meeting of stockholders to be filed within 120 days from June 30, 2014.

ITEM 11: EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the information provided in the Company's definitive proxy statement for the 2014 annual meeting of stockholders to be filed within 120 days from June 30, 2014.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated by reference to the information provided in the Company's definitive proxy statement for the 2014 annual meeting of stockholders to be filed within 120 days from June 30, 2014.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated by reference to the information provided in the Company's definitive proxy statement for the 2014 annual meeting of stockholders to be filed within 120 days from June 30, 2014.

ITEM 14: PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is incorporated by reference to the information provided in the Company's definitive proxy statement for the 2014 annual meeting of stockholders to be filed within 120 days from June 30, 2014.

PART IV**ITEM 15: EXHIBITS AND FINANCIAL STATEMENT SCHEDULES*****(a)(1) and (a)(2) Financial Statements and Financial Statement Schedules:***

<u>ITEM</u>	<u>PAGE</u>
Report of Independent Registered Public Accounting Firm	49
Consolidated Balance Sheets	50
Consolidated Statements of Operations	52
Consolidated Statements of Comprehensive Income (Loss)	53
Consolidated Statements of Stockholders' Equity	54
Consolidated Statements of Cash Flows	55
Notes to Consolidated Financial Statements	57

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

(b) Exhibits. The following exhibits are filed or furnished with or incorporated by reference into this report:

<u>EXHIBIT NUMBER</u>	<u>DESCRIPTION</u>
2.1	Lease Purchase and Sale and Participation Agreement among Magellan Petroleum Corporation, Nautilus Poplar LLC, and VAALCO Energy (USA), Inc., dated as of September 6, 2011 (filed as Exhibit 2.1 to the registrant's Quarterly Report on Form 10-Q filed on November 14, 2011 and incorporated herein by reference)
2.2	Amendment dated December 11, 2012 to Lease Purchase and Sale and Participation Agreement among Magellan Petroleum Corporation, Nautilus Poplar LLC, and VAALCO Energy (USA) Inc. dated as of September 6, 2011 (filed as Exhibit 2.1 to the registrant's Quarterly Report on Form 10-Q filed on February 11, 2013 and incorporated herein by reference)
2.3	Purchase and Sale Agreement among Magellan Petroleum Corporation and the members of Nautilus Technical Group LLC and Eastern Rider LLC, dated as of September 2, 2011 (filed as Exhibit 2.2 to the registrant's Quarterly Report on Form 10-Q filed on November 14, 2011 and incorporated herein by reference)
2.4	Sale Agreement among Magellan Petroleum (NT) Pty Ltd, Santos QNT Pty Ltd, and Santos Limited, dated September 14, 2011 (filed as Exhibit 2.3 to the registrant's Quarterly Report on Form 10-Q filed on November 14, 2011 and incorporated herein by reference)
2.5	Share Sale and Purchase Deed dated February 17, 2014, among Magellan Petroleum Australia Pty Ltd, Magellan Petroleum (N.T) Pty. Ltd., Magellan Petroleum Corporation, Jarl Pty. Ltd., Central Petroleum PVD Pty. Ltd, and Central Petroleum Limited (filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on February 18, 2014 and incorporated herein by reference) (Pursuant to Item 601(b)(2) of Regulation S-K, certain schedules and similar attachments have been omitted. The registrant hereby agrees to furnish supplementally a copy of any omitted schedule or attachment to the U.S. Securities and Exchange Commission upon request)
2.6	Escrow Agency Deed dated February 17, 2014, between Magellan Petroleum Australia Pty Ltd and Central Petroleum PVD Pty. Ltd. (filed as Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on February 18, 2014 and incorporated herein by reference)
3.1	Restated Certificate of Incorporation as filed on May 4, 1987 with the State of Delaware, as amended by an Amendment of Article Twelfth as filed on February 12, 1988 with the State of Delaware (filed as Exhibit 4.B. to the registrant's Registration Statement on Form S-8 filed on January 14, 1999 (Registration No. 333-70567) and incorporated herein by reference)
3.2	Certificate of Amendment of Restated Certificate of Incorporation as filed on December 26, 2000 with the State of Delaware (filed as Exhibit 3(a) to the registrant's Quarterly Report on Form 10-Q filed on February 13, 2001 and incorporated herein by reference)
3.3	Certificate of Amendment of Restated Certificate of Incorporation related to Articles Twelfth and Fourteenth as filed on October 15, 2009 with the State of Delaware (filed as Exhibit 3.3 to the registrant's Quarterly Report on Form 10-Q filed on February 16, 2010 and incorporated herein by reference)
3.4	Certificate of Amendment of Restated 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 registrant's Quarterly Report on Form 10-Q filed on February 16, 2010 and incorporated herein by reference)
3.5	Certificate of Amendment of Restated Certificate of Incorporation related to Article Fourth as filed on December 10, 2010 with the State of Delaware (filed as Exhibit 3.1 to the registrant's Current Report on Form 8-K filed on December 13, 2010 and incorporated herein by reference)

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3.6	Certificate of Designations of Series A Convertible Preferred Stock as filed on May 17, 2013 with the State of Delaware (filed as Exhibit 3.6 to the registrant's Current Report on Form 8-K filed on June 26, 2013 and incorporated herein by reference)
3.7	Certificate of Amendment to Certificate of Designations of Series A Convertible Preferred Stock as filed on August 19, 2013 with the State of Delaware (filed as Exhibit 3.1 to the registrant's Current Report on Form 8-K filed on August 19, 2013 and incorporated herein by reference)
3.8	By-Laws, as amended on June 13, 2013 (filed as Exhibit 3.1 to the registrant's Current Report on Form 8-K filed on June 18, 2013 and incorporated herein by reference)
4.1+	Registration Rights Agreement dated May 17, 2013 between Magellan Petroleum Corporation and One Stone Holdings II LP (filed as Exhibit 4.1 to the registrant's Current Report on Form 8-K filed on June 26, 2013 and incorporated herein by reference)
10.1+	Form of Indemnification Agreement between Magellan Petroleum Corporation and directors and officers pursuant to Article Sixteenth of the Restated Certificate of Incorporation and the By-Laws (filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on June 2, 2009 and incorporated herein by reference)
10.2+	Form of Indemnification Agreement for directors and officers (filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on June 10, 2013 and incorporated herein by reference)
10.3+	1998 Stock Option Plan (filed as Exhibit 4.A. to the registrant's Registration Statement on Form S-8 filed on January 14, 1999 (Registration No. 333-70567) and incorporated herein by reference)
10.4+	First Amendment to the 1998 Stock Option Plan dated October 24, 2007 (filed as Exhibit 10(n) to the registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2008 and incorporated herein by reference)
10.5+	1998 Stock Incentive Plan, as amended and restated through September 28, 2010 (filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on December 13, 2010 and incorporated herein by reference)
10.6+	Form of Non-Qualified Stock Option Award Agreement between Magellan Petroleum Corporation and officers and directors (filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on November 30, 2005 and incorporated herein by reference)
10.7+	Form of Amendment to Non-Qualified Stock Option Agreement between Magellan Petroleum Corporation and directors (filed as Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on December 15, 2008 and incorporated herein by reference)
10.8+	Non-Qualified Stock Option Award Agreement between Magellan Petroleum Corporation and William H. Hastings, dated as of February 3, 2009 (filed as Exhibit 10.3 to the registrant's Current Report on Form 8-K filed on February 9, 2009 and incorporated herein by reference)
10.9+	Non-Qualified Stock Option Performance Award Agreement between Magellan Petroleum Corporation and William H. Hastings, dated as of February 3, 2009 (filed as Exhibit 10.4 to the registrant's Current Report on Form 8-K filed on February 9, 2009 and incorporated herein by reference)
10.10	Amended and Restated Warrant Agreement between Magellan Petroleum Corporation and Young Energy Prize S.A., dated March 11, 2010 (filed as Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q filed on May 14, 2010 and incorporated herein by reference)
10.11	Registration Rights Agreement between Magellan Petroleum Corporation and Young Energy Prize S.A., dated July 9, 2009 (filed as Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on July 14, 2009 and incorporated herein by reference)
10.12	First Amendment to Registration Rights Agreement among Magellan Petroleum Corporation, Young Energy Prize S.A., and YEP I, SICAV-FIS, dated as of October 14, 2009 (filed as Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on October 19, 2009 and incorporated herein by reference)
10.13	Second Amendment to Registration Rights Agreement among Magellan Petroleum Corporation, Young Energy Prize S.A., and ECP Fund, SICAV-FIS, dated June 23, 2010 (filed as Exhibit 10(xx) to the registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2010 and incorporated herein by reference)
10.14+	Non-Qualified Stock Option Award Agreement between Magellan Petroleum Corporation and J. Thomas Wilson, dated July 9, 2009 (filed as Exhibit 10.5 to the registrant's Current Report on Form 8-K filed on July 14, 2009 and incorporated herein by reference)
10.15+	Non-Qualified Stock Option Performance Award Agreement between Magellan Petroleum Corporation and J. Thomas Wilson, dated July 9, 2009 (filed as Exhibit 10.6 to the registrant's Current Report on Form 8-K filed on July 14, 2009 and incorporated herein by reference)
10.16+	Employment Agreement between Magellan Petroleum Corporation and J. Thomas Wilson dated November 2, 2011 (filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K/A filed on November 16, 2011 and incorporated herein by reference)
10.17+	Amended and Restated Employment Agreement between Magellan Petroleum Corporation and J. Thomas Wilson effective December 11, 2013 (filed as Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q filed on February 14, 2014 and incorporated herein by reference)
10.18+	Amended and Restated Employment Agreement between Magellan Petroleum Corporation and J. Thomas Wilson dated November 12, 2012 (filed as Exhibit 10.4 to the registrant's Quarterly Report on Form 10-Q filed on February 11, 2013 and incorporated herein by reference)
10.19+	Indemnification Agreement between Magellan Petroleum Corporation and J. Thomas Wilson dated November 2, 2011 (filed as Exhibit 10.2 to the registrant's Current Report on Form 8-K/A filed on November 16, 2011 and incorporated herein by reference)

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10.20+	Nonqualified Stock Option Award Agreement between Magellan Petroleum Corporation and J. Thomas Wilson dated November 16, 2011 (filed as Exhibit 10.3 to the registrant's Current Report on Form 8-K/A filed on November 16, 2011 and incorporated herein by reference)
10.21+	Restricted Stock Award Agreement between Magellan Petroleum Corporation and J. Thomas Wilson dated November 16, 2011 (filed as Exhibit 10.4 to the registrant's Current Report on Form 8-K/A filed on November 16, 2011 and incorporated herein by reference)
10.22	First Amended and Restated Operating Agreement of Nautilus Poplar, LLC among Nautilus Technical Group, LLC, White Bear, LLC, YEP I, SICAV-FIS, and Eastern Rider, LLC dated as of October 14, 2009 (filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on October 19, 2009 and incorporated herein by reference)
10.23+	Form of Non-Qualified Stock Option Award Agreement between Magellan Petroleum Corporation and non-employee directors, dated April 1, 2010 (filed as Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q filed on May 14, 2010 and incorporated herein by reference)
10.24+	Form of Restricted Stock Award Agreement between Magellan Petroleum Corporation and non-employee directors, dated April 1, 2010 (Version A) (filed as Exhibit 10.3 to the registrant's Quarterly Report on Form 10-Q filed on May 14, 2010 and incorporated herein by reference)
10.25+	Form of Restricted Stock Award Agreement between Magellan Petroleum Corporation and non-employee directors, dated April 1, 2010 (Version B) (filed as Exhibit 10.4 to the registrant's Quarterly Report on Form 10-Q filed on May 14, 2010 and incorporated herein by reference)
10.26+	Employment Agreement between Magellan Petroleum Corporation and Antoine J. Lafargue, dated as of August 2, 2010 (filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on August 4, 2010 and incorporated herein by reference)
10.27+	Indemnification Agreement between Magellan Petroleum Corporation and Antoine J. Lafargue, dated as of August 2, 2010 (filed as Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on August 4, 2010 and incorporated herein by reference)
10.28+	Non-Qualified Stock Option Award Agreement between Magellan Petroleum Corporation and Antoine J. Lafargue, dated as of August 2, 2010 (filed as Exhibit 10.3 to the registrant's Current Report on Form 8-K filed on August 4, 2010 and incorporated herein by reference)
10.29+	Non-Qualified Stock Option Performance Award Agreement between Magellan Petroleum Corporation and Antoine J. Lafargue, dated as of August 2, 2010 (filed as Exhibit 10.4 to the registrant's Current Report on Form 8-K filed on August 4, 2010 and incorporated herein by reference)
10.30+	Nonqualified Stock Option Award Agreement between Magellan Petroleum Corporation and Antoine J. Lafargue dated November 30, 2011 (filed as Exhibit 10.7 to the registrant's Quarterly Report on Form 10-Q filed on February 10, 2012 and incorporated herein by reference)
10.31+	Nonqualified Stock Option Performance Award Agreement between Magellan Petroleum Corporation and Antoine J. Lafargue dated November 30, 2011 (filed as Exhibit 10.8 to the registrant's Quarterly Report on Form 10-Q filed on February 10, 2012 and incorporated herein by reference)
10.32	Memorandum of Agreement between Magellan Petroleum Corporation and Young Energy Prize S.A., dated August 5, 2010 (filed as Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on August 11, 2010 and incorporated herein by reference)
10.33	Investor Rights Agreement between Magellan Petroleum Corporation and Young Energy Prize S.A., dated August 5, 2010 (filed as Exhibit 10.3 to the registrant's Current Report on Form 8-K filed on August 11, 2010 and incorporated herein by reference)
10.34	Letter of Young Energy Prize S.A. to Magellan Petroleum Corporation dated January 13, 2011, effective as of December 23, 2010 (filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on January 18, 2011 and incorporated herein by reference)
10.35	First Amendment to Securities Purchase Agreement between Magellan Petroleum Corporation and Young Energy Prize S.A., dated February 11, 2011 (filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on February 18, 2011 and incorporated herein by reference)
10.36	Second Amendment to Securities Purchase Agreement between Magellan Petroleum Corporation and Young Energy Prize S.A., dated February 17, 2011 (filed as Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on February 18, 2011 and incorporated herein by reference)
10.37	Investment Agreement between Magellan Petroleum Corporation and Young Energy Prize S.A., dated February 11, 2011 (filed as Exhibit 10.3 to the registrant's Current Report on Form 8-K filed on February 18, 2011 and incorporated herein by reference)
10.38	Amended Side Letter to Investment Agreement between Magellan Petroleum Corporation and Young Energy Prize S.A., dated February 17, 2011 (filed as Exhibit 10.4 to the registrant's Current Report on Form 8-K filed on February 18, 2011 and incorporated herein by reference)
10.39	Registration Rights Agreement among Magellan Petroleum Corporation and the members of Nautilus Technical Group LLC and Eastern Rider LLC, dated September 2, 2011 (filed as Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q filed on November 14, 2011 and incorporated herein by reference)
10.40	Gas Supply and Purchase Agreement among Magellan Petroleum (N.T.) Pty. Ltd., Santos Limited, and Santos QNT Pty. Ltd., dated September 14, 2011 (filed as Exhibit 10.3 to the registrant's Quarterly Report on Form 10-Q filed on November 14, 2011 and incorporated herein by reference)

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10.41+	Nonqualified Stock Option Award and Subscription Agreement between Magellan Petroleum Corporation and Milam Randolph Pharo dated November 30, 2011 (filed as Exhibit 10.6 to the registrant's Quarterly Report on Form 10-Q filed on February 10, 2012 and incorporated herein by reference)
10.42+	Employment Agreement dated August 28, 2012 between Magellan Petroleum Corporation and C. Mark Brannum (filed as Exhibit 10.1 to the registrant's Quarterly Report on Form 10-Q/A filed on February 15, 2013 and incorporated herein by reference)
10.43+	Nonqualified Stock Option Award and Subscription Agreement dated August 28, 2012 between Magellan Petroleum Corporation and C. Mark Brannum (filed as Exhibit 10.2 to the registrant's Quarterly Report on Form 10-Q/A filed on February 15, 2013 and incorporated herein by reference)
10.44+	Restricted Stock Award and Subscription Agreement dated August 28, 2012 between Magellan Petroleum Corporation and C. Mark Brannum (filed as Exhibit 10.3 to the registrant's Quarterly Report on Form 10-Q/A filed on February 15, 2013 and incorporated herein by reference)
10.45+	Indemnification Agreement dated September 5, 2012 between Magellan Petroleum Corporation and C. Mark Brannum (filed as Exhibit 10.4 to the registrant's Quarterly Report on Form 10-Q/A filed on February 15, 2013 and incorporated herein by reference)
10.46+	Indemnification Agreement dated November 30, 2011 between Magellan Petroleum Corporation and Milam Randolph Pharo (filed as Exhibit 10.5 to the registrant's Quarterly Report on Form 10-Q/A filed on February 15, 2013 and incorporated herein by reference)
10.47+	Letter Agreement dated September 7, 2012 between Magellan Petroleum Corporation and Nikolay V. Bogachev (filed as Exhibit 10.6 to the registrant's Quarterly Report on Form 10-Q/A filed on February 15, 2013 and incorporated herein by reference)
10.48	Agreement for 2-D and 3-D Data Acquisition Services dated October 26, 2012 between Magellan Petroleum (Offshore) PTY LTD and Seabird Exploration FZ LLC (filed as Exhibit 10.7 to the registrant's Quarterly Report on Form 10-Q filed on November 9, 2012 and incorporated herein by reference)
10.49+	Collateral Purchase Agreement dated January 14, 2013 between Sopak AG and Magellan Petroleum Corporation (filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on January 17, 2013 and incorporated herein by reference)
10.50+	Magellan Petroleum Corporation 2012 Omnibus Incentive Compensation Plan (filed as Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on January 17, 2013 and incorporated herein by reference)
10.51+	Series A Convertible Preferred Stock Purchase Agreement dated May 10, 2013 between Magellan Petroleum Corporation and One Stone Holdings II LP (filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on May 13, 2013 and incorporated herein by reference)
10.52+	Form of Restricted Stock Award Agreement under the 2012 Omnibus Incentive Compensation Plan (filed as Exhibit 10.75 to the registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2013 and incorporated herein by reference)
10.53+	Form of Nonqualified Stock Option Award Agreement under the 2012 Omnibus Incentive Compensation Plan (filed as Exhibit 10.76 to the registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 2013 and incorporated herein by reference)
10.54+	Form of Performance-Based Nonqualified Stock Option Award Agreement under the 2012 Omnibus Incentive Compensation Plan (filed as Exhibit 10.4 to the registrant's Quarterly Report on Form 10-Q filed on November 12, 2013 and incorporated herein by reference)
10.55+	Gas Supply and Purchase Agreement dated September 12, 2013, between Magellan Petroleum (NT) Pty Ltd and Power and Water Corporation (filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on September 12, 2013 and incorporated herein by reference) (portions of this Exhibit have been redacted and are subject to a confidential treatment order granted by the Securities and Exchange Commission pursuant to Rule 24b-2 under the Securities Exchange Act of 1934)
10.56+	The Amendment to 1998 Stock Incentive Plan dated effective as of September 9, 2014 (filed as Exhibit 10.1 to the registrant's Current Report on Form 8-K filed on September 11, 2014, and incorporated herein by reference)
10.57*	Loan Agreement dated September 17, 2014 between Nautilus Poplar LLC as the Borrower, Magellan Petroleum Corporation as the Guarantor and West Texas State Bank as the Lender.
10.58*	Promissory Note Agreement dated September 17, 2014 between Nautilus Poplar LLC as the Borrower and West Texas State Bank as the Lender.
10.59*	Guarantee Agreement dated September 17, 2014 between Nautilus Poplar LLC as the Borrower, Magellan Petroleum Corporation as the Guarantor and West Texas State Bank as the Lender.
10.60*	Deed of Trust, Mortgage, Security Agreement, Assignment of Production and Financing Statement dated September 17, 2014 between Nautilus Poplar LLC as the Grantor and West Texas State Bank as Lender.
14.1	Code of Conduct of Magellan Petroleum Corporation, as amended July 24, 2012 (filed as Exhibit 14.1 to the registrant's Annual Report on Form 10-K filed on September 24, 2012 and incorporated herein by reference)
21.1*	Subsidiaries of the Registrant
23.1*	Consent of EKS&H LLLP
23.2*	Consent of Allen & Crouch Petroleum Engineers Inc.
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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32.2**	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1*	Summary reserves report of Allen & Crouch Petroleum Engineers, Inc.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

** Furnished herewith.

+ Management contract or compensatory plan or arrangement.

SIGNATURES

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

MAGELLAN PETROLEUM CORPORATION

(Registrant)

By: /s/ J. Thomas Wilson
John Thomas Wilson, President and Chief Executive Officer
(as Principal Executive Officer)

By: /s/ Antoine J. Lafargue
Antoine J. Lafargue, Vice President - Chief Financial Officer and Treasurer
(as Principal Financial and Accounting Officer)

Date: September 18, 2014

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

/s/ J. Thomas Wilson Date: September 18, 2014
John Thomas Wilson, President and Chief Executive Officer, and Director

/s/ Antoine J. Lafargue Date: September 18, 2014
Antoine J. Lafargue, Vice President - Chief Financial Officer, and Treasurer

/s/ Vadim Gluzman Date: September 18, 2014
Vadim Gluzman, Director

/s/ Robert I. Israel Date: September 18, 2014
Robert I. Israel, Director

/s/ Brendan S. MacMillan Date: September 18, 2014
Brendan S. MacMillan, Director

/s/ Ronald P. Pettirossi Date: September 18, 2014
Ronald P. Pettirossi, Director

/s/ Milam Randolph Pharo Date: September 18, 2014
Milam Randolph Pharo Director

/s/ J. Robinson West Date: September 18, 2014
J. Robinson West, Director

INDEX TO EXHIBITS

<u>EXHIBIT NUMBER</u>	<u>DESCRIPTION</u>
10.57*	Loan Agreement dated September 17, 2014 between Nautilus Poplar LLC as the Borrower, Magellan Petroleum Corporation as the Guarantor and West Texas State Bank as the Lender.
10.58*	Promissory Note Agreement dated September 17, 2014 between Nautilus Poplar LLC as the Borrower and West Texas State Bank as the Lender.
10.59*	Guarantee Agreement dated September 17, 2014 between Nautilus Poplar LLC as the Borrower, Magellan Petroleum Corporation as the Guarantor and West Texas State Bank as the Lender.
10.60*	Deed of Trust, Mortgage, Security Agreement, Assignment of Production and Financing Statement dated September 17, 2014 between Nautilus Poplar LLC as the Grantor and West Texas State Bank as Lender.
21.1*	Subsidiaries of the Registrant
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23.2*	Consent of Allen & Crouch Petroleum Engineers Inc.
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101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
*	Filed herewith.
**	Furnished herewith.

LOAN AGREEMENT

This Loan Agreement (this "Agreement") dated as of **September 17, 2014** (the "Effective Date"), is entered into by and among **WEST TEXAS STATE BANK** ("Lender"), the Borrower and Guarantor.

In consideration of the Loan or Loans described below and the mutual covenants and agreements contained herein, and intending to be legally bound hereby, Lender, Borrower and Guarantor agree as follows:

1. Definitions and Reference Terms. In addition to any other terms defined herein, the following terms shall have the meaning set forth with respect thereto:

A. **Accounting Terms.** All accounting terms not specifically defined or specified herein shall have the meanings generally attributed to such terms under generally accepted accounting principles ("GAAP"), as in effect from time to time, as the case may be consistently applied, with respect to the financial statements referenced in Section 5.A. hereof.

B. **Agreement.** The word "Agreement" means this Loan Agreement, as may be amended or modified from time to time, together with all exhibits and schedules attached hereto from time to time.

C. **Borrower.** The term "Borrower" means **Nautilus Poplar LLC**, a Montana limited liability company.

D. **Collateral.** The term "Collateral" shall include without limitation all property and assets granted as collateral for the Loan, whether real or personal (tangible or intangible) property, whether granted directly or indirectly, whether granted now or in the future, and whether granted in the form of a security interest, mortgage, deed of trust, assignment, pledge or chattel mortgage intended as a security device, or any other security or lien interest whatsoever, whether created by law, contract, or otherwise, including, but not limited to, all oil and gas properties and equipment located thereon and proceeds derived therefrom in the oil and gas properties owned or leased by Borrower, **INSOFAR AND ONLY INSOFAR** as to those depths and formations from the surface down to immediately above the top of the Bakken formation, which is defined as the stratigraphic equivalent of 7032 feet as shown on the electrical log for the Nautilus EPU 119 well (API No. 25-085-21777), located in the NE/4NE/4, Sec. 31, Twp. 29N, R. 51E, MPM, Roosevelt County, Montana, being more fully described in the Mortgage described below.

E. **Guarantor.** The term "Guarantor" means **Magellan Petroleum Corporation**, a Delaware corporation.

F. **Guaranty.** The term "Guaranty" shall mean that certain Unlimited Guaranty dated as of the Effective Date executed by Guarantor described above to or for

the benefit of Lender, as such Guaranty may hereafter be amended, modified, supplemented, renewed and/or extended.

G. **Hazardous Materials.** The term "Hazardous Materials" means all materials defined as hazardous materials or substances under any local, state or federal environmental laws, rules or regulations, and petroleum, petroleum products, oil and asbestos.

H. **Loan Documents.** The term "Loan Documents" mean this Loan Agreement and any and all promissory notes executed by Borrower and Guaranty executed by Guarantor in favor of Lender and all other documents, instruments, guarantees, certificates of deposit, deeds of trust, assignments of insurance proceeds, security agreements, pledge agreements and Security Documents described below executed and/or delivered by Borrower or any third party in connection with any Loan.

I. **Loans.** The term "Loans" mean any loans described in Section 2 hereof.

J. **Mortgage (whether one or more).** The term "Mortgage" shall mean that certain Deed of Trust, Mortgage, Security Agreement, Assignment of Production and Financing Statement dated as of the Effective Date executed by the Borrower described above to or for the benefit of Lender, as such Mortgage may hereafter be amended, modified, supplemented, renewed and/or extended, and all other mortgages and deeds of trust covering the Mortgaged Property hereafter executed by Borrower to or for the benefit of Lender securing any Loan.

K. **Note.** The term "Note" shall mean the Line of Credit Note set out in Section 2 together with any and all renewals, extensions, amendments or rearrangements thereof.

L. **Obligations.** The term "Obligations" shall mean all indebtedness, obligations and/or liabilities owed by Borrower and/or Guarantor to Lender arising under the terms of the Note and/or Security Documents.

M. **Permitted Encumbrances.** The words "Permitted Encumbrances" mean as applied to the Borrower, all Permitted Encumbrances as set out in Section 2.1 (a) of the Mortgage plus (i) any lien and/or security interest in favor of Lender or any Lender to secure the Obligations hereunder; (ii) liens for taxes, fees, assessments or other charges to governmental authorities not yet delinquent or being contested in good faith by appropriate proceedings; (iii) liens of operators, carriers, warehousemen, mechanics, laborers and materialmen and other similar liens or incident to the exploration, development, operation and maintenance of oil and gas properties and/or mineral interests comprising the Collateral, in each case incurred in the ordinary course of business for sums not yet due and payable or being contested in good faith; (iv) easements, right-of-way, building codes, zoning, permits, restrictions and other similar encumbrances on the use of the oil and gas properties comprising the Collateral; (v) liens created to secure the purchase price of personal property acquired (or existing on the

personal property at the time such personal property is acquired) by Borrower or created to secure indebtedness; (vi) liens arising from filing Uniform Commercial Code financing statements for precautionary purposes relating solely to true leases of personal property permitted by this Agreement under which the Borrower or any of their Subsidiaries is a lessee; (vii) any law or right reserved to or vested in any tribunal to control or regulate the use of any oil and gas properties comprising the Collateral; (viii) royalties, overriding royalties, reversionary interests, net profits interests, carried interests, production payments and similar burdens; (ix) agreements arising in the ordinary course of Borrower's business burdening and/or affecting the oil and gas properties comprising the Collateral including, but not limited to, joint operating agreements and unitization and pooling agreements; (x) minor defects and irregularities in title to any Property, so long as such defects and irregularities neither (a) are liens or security interests which secure other indebtedness or obligations nor (b) materially impair the value of such Property or the use thereof for the purposes for which such Property is held; (xi) judgment and attachment liens not giving rise to an Event of Default; (xii) the contracts, agreements, burdens, encumbrances and other matters set forth in the descriptions of certain of the Mortgaged Properties (as defined in the Mortgage) on Exhibit A to the Mortgage; (xiii) deposits of cash, securities or instruments (including payment or performance bonds, but excluding appeal bonds) to secure the performance of bids, trade contracts, leases, statutory obligations and other obligations of like nature incurred in the ordinary course of business; (xiv) sales contracts or other arrangements for the sale of hydrocarbons in the ordinary course of business which would not deprive Borrower of any material right in respect of the Mortgaged Property; (xv) liens to secure plugging and abandonment obligations, which do not have a material adverse effect on the Borrower; (xvi) pledges or deposits and other liens (a) in connection with workers' compensation, unemployment insurance and other social security legislations and (b) securing liability for reimbursement or indemnification obligations of (including obligations in respect of letters of credit or bank guarantees for the benefit of) insurance carriers providing property, casualty or liability insurance to the Borrower; and (xvii) only for the thirty (30) days immediately following the Effective Date, recorded liens in favor of Jonah Bank of Wyoming.

N. **Pledge Agreement.** The term "Pledge Agreement" shall mean that certain Pledge Agreement dated to be effective as of the Effective Date executed by the Guarantor described above to or for the benefit of Lender, as such Pledge Agreement may hereafter be amended, modified, supplemented, renewed and/or extended.

O. **Security Documents.** The term "Security Documents" shall mean the Mortgage and Pledge Agreement described above and any and all accompanying UCC-1 Financing Statements and agreements associated therewith as such Security Documents may hereafter be amended, modified, supplemented, renewed and/or extended.

2. **Loans.**

A. **Line of Credit Commitment.** Lender agrees to make Advances to the Borrower as follows:

(i) **Loan.** Subject to the terms and conditions hereof, Lender hereby agrees to make a series of loans to Borrower in an aggregate principal amount of up to \$8,000,000.00. The obligation to repay the Loan is evidenced by a Promissory Note (Revolving Line of Credit Note) dated as of the Effective Date, having an original principal commitment amount of \$8,000,000.00 (together with any and all renewals, extensions and/or rearrangements thereof being hereinafter referred to sometimes as "Line of Credit Note" or "Note") having a maturity date, repayment terms and an interest rate as set forth in the Line of Credit Note together with any and all renewals, extensions, amendments or rearrangements thereof. The proceeds from said Line of Credit Note will be used for the purposes set out under 5.I. below.

(ii) **Revolving Credit Feature.** The Line of Credit Note provides for a revolving line of credit feature under which Borrower may from time to time borrow, repay and reborrow funds, without penalty, premium or fee. The aggregate principal amount of funds borrowed under the Line of Credit Note shall never exceed at any one time outstanding the face amount of the Line of Credit Note.

(iii) **Request for Advances.** The obligation of Lender to advance funds under the Line of Credit Note pursuant to this section are subject to Borrower delivering to Lender a completed request for advance in the form attached hereto as Exhibit "A," attached hereto and made a part hereof.

(iv) **General Conditions Precedent to Advances.** Lender's obligation to make any advances under the Line of Credit Note or to provide any other financial accommodations to or for the benefit of Borrower hereunder shall be subject to the conditions precedent that as of the date of such advance or disbursement and after giving effect thereto [a] all representations and warranties made to Lender in this Agreement and the Loan Documents shall be true and correct in all material respects as of and as if made on such date (except to the extent any such representation or warranty specifically relates to a specific date), [b] no material adverse change in the financial condition of Borrower and/or Guarantor since the effective date of the most recent financial statements furnished to Lender, or in the value of the Mortgaged Properties taken as a whole, shall have occurred and be continuing, [c] no event has occurred and is continuing, or would result from the disbursement of the requested advance, which with notice or lapse of time, or both, would constitute an Event of Default (as defined in Section 7 of this Agreement), [d] Lender has received all financial reports, financial statements, tax returns, Reserve Evaluations, as defined below, and other information ("Financial Information") required under Section 5.A. below, appropriately executed by Borrower and/or Guarantor and all other proper parties, and [e] Lender has received payment of, or shall receive substantially contemporaneously with the initial funding, a closing fee in the amount of

\$40,000 (the "Closing Fee"), which shall be deemed to be fully earned by Lender on the Effective Date.

(v) **Reliance on Request.** Notwithstanding anything to the contrary, any request for advances communicated to any office of Lender by any person on behalf of Borrower believed by Lender in good faith to be authorized to make the request, whether written, verbal, telephonic or electronic, may be acted upon by Lender, and Borrower will be liable for sums advanced by Lender pursuant to such request, unless resulting from the gross negligence, willful misconduct or fraud of Lender. Such requests for advances shall be deemed authorized by Borrower, and Lender shall not be liable for such advances made in good faith, and with respect to advances deposited to the credit of any deposit account of Borrower, such advances, when so deposited, shall be conclusively presumed to have been made to or for the benefit of Borrower regardless of the fact that persons other than those authorized to request advances may have authority to draw against such account. Borrower agrees to indemnify and hold Lender harmless from and against all damages, liabilities, costs and expenses (including reasonable out-of-pocket attorney's fees) arising out of any claim by Borrower or any third party against Lender in connection with Lender's performance of transfers as described above, unless resulting from the gross negligence, willful misconduct or fraud of Lender.

(vi) **Conditions Precedent to Initial Advances.** Lender's obligation to make an initial advances under the Line of Credit Note or to provide any other financial accommodations to or for the benefit of Borrower hereunder shall be subject to Borrower's delivery to Lender of a revised Exhibit "A" for attachment to the Deed of Trust containing [a] with respect to at least 80% of the oil and gas leases and/or oil, gas and mineral leases included therein ("Leases"), the addition of a reference to the Office of the Recorder Book and Page numbers for said Leases based on Borrower's readily available records (and not, for the avoidance of doubt, based on a full search of the Office of the Recorder's courthouse records) and [b] with respect to all Leases, revised versions of the applicable legal descriptions including the longhand version of the quadrant information included in the legal description (for example, changing "NENE" to "NE/4NE/4", as appropriate).

B. **Security Documents.** The Loans are secured by the Security Documents described above.

3. **Security.** As indicated above, as security for the Loans, the Borrower has executed and delivered to Lender the Mortgage described above covering various leasehold, operating, royalty, mineral and overriding royalty interest along with any equipment associated therewith and proceeds and revenues derived therefrom located in Roosevelt County, Montana and Guarantor agrees to execute and deliver to Lender a Pledge Agreement described above covering its membership interest in Borrower on terms mutually

acceptable to the Parties. When Collateral is mortgaged, assigned and/or pledged as security for the Loans, Borrower will grant to Lender a first lien in the Collateral (other than with respect to Permitted Encumbrances or unless otherwise represented) and agrees to do all things reasonably necessary to perfect the lien of the Lender in such Collateral.

4. **Representations and Warranties.** Borrower, represents and warrants to Lender as follows:

A. **Good Standing.** **Magellan Petroleum Corporation** is a Delaware corporation and **Nautilus Poplar LLC** is a Montana limited liability company and each of which is duly organized, validly existing and in good standing under the laws of the States of Delaware and Montana, respectively, and has the organizational power and authority to own the Collateral which it owns and to carry on its businesses in each jurisdiction in which such company does business except where the failure to qualify would not have a material adverse effect on such company.

B. **Authority and Compliance.** Borrower and Guarantor have full organizational power and authority to execute and deliver the Loan Documents and to incur and perform the obligations provided for therein, all of which have been duly authorized by all proper and necessary action of such party. No consent or approval of any public authority or other governmental third party is required as a condition to the validity of any Loan Document, and Borrower is in compliance in all material respects with all laws and regulatory requirements to which it is subject.

C. **Binding Agreement.** This Agreement and the other Loan Documents executed by Borrower and Guarantor constitute valid and legally binding obligations of Borrower and Guarantor, as applicable, enforceable in accordance with their terms, except as enforceability may be limited by applicable bankruptcy, insolvency, or similar laws affecting the enforcement of creditors' rights generally or by equitable principles relating to enforceability.

D. **Litigation.** Except as disclosed to Lender in writing, there is no proceeding against the Borrower and/or Guarantor pending or, to the knowledge of Borrower and/or Guarantor, threatened in writing before any court or governmental authority which would reasonably be expected to have a material adverse effect on Borrower and/or Guarantor, as applicable.

E. **No Conflicting Agreements.** There are no governing documents pertaining to the organization, power or authority of Borrower and/or Guarantor, and no provision of any existing material agreement, mortgage, indenture or contract binding on Borrower and/or Guarantor or affecting the Collateral, which would conflict with or in any way prevent the execution, delivery or carrying out of the terms of this Agreement and the other Loan Documents.

F. **Ownership of Assets.** Borrower and Guarantor has or will collectively have at the time of closing good and defensible title to the Collateral, free and clear of liens, except Permitted Encumbrances (as defined above) and liens granted to Lender.

G. **Taxes.** All material taxes and assessments due and payable by Borrower and/or Guarantor have been paid except for those taxes being contested in good faith by one or more of the Borrower and/or Guarantor by appropriate proceedings in a diligent manner. Borrower and Guarantor have filed all material tax returns which they are required to file.

H. **Financial Statements.** The financial statements of Borrower and/or Guarantor heretofore delivered to Lender have been prepared on a consistent basis throughout the period involved and fairly present such party's financial condition as of the date or dates thereof, and there has been no material adverse change in its financial condition or operations since the dates of such financial statements. All factual information furnished by Borrower and Guarantor to Lender in connection with this Agreement and the other Loan Documents is and will be accurate and complete in all material respects on the date as of which such information is delivered to Lender and is not and will not be incomplete by the omission of any material fact necessary to make such information taken as a whole not misleading in any material respect.

I. **Place of Business.** Borrower's principal place of business is located at 1775 Sherman Street, Suite 1950, Denver, Colorado 80203.

J. **Environmental.** The conduct of the Borrower's business operations and the condition of the Mortgaged Property does not and will not violate in any material respect any federal laws, rules or ordinances for environmental protection, regulations of the Environmental Protection Agency, any applicable local or state law, rule, regulation or rule of common law or any judicial interpretation thereof relating primarily to the environment or Hazardous Materials subject to the "cure period" set out in Section 5.G. below.

K. **Continuation of Representations and Warranties.** All representations and warranties made under this Agreement shall be deemed to be made at and as of the Effective Date and at and as of the date of any advance under any Loan.

L. **Ownership of Borrower.** Guarantor is the sole member of Borrower.

M. **Operations.** Except Permitted Encumbrances or as otherwise disclosed to Lender in writing, Borrower is the operator of the oil and gas properties comprising the Collateral.

5. **Affirmative Covenants.** Until full payment and performance of all obligations of the Borrower under the Loan Documents (other than contingent indemnification obligations to the extent no claim giving rise thereto has been asserted), Borrower will, unless Lender

consents otherwise in writing (and without limiting any requirement of any other Loan Document):

A. **Financial Statements and Other Information.** maintain a system of accounting reasonably satisfactory to Lender on a consistent basis throughout the period involved, permit Lender's officers or authorized representatives to visit and inspect Borrower's books of account and other records at such reasonable times, upon prior reasonable notice, and as often as Lender may desire. All financial statements called for below shall be prepared in accordance with GAAP, in form and substance reasonably acceptable to Lender.

In addition, Borrower will:

(i) Annual Audited Financial Statements (Guarantor). Provide to Lender annual audited consolidated financial statements of the Guarantor and its consolidated subsidiaries, including, without limitation, Borrower, prepared in accordance with GAAP, accompanied by an unqualified opinion rendered by an independent accounting firm ("CPA Firm") acceptable to the Lender (such annual financial statements to include a balance sheet, profit and loss statement, statement of cash flow and changes to owner's equity) reasonably satisfactory to Lender for each fiscal year of Borrower within 120 days after the close of each such fiscal year beginning with the fiscal year ending June 30, 2015.

(ii) Quarterly Financial Statements (Guarantor). Provide to Lender quarterly Borrower in-house prepared financial statements prepared on an income tax basis (which will include a balance sheet and income statement) of Borrower within 60 days after the close of each previous quarter with the first quarterly period ending December 31, 2014.

(iii) Tax Returns (Guarantor). Provide to Lender, within 15 days after filing, beginning with the year ending June 30, 2014, copies of the Guarantor's filed federal income tax returns for such year.

(iv) Annual Oil and Gas Reserve Evaluation. Provide to Lender at Borrower's expense an engineering report ("Engineering Report") setting out the engineered value ("Engineered Value") of Borrower's proved developed producing ("PDP") oil and gas reserves ("PDP Reserves") in form and substance reasonably satisfactory to Lender annually on or before August 1 of each year dated as of June 30 of such year. Each Engineering Report shall be prepared by a third-party engineer or engineering firm reasonably acceptable to Lender utilizing economic and pricing parameters used by the Securities and Exchange Commission as established from time-to-time together with such other information as Lender shall deem reasonably necessary to determine the value of Borrower's PDP Reserves.

(v) Other Information. Provide to Lender promptly such additional information, reports and statements respecting the business operations and financial condition of Borrower, respectively, from time to time, as Lender may reasonably request.

B. **Insurance.** Maintain insurance with responsible insurance companies on the real or tangible property comprising the Mortgaged Property to the extent customary in the industry (excluding, for the avoidance of doubt, any surface equipment, surface facilities or other tangible personal property), in such amounts and against such risks as is customarily maintained by similar businesses operating in the same vicinity, specifically to include fire and extended coverage insurance covering all material assets and liability insurance, all to be with such companies and in such amounts as are reasonably satisfactory to Lender and providing for at least 30 days' prior notice to Lender of any cancellation thereof. Satisfactory evidence of such insurance will be supplied to Lender prior to the initial funding under the Loan and 30 days prior to each policy renewal.

C. **Existence and Compliance.** Maintain and Guarantor will maintain their existence, good standing and qualification to do business in the States of Delaware and Montana, respectively, and where otherwise required except where the failure of such would not have a material adverse effect on Borrower or Guarantor, as applicable, and will comply in all material respects with all laws, regulations and governmental requirements including, without limitation, environmental laws applicable to it or to any of the Collateral, business operations and transactions.

D. **Adverse Conditions or Events.** Promptly advise Lender in writing of (i) any new condition, event or act which comes to its attention that would or reasonably be expected to materially adversely affect the financial condition or operations of Borrower, or Lender's material rights under the Loan Documents, (ii) any material litigation filed against Borrower, (iii) any event that has occurred that would constitute a default or Event of Default under any Loan Document, (iv) any uninsured or partially uninsured (but only to the extent of such uninsured portion) loss through fire, theft, liability or property damage in excess of \$500,000.00, and (v) any new contingent or actual liability in excess of \$500,000.00.

E. **Taxes and Other Obligations.** Pay and Guarantor will pay all of their respective material taxes, assessments and other obligations owing to any governmental authority, including, but not limited to taxes, costs or other expenses arising out of this transaction, as the same become due and payable, except to the extent the same are being contested in good faith by appropriate proceedings in a diligent manner.

F. **Maintenance.** Maintain and Guarantor will maintain all of their respective material tangible property comprising the Mortgaged Property in good condition and repair, consistent with past practice and prudent industry standards, ordinary wear and tear, casualty and condemnation excluded, and make all necessary replacements thereof, and preserve and maintain all licenses, trademarks, privileges,

permits, franchises, certificates and the like to the extent necessary for the operation of their respective businesses.

G. **Environmental.** To the extent not previously disclosed to Lender in writing, promptly advise Lender in writing of (i) any and all material enforcement, cleanup, remedial, removal, or other governmental or regulatory actions instituted, completed or, to the knowledge of Borrower, threatened in writing pursuant to any applicable federal, state, or local laws, ordinances or regulations relating to any Hazardous Materials affecting the Collateral; and (ii) all material claims made or, to the knowledge of Borrower, threatened in writing by any third party against the Borrower relating to damages, contribution, cost recovery, compensation, loss or injury resulting from any Hazardous Materials. Borrower shall promptly notify Lender of any material remedial action taken with respect to Hazardous Materials by them with respect to the Collateral. Borrower will not use or permit any other party to use any Hazardous Materials on the oil and gas properties comprising the Collateral except such materials as are incidental to their normal course of business, maintenance and repairs and which are handled in material compliance with all applicable environmental laws. Borrower agrees to permit Lender, its agents, contractors and employees to enter and inspect any of the oil and gas properties comprising the Collateral at any reasonable times upon three (3) business days prior notice for the purposes of conducting an environmental investigation and audit (on an annual basis) (including taking physical samples) to insure compliance with this covenant and Borrower shall reimburse Lender on demand for the reasonable costs of one such environmental investigation and audit per year. Should Borrower violate this covenant, the cure period will be 60 days from the receipt of written notification of Lender. By material is meant any remedial and/or claim in the amount in excess of \$500,000.00.

H. **Deposits.** During the Loan term and any extensions thereof and until payment in full of the Note (other than contingent indemnification obligations to the extent no claim giving rise thereto has been asserted), maintain a depository account with Lender and grant to Lender the right to offset against the account during the continuance of an Event of Default; provided, however, that Borrower shall not be obligated to have such account opened and maintained until the first date after the Effective Date which is available to Borrower (based on Lender's internal schedule) to open such account. Once such account is open, Borrower shall cause all Production Proceeds (as defined in the Mortgage) payable to Borrower to be deposited into such account.

I. **Use of Proceeds.** Use the proceeds of the Loans for purposes of (i) acquiring oil and gas properties and/or leases, (ii) providing working capital for the Borrower, (iii) funding Letters of Credit issued by Lender and (iv) paying fees, costs and expenses associated with the closing hereunder, including, without limitation, the Closing Fee. In no event will funds from the Loans be used for the purpose of purchasing or carrying margin stock in violation of Regulations G, U or X of the Board of Governors of the Federal Reserve System.

J. **Annual Field Inspections.** Upon reasonable advance notice, permit Lender's officers, engineers and/or authorized representative to visit and inspect Borrower's field operations at such times as Lender may desire, with Borrower to pay all reasonable expenses of such visits and inspections during the continuance of an Event of Default.

k. **Subordination Agreement.** Cause any operator of the Mortgaged Property to execute and deliver to Lender a recordable subordination agreement subordinating any and all indebtedness owed by the Borrower and/or Guarantor to such operator to the indebtedness owed by Borrower and/or Guarantor to Lender.

6. **Negative Covenants.** Until full payment and performance of all obligations of Borrower under the Loan Documents (other than contingent indemnification obligations to the extent no claim giving rise thereto has been asserted), Borrower will not, without the prior written consent of Lender (and without limiting any requirement of any other Loan Documents):

A. **Transfer of Assets or Control.** (i) sell, lease, assign or otherwise dispose of or transfer any Collateral outside the normal course of its business other than (1) resulting from any casualty or condemnation, (2) any compulsory pooling or unitization ordered by a governmental authority with jurisdiction over the oil and gas properties comprising the Collateral, farmouts of undeveloped acreage to which no proved reserves are properly attributed and assignments in connection with such farmouts not in the normal course of its business, (3) sales, transfers and other dispositions of machinery, equipment and other personal property and fixtures comprising any part of the Collateral made in connection with a release, surrender or abandonment of an oil and lease or well in the normal course of its business, (4) sales, transfers and other dispositions of machinery, equipment and other personal property and fixtures comprising any part of the Collateral in connection with the abandonment (to which Lender has given its prior written consent) of an oil and gas lease or well not in the normal course of its business, and (5) sales, transfers and other dispositions of machinery, equipment and other personal property and fixtures comprising any part of the Collateral not in the normal course of its business which are replaced by articles of at least equal suitability and value owned by Borrower free and clear of all liens except Permitted Encumbrances, or (6) the sale of production from the oil and gas properties comprising the Collateral, (ii) enter into any merger or consolidation, (iii) allow the transfer of direct control or ownership of it or form or acquire any subsidiary, or (iv) issue any new shares or options to acquire any such shares other than to Guarantor.

B. **Liens on Borrower's Collateral.** Grant, suffer or permit any contractual or noncontractual lien on or security interest in the Collateral except in favor of Lender or Permitted Encumbrances, or fail to promptly pay when due all lawful claims, whether for labor, materials or otherwise other than those being contested in good faith and by proper proceedings or with the written consent of Lender.

C. **Other Indebtedness (Borrower).** Except for the currently outstanding loans to related entities, to create, incur or have outstanding any indebtedness or obligation, secured or unsecured, recourse, or non-recourse, other than (i) the Note and the indebtedness described herein or in any other Loan Document; (ii) accounts payable incurred in the ordinary course of business with maturities of 60 days or less that are not delinquent or past due under current industry practices or other accounts payable that are being contested in good faith; (iii) taxes, fees, assessments or other charges to governmental authorities of every kind that are not delinquent or that are being contested in good faith and by proper proceedings; (iv) letters of credit incurred in the ordinary course of Borrower's business, including, without limitation, letters of credit in favor of the Bureau of Land Management and letters of credit to secure corporate credit cards; (v) revenue suspension payables; (vi) intercompany loans and extensions of credit with related entities; provided, however, that no repayments by Borrower of any such intercompany loans or extensions of credit shall be permitted so long as there are any then outstanding Loans; or (vii) other unsecured or secured indebtedness incurred by Borrower not to exceed \$250,000.00 in the aggregate outstanding at any time.

D. **Character of Business.** Change the general character of its business as conducted at the date hereof, or engage in any type of business not reasonably related to its business as presently conducted.

E. **[Intentionally Omitted].**

F. **Transaction of Affiliates.** Borrower will not enter into any loan transactions with any of its affiliates (except to the extent permitted pursuant to Section 6.C hereof), officers, directors and/or shareholders and/or any relative of such officer, director and/or shareholders.

7. **Default.** The term "Event of Default" as used in this Agreement shall mean the occurrence of any of the following events:

A. a "default" or "Event of Default" (as defined in any Loan Document other than this Agreement including, but not limited to, Section 4.1 of the Mortgage and in each case after giving effect to any applicable cure or grace periods) occurs under any Loan Document other than this Agreement;

B. the failure of Borrower to comply with Section 5(G) of this Agreement and such failure is not remedied within sixty (60) days of written notice of said failure to Borrower from Lender; or

C. the failure of Borrower to timely and properly to observe, keep or perform any other covenant, agreement, warranty or condition herein required to be observed, kept or performed not otherwise constituting a default or Event of Default under Section 7.A or 7.B above and such failure is not remedied within twenty (20) days of written notice of said failure to Borrower from Lender.

8. **Guaranty.** The Note and any renewals, extensions and amendments thereto shall be guaranteed by the Guaranty of the Guarantor set out above and shall be on written terms as are reasonably acceptable to Lender and shall be secured by the Pledge Agreement described above. Guarantor agrees that its obligations under the terms of the Guaranty shall not be released, diminished, impaired, reduced or affected by the release and/or forgiveness of any obligations of Borrower under the terms of the Note. The maximum aggregate amount for which Guarantor shall be liable hereunder shall not exceed the maximum amount for which Guarantor can be liable without rendering this Guaranty or any other Loan Document, as it relates to Guarantor, subject to avoidance under applicable law relating to fraudulent conveyance or fraudulent transfer (including the Uniform Fraudulent Conveyance Act, the Uniform Fraudulent Transfer Act and Section 548 of title 11 of the United States Code or any applicable provisions of comparable laws).
9. **Remedies Upon Default.** If an Event of Default shall occur and be continuing, Lender shall have all rights, powers and remedies available under each of the Loan Documents as well as all rights and remedies available at law or in equity, including, without limitation, the right to declare the Note immediately due and payable.
10. **Notices.** All notices, requests, consents, demands and other communications required or permitted hereunder or under any other Loan Document shall be in writing and, unless otherwise specifically provided in such other Loan Document, shall be deemed sufficiently given or furnished if delivered by personal delivery, by electronic mail, by expedited delivery service with proof of delivery, or by registered or certified United States mail, postage prepaid, at the following addresses (unless changed by similar notice in writing given by the particular party whose address is to be changed).

Borrower and Guarantor: Magellan Petroleum Corporation
Nautilus Poplar LLC
1775 Sherman Street, Suite 1950
Denver, Colorado 80203
Attn: Mr. Antoine Lafargue, Chief Financial Officer
E-mail: alafargue@magellanpetroleum.com

Lender: West Texas State Bank
1501 W. University
Odessa, Texas 79764
Attn: Mr. Les W. Robbins, President-Midland
E-mail: les@wtstatebk.com

Any such notice or communication shall be deemed to have been given either at the time of personal delivery or, in the case of delivery service or mail, as of the date of first attempted delivery at the address and in the manner provided herein, or, in the case of electronic mail, upon receipt; provided that, service of a notice required by Texas Property Code §51.002, as amended, or any similar statute in any state where any part of the Mortgaged Properties are located shall be considered complete when the requirements

of the applicable statute for such part of the Mortgaged Properties located in the respective state are met.

11. **Costs, Fees, Expenses and Attorneys' Fees.** Borrower shall pay to Lender immediately upon demand the full amount of all reasonable costs and expenses payable to third-parties, including reasonable out-of-pocket attorneys' fees (i.e., to include outside counsel fees) and engineering fees, incurred at any time by Lender (whether before, after or during the loan closing) in connection with (a) the Loan and the negotiation and preparation of this Agreement and each of the Loan Documents and (b) all other costs and reasonable out-of-pocket attorneys' fees incurred by Lender for which Borrower is obligated to reimburse Lender in accordance with the terms of the Loan Documents.

12. **Subordination.** Borrower and Guarantor subordinate and make junior and inferior (a) all debts, liabilities and obligations of (i) the Borrower owed to the Guarantor and/or (ii) the Guarantor owed to the Borrower, now existing or hereafter incurred or arising, whether principal, interest, fees or expenses, direct, contingent, primary, secondary, joint and several, joint or several, or otherwise, and irrespective of the manner in which, or the person or persons in whose favor, such debts, liabilities, or other obligations may at their inception have been, or may hereafter be, created or the manner in which the Borrower and/or Guarantor may have acquired rights with respect thereto ("Subordinated Obligations") and the payment and enforcement of the Subordinated Obligations to (ii) the Note and all other debts, liabilities and obligations of Borrower and/or Guarantor owed to Lender now existing or hereafter incurred or arising ("Senior Obligations") and the payment and enforcement of the Senior Obligations. Any liens, charges, security interests, pledges, assignments or other encumbrances securing the Subordinated Obligations are, and will at all times prior to the Termination Date, be subject, subordinate and inferior to all liens, charges, security interests, pledges, assignments and other encumbrances securing the Senior Obligations. By "Termination Date" is meant the date that no further amounts are owing by Borrower to Lender under the above Note and/or any and all other indebtedness owed by Borrower to Lender under any Loan Document.

13. **Setoff.** Upon the occurrence and during the continuance of any Event of Default, the Lender is hereby authorized at any time and from time to time, without notice to the Borrower (any such notice being expressly waived by the Borrower), to set-off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by the Lender to or for the credit or the account of the Borrower against any and all of the indebtedness of the Borrower under the Note and the Loan Documents, including this Agreement, irrespective of whether or not the Lender shall have made any demand under the Loan Documents, including this Agreement or the Note and although such indebtedness may be unmatured. Any amount set-off by the Lender in accordance herewith shall be applied against the Obligations owed the Lender by the Borrower pursuant to this Agreement and the Note. The Lender agrees promptly to notify the Borrower after any such setoff and application, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of the Lender under this Section are in addition to other rights and

remedies (including, without limitation, other rights of set-off) which the Lender may have.

14. Confidential Information.

A. **Non-Public Information.** Lender acknowledges and agrees that it may receive material non-public information (“MNPI”) hereunder concerning Borrower, Guarantor and their affiliates and agrees to use such information in material compliance with all relevant policies, procedures and applicable law (including United States federal and state security laws and regulations).

B. **Confidential Information.** Lender agrees to use all reasonable efforts to maintain, in accordance with its customary practices, the confidentiality of information obtained by it pursuant to any Loan Document and whether or not designated in writing by Borrower or Guarantor as confidential, except that such information may be disclosed (i) with the Borrower’s consent, (ii) to each director, officer, employee, agent, trustee, representative, attorney, accountant and each insurance, environmental, legal, financial and other advisor and other consultants and agents (the “Related Persons”) of or to Lender that are advised of the confidential nature of such information and are instructed to keep such information confidential in accordance with the terms hereof, (iii) to the extent such information presently is or hereafter becomes (A) publicly available other than as a result of a breach of this Section 14 or (B) available to Lender or its Related Persons, as the case may be, from a source (other than Borrower or Guarantor) not known by them to be subject to disclosure restrictions, (iv) to the extent disclosure is required by applicable law or other legal process or requested or demanded by any governmental authority, (v) (A) to the National Association of Insurance Commissioners or any similar organization, any examiner or any nationally recognized rating agency or (B) otherwise to the extent consisting of general portfolio information that does not identify Borrower or Guarantor, (vi) to current or prospective assignees, participants, any holder of, or trustee for the benefit of the holders of, the Obligations and to their respective Related Persons, in each case to the extent such assignees, participants, holders of Obligations or Related Persons agree to be bound by provisions substantially similar to the provisions of this Section 14 (and such Person may disclose information to their respective Related Persons in accordance with clause (ii) above), (vii) to any other party hereto, and (ix) in connection with the exercise or enforcement of any right or remedy under any Loan Document, in connection with any litigation or other proceeding to which Lender or its Related Persons is a party or bound, or to the extent necessary to respond publicly to public statements or disclosures by Borrower, Guarantor or their respective Related Persons referring to Lender or its Related Persons. In the event of any conflict between the terms of this Section 14 and those of any other contractual obligation entered into between Lender and Borrower and/or Guarantor (whether or not a Loan Document), the terms of this Section 14 shall govern.

C. **Material Non-Public Information.** Borrower and Guarantor hereby agree that if either they or any subsidiary has publicly traded equity or debt securities in the United States, they shall (and shall cause such subsidiary, as the case may be, to) (i)

identify in writing, and (ii) to the extent reasonably practicable, clearly and conspicuously mark all reports, notices, communications and other information or materials provided or delivered by, or on behalf of, Borrower and/or Guarantor hereunder (collectively, the "Borrower Materials") that contain only information that is publicly available or that is not material for purposes of U.S. federal and state securities laws as "PUBLIC". Borrower and Guarantor agree that by identifying such Borrower Materials as "PUBLIC" or publicly filing such Borrower Materials with the Securities and Exchange Commission, then Lender shall be entitled to treat such Borrower Materials as not containing any MNPI for purposes of U.S. federal and state securities laws.

15. **Miscellaneous.** Borrower and Lender further covenant and agree as follows, without limiting any requirement of any other Loan Document:

A. **Cumulative Rights and No Waiver.** Each and every right granted to Lender under any Loan Document, or allowed it by law or equity shall be cumulative of each other and may be exercised in addition to any and all other rights of Lender, and no delay in exercising any right shall operate as a waiver thereof, nor shall any single or partial exercise by Lender of any right preclude any other or future exercise thereof or the exercise of any other right. Borrower expressly waives any presentment, demand, protest or other notice of any kind, including but not limited to notice of intent to accelerate and notice of acceleration except such notices as required under the laws of the State of Texas. No notice to or demand on Borrower in any case shall, of itself, entitle Borrower to any other or future notice or demand in similar or other circumstances.

B. **Governing Law.** WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW, THIS AGREEMENT AND THE NOTE SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF TEXAS APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED ENTIRELY WITHIN THE STATE OF TEXAS AND THE LAWS OF THE UNITED STATES OF AMERICA BUT IN ANY EVENT CHAPTER 346 OF THE TEXAS FINANCE CODE (WHICH REGULATES CERTAIN REVOLVING LOAN ACCOUNTS AND REVOLVING TRIPARTY ACCOUNTS) SHALL NOT APPLY TO THE LOAN EVIDENCED BY THE NOTE AND EXCEPT THAT TO THE EXTENT THAT THE LAW OF ANOTHER STATE IN WHICH A PORTION OF THE PROPERTY IS LOCATED (OR WHICH IS OTHERWISE APPLICABLE TO A PORTION OF THE PROPERTY) NECESSARILY GOVERNS WITH RESPECT TO PROCEDURAL AND SUBSTANTIVE MATTERS RELATING TO THE CREATION, PERFECTION AND ENFORCEMENT OF THE LIENS, SECURITY INTERESTS AND OTHER RIGHTS AND REMEDIES GRANTED HEREIN, THE LAW OF SUCH OTHER STATE SHALL APPLY AS TO THAT PORTION OF THE PROPERTY LOCATED IN (OR OTHERWISE SUBJECT TO THE LAWS OF) SUCH STATE.

C. **Amendment.** No modification, consent, amendment or waiver of any provision of this Loan Agreement, nor consent to any departure by Borrower and/or Guarantor therefrom, shall be effective unless the same shall be in writing and signed by

the party against whom enforcement is sought, and then shall be effective only in the specified instance and for the purpose for which given. This Loan Agreement is binding upon Borrower and/or Guarantor, their respective heirs, successors and assigns, and inures to the benefit of Lender, its successors and assigns; however, no assignment or other transfer of Borrower and/or Guarantor's rights or obligations hereunder shall be made or be effective without Lender's prior written consent, nor shall it relieve Borrower and/or Guarantor of any obligations hereunder. There is no third party beneficiary of this Loan Agreement.

D. **[Intentionally Omitted].**

E. **Partial Invalidity.** The unenforceability or invalidity of any provision of this Loan Agreement shall not affect the enforceability or validity of any other provision herein and the invalidity or unenforceability of any provision of any Loan Document to any person or circumstance shall not affect the enforceability or validity of such provision as it may apply to other persons or circumstances.

F. **Indemnification.** Borrower shall indemnify, defend and hold Lender and its officers, employees, agents, shareholders, directors, successors and assigns (each, a "Lender Party") harmless from and against any and all claims, demands, suits, losses, damages, assessments, fines, penalties, costs or other expenses (including reasonable out-of-pocket attorneys' fees and court costs) arising from or in any way related to any of the transactions contemplated hereby, including but not limited to actual or threatened damage to the environment, agency costs of investigation, personal injury or death, or property damage, due to a release or alleged release of Hazardous Materials in on or under the Collateral, or gaseous emissions arising from Borrower's business operations or any other condition existing or arising from Borrower's business operations resulting from the use or existence of Hazardous Materials, whether such claim proves to be true or false. Borrower further agree that its indemnity obligations shall include, but are not limited to, liability for damages incurred by any Lender Party resulting from the personal injury or death of an employee of Borrower, regardless of whether it has paid the employee under the workmen's compensation laws of any state or other similar federal or state legislation for the protection of employees, in each case except to the extent resulting from the gross negligence, willful misconduct or fraud of a Lender Party. The term "property damage" as used in this paragraph includes, but is not limited to, damage to any real or personal property of Borrower comprising a portion of the Mortgaged Property, the Lender, and of any third parties. The Borrower's obligations under this paragraph shall survive the repayment of the Loan and, with respect to any liability arising prior to any foreclosure on, appointment of a receiver for, or deed-in-lieu with respect thereto by or on behalf of Noteholder, any deed in lieu of foreclosure or foreclosure of the Mortgage.

G. **WAIVER OF JURY TRIAL.** EACH PARTY TO THIS AGREEMENT HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY

JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION (1) ARISING UNDER THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR (2) IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT TO THIS AGREEMENT OR ANY OTHER INSTRUMENT, DOCUMENT OR AGREEMENT EXECUTED OR DELIVERED IN CONNECTION HEREWITH, OR THE TRANSACTIONS RELATED HERETO OR THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE; AND EACH PARTY HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY TO THIS AGREEMENT MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

H. **CHOICE OF FORUM: CONSENT TO SERVICE OF PROCESS AND JURISDICTION.** THE OBLIGATIONS OF BORROWER UNDER THE LOAN DOCUMENTS ARE PERFORMABLE IN ECTOR COUNTY, TEXAS. ANY SUIT, ACTION OR PROCEEDING AGAINST THE BORROWER WITH RESPECT TO THE LOAN DOCUMENTS OR ANY JUDGMENT ENTERED BY ANY COURT IN RESPECT THEREOF, MAY BE BROUGHT IN THE COURTS OF THE STATE OF TEXAS, COUNTY OF ECTOR, OR IN THE UNITED STATES COURTS LOCATED IN ECTOR COUNTY, TEXAS AND THE BORROWER HEREBY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF SUCH COURTS FOR THE PURPOSE OF ANY SUCH SUIT, ACTION OR PROCEEDING. THE BORROWER HEREBY IRREVOCABLY CONSENTS TO SERVICE OF PROCESS IN ANY SUIT, ACTION OR PROCEEDING IN SAID COURT BY THE MAILING THEREOF BY LENDER BY REGISTERED OR CERTIFIED MAIL, POSTAGE PREPAID, TO THE BORROWER, AS APPLICABLE, AT THE ADDRESS FOR NOTICES AS PROVIDED ABOVE. THE BORROWER HEREBY IRREVOCABLY WAIVES ANY OBJECTION WHICH THEY MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO ANY LOAN DOCUMENT BROUGHT IN THE COURTS LOCATED IN THE STATE OF TEXAS, COUNTY OF ECTOR, AND HEREBY FURTHER IRREVOCABLY WAIVE ANY CLAIM THAT ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

I. **Survivability.** All covenants, agreements, representations and warranties made herein or in the other Loan Documents shall survive the making of the Loan and shall continue in full force and effect so long as the Loan (other than contingent indemnification obligations to the extent no claim giving rise thereto has been asserted) is

outstanding or the obligation of the Lender to make any advances on the Loan shall not have expired.

J. **Conflict.** If there are any conflicts or inconsistencies between this Agreement, the Note, and any Security Documents, this Loan Agreement shall prevail and control.

K. **Counterpart.** This Agreement may be executed in a number of identical separate counterparts (including by facsimile transmission or by other electronic means showing execution by a party), each of which for all purposes is to be (a) deemed an original and (b) as effective as delivery of a manually executed counterpart, but all of which shall constitute, collectively, one Agreement.

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(signature page follows)

NOTICE

THIS LOAN AGREEMENT, THE SECURITY DOCUMENTS, THE NOTE, THE SUBORDINATION AGREEMENT, IF ANY, AND THE ACCOMPANYING UCC-1 FINANCING STATEMENT AND/OR ANY AND ALL OTHER DOCUMENTS EXECUTED AT OR NEAR THE TIME OF THE EXECUTION OF THIS DOCUMENT CONSTITUTE A "LOAN AGREEMENT" AS DEFINED IN SECTION 26.02(a) OF THE TEXAS BUSINESS & COMMERCE CODE, AND REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

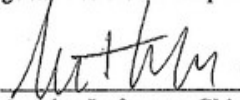
IN WITNESS WHEREOF, the parties hereto have caused this Loan Agreement to be duly executed to be effective as of the date first above written.

BORROWER:

NAUTILUS POPLAR LLC, a Montana limited liability company

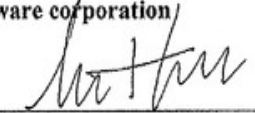
By: Magellan Petroleum Corporation, its manager

EXECUTED on this 17th
day of September, 2014

By: 
Antoine Lafargue, Chief Financial Officer

GUARANTOR:

MAGELLAN PETROLEUM CORPORATION,
a Delaware corporation

By: 
Antoine Lafargue, Chief Financial Officer

EXECUTED on this 17th
day of September, 2014

LENDER:

WEST TEXAS STATE BANK

EXECUTED on the _____
day of September, 2014

By: _____
Les W. Robbins, President-Midland

NOTICE

THIS LOAN AGREEMENT, THE SECURITY DOCUMENTS, THE NOTE AND THE ACCOMPANYING UCC-1 FINANCING STATEMENT AND GUARANTY AND/OR ANY AND ALL OTHER DOCUMENTS EXECUTED AT OR NEAR THE TIME OF THE EXECUTION OF THIS DOCUMENT CONSTITUTE A "LOAN AGREEMENT" AS DEFINED IN SECTION 26.02(a) OF THE TEXAS BUSINESS & COMMERCE CODE, AND REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

IN WITNESS WHEREOF, the parties hereto have caused this Loan Agreement to be duly executed to be effective as of the date first above written.

BORROWER:

NAUTILUS POPLAR LLC, a Montana limited liability company

By: Magellan Petroleum Corporation, its manager

EXECUTED on this _____
day of September, 2014

By: _____
Antoine Lafargue, Chief Financial Officer

GUARANTOR:

MAGELLAN PETROLEUM CORPORATION,
a Delaware corporation

EXECUTED on this _____
day of September, 2014

By: _____
Antoine Lafargue, Chief Financial Officer

LENDER:

WEST TEXAS STATE BANK

EXECUTED on the 17th
day of September, 2014


By: 
Les W. Robbins, President-Midland

EXHIBIT "A"

Attached to and made a part of that certain Loan Agreement dated September 17, 2014, by and between WEST TEXAS STATE BANK, NAUTILUS POPLAR LLC and MAGELLAN PETROLEUM CORPORATION.

**FORM OF
BORROWING REQUEST**

Date: _____, ____

To: West Texas State Bank ("Lender")

Re: Nautilus Poplar LLC ("Borrower")

Reference is made to that certain Loan Agreement dated as of September 17, 2014 (as amended, restated, supplemented or otherwise modified from time to time, the "Loan Agreement"), by and among Lender, Borrower and Magellan Petroleum Corporation. Capitalized terms used herein without definition are used as defined in the Loan Agreement.

Borrower hereby gives Lender irrevocable notice, pursuant to Section 2.A(iii) of the Loan Agreement, of its request for a Loan (the "Proposed Borrowing") under the Loan Agreement and, in that connection, sets forth the following information:

1. The date of the Proposed Borrowing is _____, ____ (the "Funding Date").

2. The aggregate principal amount of the Proposed Borrowing is \$_____.

The undersigned hereby certifies that[, except as set forth on Schedule A attached hereto,] the following statements shall be true as of the Funding Date:

(i) all representations and warranties made to Lender in the Loan Agreement and the other Loan Documents are true and correct in all material respects (except to the extent any such representation or warranty specifically relates to a specific date);

(ii) no event has occurred and is continuing, or would result from the disbursement of the Proposed Borrowing, which with notice or lapse of time, or both, would constitute an Event of Default;

(iii) no material adverse change in the financial condition of Borrower, or in the value of the Collateral taken as a whole, has occurred since the effective date of the most recent financial statements furnished to Lender and is continuing;

(iv) Lender has received all financial reports, financial statements, tax returns, Reserve Evaluations and other information required to be delivered on or prior to the Funding Date under Section 5.A. of the Loan Agreement, and each is appropriately executed by Borrower and all other proper parties; and

(v) after giving effect to the Proposed Borrowing, the aggregate principal amount of the Loans outstanding does not exceed \$8,000,000.

NAUTILUS POPLAR LLC, a Montana
limited liability company

By: Magellan Petroleum Corporation, its
manager

By: DO NOT SIGN – EXHBIT ONLY

Name: Antoine Lafargue

Title: Chief Financial Officer

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PROMISSORY NOTE
(Revolving Line of Credit Note)

\$8,000,000.00

Odessa, Texas

September 17, 2014

1. Borrower's Promise to Pay. FOR VALUE RECEIVED, NAUTILUS POPLAR LLC, a Montana limited liability company (hereinafter called "Borrower"), whose principal address is 1775 Sherman Street, Suite 1950, Denver, Colorado 80203, promises to pay to the order of WEST TEXAS STATE BANK, (hereinafter called "Lender") at its banking house in the City of Odessa, Ector County, Texas the principal sum of **EIGHT MILLION DOLLARS (\$8,000,000.00)**, or so much thereof as may be advanced hereunder prior to maturity, together with interest from date funded to Borrower until maturity on the unpaid principal balance thereof from time to time outstanding at the Stated Rate and with interest on all past due amounts, both principal and accrued interest, at the Past Due Rate, provided, that for the full term of this Note the interest rate produced by the aggregate of all sums paid or agreed to be paid to the holder of this Note for the use, forbearance or detention of the debt evidenced hereby shall not exceed the Ceiling Rate.

2. Loan Agreement. This Note and any substitutions, replacements, modifications, renewals and/or extensions thereof are described in and are subject to the terms and provisions of that certain Loan Agreement dated as of the date hereof (as amended, restated, supplemented or otherwise modified from time to time, "Loan Agreement"; terms used herein but not defined herein shall have the meanings given in the Loan Agreement) between Lender, Borrower and Magellan Petroleum Corporation (hereinafter called "Guarantor"). The Loan Agreement, among other things, contains provisions regarding the amount that the Lender is required to advance under the terms of this Note and provisions for the acceleration of the maturity hereof upon the happening or omission of certain stated events upon the terms and conditions therein specified and the payment of fees and expenses as set out in the Loan Agreement.

3. Interest. "Stated Rate" means, on any day, a rate per annum equal to the Index Rate from time to time in effect, provided that if on any day the Stated Rate shall (a) exceed the Ceiling Rate for that day, then the Stated Rate shall be fixed at the Ceiling Rate on that day and on each day thereafter until the total amount of interest accrued at the Stated Rate on the unpaid balance of this Note equals the total amount of interest which would have accrued if there were no Ceiling Rate and/or (b) be less than three and one-fourths percent (3.25%) (the "Floor Rate"), then the Floor Rate shall apply in lieu of the Stated Rate until such time that the Stated Rate exceeds or is equal to the Floor Rate.

"Index Rate" for purposes of this Note shall mean the current rate of interest per annum as published in the *Wall Street Journal* as the Prime Rate in effect until the next Change Date. The Prime Rate may change and each change in the Prime Rate shall be effective on the date of publication of said change (referred to as "Change Date") until the next Change Date. Each change in the Index Rate shall be effective without special notice to the Borrower or any other person or entity. The Index Rate is a reference rate and does not necessarily represent the lowest or best rate actually charged to any customer. If, for

any reason, the Index Rate is no longer available at the time of the change, the Lender will choose a new index based upon a reasonable comparable measure and reasonable comparable information and Lender will notify Borrower of the substitution of any such new index.

Interest on the amount of each advance against this Note shall be computed on the amount of each advance and from the date of each advance. Interest shall be computed for the actual number of days elapsed and on the basis of a year consisting of 365 or 366 days, as the case may be.

4. Past Due Rate. At Lender's option and without prior notice, upon and during the continuance of any default or Event of Default under this Note or any related Loan Documents, Lender may increase the interest rate applicable to this Note to a rate per annum equal to six percent (6.0%) above the Stated Rate (the "Past Due Rate"), not to exceed at any time the lesser of 18% or the Ceiling Rate, and said Past Due Rate shall remain in effect until the default or Event of Default has been cured and that fact has been communicated to and confirmed by Lender. Lender shall give written notice to Borrower of Lender's imposition of the Past Due Rate. Lender's imposition of the Past Due Rate shall not constitute an election of remedies or otherwise limit Lender's rights concerning other remedies available to Lender as a result of the occurrence of an Event of Default.
5. Late Charges. If a payment is ten (10) days or more late, Borrower will be charged five percent (5.0%) of the amount of payment or \$125.00, whichever is less.
6. Ceiling Rate. "Ceiling Rate" means, on any day, the maximum nonusurious rate of interest permitted for that day by whichever of applicable federal or Texas law permits the higher interest rate, stated as a rate per annum. On each day, if any, that Chapter 303 ("Chapter 303") of the Texas Finance Code establishes the "Weekly Ceiling Rate", the Ceiling Rate shall be the "indicated rate ceiling" as defined in Chapter 303 for that day. Lender may from time to time, as to current and future balances, implement any other ceiling under Chapters 302 or 303 of the Texas Finance Code by notice to Borrower, if and to the extent permitted by, Chapters 302 and 303.

Without notice to the Borrower or any other person or entity, the Index Rate and the Ceiling Rate shall each automatically fluctuate upward and downward as and in the amount by which Lender's Index Rate and the maximum nonusurious rate of interest, respectively, fluctuate.

7. Savings. If, for any reason whatever, the interest paid or received on this Note during the full term of this Note shall produce a rate which exceeds the Ceiling Rate, the holder of this Note shall refund to the Borrower or, at the holder's option, credit against the principal of this Note such portion of said interest as shall be necessary to cause the interest paid on this Note to produce a rate equal to the Ceiling Rate. All sums paid or forbearance or detention of the indebtedness evidenced hereby shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread in equal parts
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throughout the full term of this Note, so that the interest rate is uniform throughout the full term of this Note.

If any word, phrase, clause, paragraph, part, portion or provision hereof is held to be invalid, the remainder hereof shall nevertheless be valid as though it had been entered into without such invalid word, phrase, clause, paragraph, part, portion or provision.

8. Payments. Principal and accrued interest shall be due and payable as follows:
- (a) Interest shall be due and payable quarterly as it accrues on the unpaid principal balance to the date of each installment, payment beginning **December 31, 2014**, and continuing on **March 31, 2015** and **June 30, 2015**.
 - (b) On **September 30, 2015**, the remaining balance, including outstanding principal and accrued but unpaid interest, then remaining unpaid on this Note shall be due and payable.

This Note is a revolving line of credit promissory note having an original principal commitment amount of **\$8,000,000.00**. The unpaid principal balance of this Note at any time shall be the total of all amounts loaned or advanced by the holder hereof less the amount of all payments or prepayments of principal made hereon by or for Borrower. Borrower may use all or any part of the credit provided for herein at any time before **September 30, 2015**. Borrower may borrow, repay and reborrow hereunder and there is no limitation on the number of advances made hereunder so long as the total unpaid principal balance, at any time outstanding, does not exceed **\$8,000,000.00**.

Unless otherwise agreed to, in writing, or otherwise required by applicable law, payments will be applied first to accrued, unpaid interest, and any remaining amount to any unpaid collection costs, late charges and other charges and the balance to the principal in inverse order of maturity, provided, however, during the continuance of an Event of Default, Lender reserves the right to apply payments among principal, interest, late charges, collection costs and other charges at its discretion. The Borrower may at any time pay the full amount or any part of this Note without the payment of any premium or fee.

9. Security. This Note and any substitutions, replacements, modifications, renewals and/or extensions thereof is secured by (a) a Deed of Trust, Mortgage, Security Agreement, Assignment of Production and Financing Statement dated as of the date of this Note from Borrower for the benefit of Lender (as amended, restated, supplemented or otherwise modified from time to time, "Deed of Trust") covering oil and gas leases, lands and other properties along with equipment located thereon and proceeds derived therefrom located in Roosevelt County, Montana, (b) a Pledge Agreement dated to be effective as of the date of this Note from Guarantor for the benefit of Lender (as amended, restated, supplemented or otherwise modified from time to time, "Pledge Agreement" and when taken with the Deed of Trust, hereinafter referred to collectively as the Security Documents") covering Guarantor's membership interest in Borrower and (c) an Unlimited Guaranty dated as of the date of this Note from Guarantor for the benefit of Lender ("Guaranty"). Additionally, this Note is subject to the terms and conditions of the
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Loan Agreement as set out above. Failure to describe all or part of the security shall not be considered as a waiver of such security.

10. Default. At the option of the owner or holder hereof, all amounts due and unpaid hereunder shall be accelerated and shall become immediately due and payable upon the occurrence and during the continuance of any Events of Default under Section 4.1 of the Deed of Trust. During the continuance of an Event of Default, Lender may exercise any other available remedies, and failure to exercise any remedy shall not constitute a waiver at any other time including, but not limited to, to the extent permitted by applicable law, the right to setoff all of Borrower's accounts with Lender (whether checking, savings, or some other account).
 11. Cost and Expenses. In addition to all outstanding principal and accrued but unpaid interest on this Note, the Borrower agrees to pay (a) all reasonable costs and expenses incurred by all owners and holders of this Note in any probate, reorganization, bankruptcy or any other proceedings for the establishment or collection or any amount hereunder, or in collecting this Note through any such proceedings, and (b) reasonable out-of-pocket attorney's fees when and if this Note is placed in the hands of an attorney for collection during the continuance of an Event of Default, in each case except to the extent resulting from the gross negligence, willful misconduct or fraud of Lender.
 12. Waiver of Notice. Except as expressly set forth in any Loan Document, the Borrower waives notice (including, but not limited to, notice of intent to accelerate and notice of acceleration), demand, presentment for payment, protest and the filing of suit for the purpose of fixing liability and consent that the time of payment hereof may be extended and re-extended from time to time without notice to it, and they agree that its liability on or with respect to this Note shall not be affected by any release of or change in any security at any time existing or by any failure to perfect or to maintain perfection of any lien on or security interest in any such security.
 13. Optional Acceleration Upon Transfer. If all or any part of the property securing this Note or any interest in it is sold or transferred in violation of the Loan Documents without Lender's prior written consent, Lender may, at its option, require immediate payment in full of all sums secured by the Security Documents securing this Note. However, this option shall not be exercised by Lender if exercise is prohibited by state or federal law as of the date of this Note and the Security Documents.
 14. Lender's Right to Sell. Lender reserves the right, exercisable in Lender's sole discretion and, with respect to participations only, without notice to Borrower or any other person, to sell participations, to assign its interest or both, in all or any part of this Note or the debt evidenced by this Note.
-

15. Obligations of Borrower Under This Note. When this instrument is executed by more than one person, corporation or other legal entity, it shall be construed as though "Borrower" were written "Borrowers" and as though the pronouns and verbs in their number were changed to correspond; and in such case, each of the Borrowers shall be bound jointly and severally with one another to keep, observe and perform the covenants, agreements, obligations and liabilities imposed by this instrument upon the "Borrower."

16. Governing Law. WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW, THIS NOTE SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF TEXAS APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED ENTIRELY WITHIN THE STATE OF TEXAS AND THE LAWS OF THE UNITED STATES OF AMERICA BUT IN ANY EVENT CHAPTER 346 OF THE TEXAS FINANCE CODE (WHICH REGULATES CERTAIN REVOLVING LOAN ACCOUNTS AND REVOLVING TRIPARTY ACCOUNTS) SHALL NOT APPLY TO THE LOAN EVIDENCED BY THIS NOTE AND EXCEPT THAT TO THE EXTENT THAT THE LAW OF ANOTHER STATE IN WHICH A PORTION OF THE PROPERTY IS LOCATED (OR WHICH IS OTHERWISE APPLICABLE TO A PORTION OF THE PROPERTY) NECESSARILY GOVERNS WITH RESPECT TO PROCEDURAL AND SUBSTANTIVE MATTERS RELATING TO THE CREATION, PERFECTION AND ENFORCEMENT OF THE LIENS, SECURITY INTERESTS AND OTHER RIGHTS AND REMEDIES GRANTED HEREIN, THE LAW OF SUCH OTHER STATE SHALL APPLY AS TO THAT PORTION OF THE PROPERTY LOCATED IN (OR OTHERWISE SUBJECT TO THE LAWS OF) SUCH STATE. Representations. The Borrower warrants and represents to the Lender, and to all other owners and/or holders of the indebtedness evidenced hereby, that (1) all loans evidenced by this Note are and shall be "business loans" as such term is used in the Depository Institution Regulation and Monetary Control Act of 1980 as amended, and (2) such loans are for business, commercial, investment or similar purposes and not primarily for personal, family, household or agricultural use as such terms are used in Chapter 1 of the Texas Credit Code.

THIS LOAN IS PAYABLE IN FULL ON SEPTEMBER 30, 2015, OR UPON ACCELERATION FOR ANY REASON IN ACCORDANCE WITH THE TERMS OF THE LOAN DOCUMENTS. AT MATURITY YOU MUST REPAY THE ENTIRE OUTSTANDING PRINCIPAL BALANCE OF THE LOAN AND ACCRUED BUT UNPAID INTEREST THEN DUE. THE BANK IS UNDER NO OBLIGATION TO REFINANCE THE LOAN AT THAT TIME. YOU WILL THEREFORE, BE REQUIRED TO MAKE PAYMENT OUT OF OTHER ASSETS THAT YOU MAY OWN OR YOU WILL HAVE TO FIND A LENDER, WHICH MAY BE THE BANK YOU HAVE THIS LOAN WITH, WILLING TO LEND YOU THE MONEY. IF YOU REFINANCE THIS LOAN AT MATURITY, YOU MAY HAVE TO PAY SOME OR ALL OF THE CLOSING COSTS NORMALLY ASSOCIATED WITH A NEW LOAN EVEN IF YOU OBTAIN REFINANCING FROM THE SAME BANK.

NOTICE

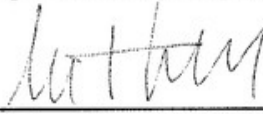
THIS REVOLVING LINE OF CREDIT NOTE, THE SECURITY DOCUMENTS AND ACCOMPANYING UCC-1 FINANCING STATEMENTS AND LOAN AGREEMENT AND/OR ANY AND ALL OTHER DOCUMENTS EXECUTED AT OR NEAR THE TIME OF EXECUTION OF THIS DOCUMENT CONSTITUTE A "LOAN AGREEMENT" AS DEFINED IN SECTION 26.02(a) OF THE TEXAS BUSINESS & COMMERCE CODE, AND REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

DATED to be effective as of the date set out above, although EXECUTED on the dates set out below.

BORROWER:

NAUTILUS POPLAR LLC, a Montana limited liability company

By: Magellan Petroleum Corporation, its manager

By: 

By: _____
Antoine Lafargue, Chief Financial Officer

EXECUTED on this 17
day of September, 2014

LENDER: (The Lender's signature is provided as its acknowledgment of the above as the final written agreement between the parties.)

WEST TEXAS STATE BANK

EXECUTED on this _____
day of September, 2014

By: _____
Les W. Robbins, President-Midland

[\$8,000,000 Promissory Note (Revolving Line of Credit Note)]

NOTICE

THIS REVOLVING LINE OF CREDIT NOTE, THE SECURITY DOCUMENTS AND ACCOMPANYING UCC-1 FINANCING STATEMENTS AND LOAN AGREEMENT AND/OR ANY AND ALL OTHER DOCUMENTS EXECUTED AT OR NEAR THE TIME OF EXECUTION OF THIS DOCUMENT CONSTITUTE A "LOAN AGREEMENT" AS DEFINED IN SECTION 26.02(a) OF THE TEXAS BUSINESS & COMMERCE CODE, AND REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

DATED to be effective as of the date set out above, although EXECUTED on the dates set out below.

BORROWER:

NAUTILUS POPLAR LLC, a Montana limited liability company

By: Magellan Petroleum Corporation, its manager


EXECUTED on this _____
day of September, 2014

By: _____
Antoine Lafargue, Chief Financial Officer

LENDER: (The Lender's signature is provided as its acknowledgment of the above as the final written agreement between the parties.)

WEST TEXAS STATE BANK

EXECUTED on this 17th
day of September, 2014

By: 
Les W. Robbins, President-Midland

[\$8,000,000 Promissory Note (Revolving Line of Credit Note)]

September 17, 2014

UNLIMITED GUARANTY

“Lender”: **West Texas State Bank**
1501 W. University
Odessa, Texas 79764

“Borrower”: **Nautilus Poplar LLC**
1775 Sherman Street, Suite 1950
Denver, Colorado 80203

“Guarantor”: **Magellan Petroleum Corporation**
1775 Sherman Street, Suite 1950
Denver, Colorado 80203

- 1. Guaranty.** FOR VALUE RECEIVED, and to induce **West Texas State Bank** (“Lender”) to make loans or advances or to extend credit or other financial accommodations or benefits, with or without security, to or for the account of Borrower pursuant to the Loan Agreement (as hereinafter defined) and the other Loan Documents (as hereinafter defined), the undersigned “Guarantor” hereby becomes surety for and irrevocably and unconditionally guarantees to Lender prompt payment when due, whether by acceleration or otherwise, of any Liabilities and Obligations (as hereinafter defined) of Borrower to Lender. This Unlimited Guaranty (as amended, restated, supplemented or otherwise modified from time to time, this “Guaranty”) is cumulative to and does not supersede any other guaranties of any of the Liabilities and Obligations.

This Guaranty is continuing and is unlimited as to all principal plus interest owing at any time, plus reasonable out-of-pocket attorney’s fees, costs and expenses of collection incurred and/or the cost of the enforcement of rights in enforcing this Guaranty (including, without limitation, any liability arising from failure to comply with any state or federal laws, rules and regulations concerning the control of hazardous waste or substances at or with respect to any real estate securing any loan guaranteed hereby), plus interest on such attorney’s fees and cost of collection, during the continuance of an Event of Default (as defined in the Loan Agreement).

Guarantor unconditionally guarantees the prompt and complete compliance by Borrower of all Obligations of Borrower (as defined in the Loan Agreement). The undertakings of Guarantor hereunder are independent of the Obligations of Borrower and a separate action or actions for payment, damages or performance may be brought or prosecuted against Guarantor, whether or not an action is brought against Borrower or to realize upon the security for the Obligations, whether or not Borrower is joined in any such action or actions, and whether or not notice is given or demand is made upon Borrower.

Lender shall not be required to proceed first against Borrower, or any other person or entity, whether primarily or secondarily liable, or against any collateral held by it, before resorting to Guarantor for payment, and Guarantor shall not be entitled to assert as a defense to the enforceability of this Guaranty any defense of Borrower, with respect to any Liabilities and Obligations.

2. Paragraph Headings, Governing Law and Binding Effect.

- A. Guarantor agrees that the paragraph headings in this Guaranty are for convenience only and that they will not limit any of the provisions of this Guaranty.
 - B. WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW, THIS GUARANTY SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF TEXAS APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED ENTIRELY WITHIN THE STATE OF TEXAS AND THE LAWS OF THE UNITED STATES OF AMERICA, EXCEPT THAT TO THE EXTENT THAT THE LAW OF ANOTHER STATE IN WHICH A PORTION OF THE PROPERTY IS LOCATED (OR WHICH IS OTHERWISE APPLICABLE TO A PORTION OF THE PROPERTY) NECESSARILY GOVERNS WITH RESPECT TO PROCEDURAL AND SUBSTANTIVE MATTERS RELATING TO THE CREATION, PERFECTION AND ENFORCEMENT OF THE LIENS, SECURITY INTERESTS AND OTHER RIGHTS AND REMEDIES GRANTED HEREIN, THE LAW OF SUCH OTHER STATE SHALL APPLY AS TO THAT PORTION OF THE PROPERTY LOCATED IN (OR OTHERWISE SUBJECT TO THE LAWS OF) SUCH STATE.
 - C. ANY SUIT, ACTION OR PROCEEDING AGAINST GUARANTOR WITH RESPECT TO THIS GUARANTY OR ANY JUDGMENT ENTERED BY ANY COURT IN RESPECT HEREOF, MAY BE BROUGHT IN THE COURTS OF THE STATE OF TEXAS, COUNTY OF ECTOR, OR IN THE UNITED STATES COURTS LOCATED IN ECTOR COUNTY, TEXAS AND THE BORROWER HEREBY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF SUCH COURTS FOR THE PURPOSE OF ANY SUCH SUIT, ACTION OR PROCEEDING. GUARANTOR HEREBY IRREVOCABLY CONSENTS TO SERVICE OF PROCESS IN ANY SUIT, ACTION OR PROCEEDING IN SAID COURT BY THE MAILING THEREOF BY LENDER BY REGISTERED OR CERTIFIED MAIL, POSTAGE PREPAID, TO GUARANTOR, AS APPLICABLE, AT THE ADDRESS FOR NOTICES AS PROVIDED IN THE LOAN AGREEMENT. GUARANTOR HEREBY IRREVOCABLY WAIVES ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS GUARANTY BROUGHT IN THE COURTS LOCATED IN THE STATE OF TEXAS, COUNTY OF ECTOR, AND HEREBY FURTHER IRREVOCABLY
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WAIVES ANY CLAIM THAT ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

3. Definitions.

- A. "Guarantor" shall mean Guarantor.
- B. "Loan Agreement" shall mean that certain Loan Agreement dated as of the date of this Guaranty by and between Borrower, Guarantor and Lender, as amended, restated, supplemented or otherwise modified from time to time.
- C. "Loan Documents" shall have the meaning given in the Loan Agreement.
- D. "Liabilities and Obligations" shall mean the following:
 - (i) the due and prompt payment by Borrower of: (x) the principal of and interest at the rate specified in the Loan Agreement on the Loans, when and as due, whether at scheduled maturity, date set for prepayment, by acceleration or otherwise, and (y) all other monetary obligations of Borrower to Lender under the Loan Documents, when and as due, including fees, costs, expenses (including, without limitation, reasonable out-of-pocket fees and expenses of counsel incurred by Lender in enforcing any rights under this Guaranty or any other Loan Document), contract causes of action and indemnities, whether primary, secondary, direct or indirect, absolute or contingent, fixed or otherwise (including monetary obligations incurred during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding); and
 - (ii) the due and prompt performance of all covenants, agreements, obligations and liabilities of Borrower and Guarantor under or in respect of the Loan Documents.
- E. "Note" shall mean that certain Promissory Note (Revolving Line of Credit Note) dated as of the date of this Guaranty by and between Borrower and Lender having an original principal commitment amount of **\$8,000,000.00**, as amended, restated, supplemented or otherwise modified from time to time.

- 4. Waivers by Guarantor.** Except as expressly set forth in any Loan Agreement, Guarantor waives notice of acceptance of this Guaranty, notice of any Liabilities and Obligations to which it may apply, presentment, demand for payment, protest, notice of dishonor or nonpayment of any Liabilities and Obligations, notice of intent to accelerate, notice of acceleration, and notice of any suit or the taking of other action by Lender against Borrower or any other person (other than Guarantor), any applicable statute of limitations and any other notice to any party liable on any Loan Document (other than Guarantor).
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Guarantor also hereby waives, until payment in full of the Liabilities and Obligations (other than contingent indemnification obligations for which no claim has been asserted), any claim, right or remedy which such Guarantor may now have or hereafter acquire against Borrower that arises hereunder and/or from the performance by any other Guarantor hereunder including, without limitation, any claim, remedy or right of subrogation, reimbursement, exoneration, contribution, indemnification, or participation in any claim, right or remedy of Lender against Borrower or against any security which Lender now has or hereafter acquires, whether or not such claim, right or remedy arises in equity, under contract, by statute, under common law or otherwise.

Guarantor also waives the benefits of any provision of law requiring that Lender exhaust any right or remedy, or take any action, against Borrower, any Guarantor, any other person and/or property including but not limited to the provisions of the Texas Civil Practice and Remedies Code §17.001, Texas Rules of Civil Procedure Rule 31 and the Texas Business and Commerce Code Chapter 34, as amended, or otherwise.

Lender may at any time and from time to time without notice to Guarantor (except as required by law), without incurring responsibility to Guarantor, without impairing, releasing or otherwise affecting the Liabilities and Obligations of Guarantor, in whole or in part, and without the indorsement or execution by Guarantor of any additional consent, waiver or guaranty: (a) change the manner, place or terms of payment, or change or extend the time of or renew, or change any interest rate or alter any Liabilities and Obligations or installment thereof, or any security therefor (other than the Pledged Collateral); (b) loan additional monies or extend additional credit to Borrower under the Loan Documents, with or without security, thereby creating new Liabilities and Obligations the payment or performance of which shall be guaranteed hereunder, and this Guaranty herein made shall apply to the Liabilities and Obligations as so changed, extended, surrendered, realized upon or otherwise altered; (c) during the continuance of an Event of Default, sell, exchange, release, surrender, realize upon or otherwise deal with in any manner and in any order any property at any time pledged or mortgaged to secure the Liabilities and Obligations and any offset there against; (d) exercise or refrain from exercising any rights against Borrower or others (including Guarantor) or act or refrain from acting in any other manner, in each case in accordance with the terms of the Loan Documents; (e) settle or compromise any Liabilities and Obligations or any security therefor and subordinate the payment of all or any part thereof to the payment of any Liabilities and Obligations of any other parties primarily or secondarily liable on any of the Liabilities or Obligations; (f) release or compromise any Liabilities and Obligations of Guarantor hereunder or any Liabilities and Obligations of any other parties primarily or secondarily liable on any of the Liabilities and Obligations; or (g) apply any sums from any sources to any Liabilities and Obligations without regard to any Liabilities and Obligations remaining unpaid in accordance with the terms of the Loan Documents.

5. **Subordination.** Guarantor agrees that it will not demand, take or receive from Borrower, by set-off or in any other manner, payment of any debt, now and at any time or times hereafter owing by Borrower to Guarantor unless there are no then outstanding Loans.
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6. **Waivers by Lender.** No delay on the part of Lender in exercising any of its options, powers or rights, and no partial or single exercise thereof, shall constitute a waiver thereof. No waiver of any of its rights hereunder, and no modification or amendment of this Guaranty, shall be deemed to be made by Lender unless the same shall be in writing, duly signed on behalf of Lender; and each such waiver, if any, shall apply only with respect to the specific instance involved, and shall in no way impair the rights of Lender or the obligations of Guarantor to Lender in any other respect at any other time.
7. **Termination.** This Guaranty shall be binding on Guarantor until the earlier of (i) termination of the Loan Agreement and (ii) written notice of revocation signed by Guarantor and approved in writing by Lender in its sole and absolute discretion, notwithstanding change in name, location, composition or structure of, or the dissolution, termination or increase, decrease or change in personnel, owners or partners of Borrower or Guarantor. No notice of revocation or termination hereof shall affect in any manner rights arising under this Guaranty with respect to Liabilities or Obligations that shall have been committed, created, contracted, assumed or incurred prior to receipt of such written notice pursuant to any agreement entered into by Lender prior to receipt of such notice. .
8. **Partial Invalidity and/or Enforceability of Guaranty.** The unenforceability or invalidity of any provision of this Guaranty shall not affect the enforceability or validity of any other provision herein and the invalidity or unenforceability of any provision of any Loan Document as it may apply to any person or circumstance shall not affect the enforceability or validity of such provision as it may apply to other persons or circumstances.

In the event Lender is required to relinquish or return any payments, the Pledged Collateral or the proceeds thereof, in whole or in part, which had been previously applied to or retained for application against any Liabilities and Obligations, by reason of a proceeding arising under Title 11 of the United States Code, as amended, or any similar federal or state law for the relief of debtors , this Guaranty shall automatically continue to be effective notwithstanding any previous cancellation or release effected by Lender to the extent of such relinquished or returned payments, Pledged Collateral and/or proceeds.

9. **Change of Status.** Guarantor will not become a party to a merger or consolidation with any other company, except where Guarantor is the surviving corporation or entity, and all covenants under this Guaranty are assumed by the surviving entity. Further, Guarantor may not change its legal structure, without the written consent of Lender and all covenants under this Guaranty are assumed by the new or surviving entity. Guarantor further agrees that this Guaranty shall be binding, legal and enforceable against Guarantor in the event Borrower changes its name, status or type of entity.
 10. **Financial and Other Information.** Guarantor agrees to furnish to Lender financial statements as set out in the Loan Agreement and any and all other financial information and any other information regarding Guarantor and/or the Pledged Collateral reasonably requested in writing by Lender within ten (10) Business Days of the date of such request. Guarantor has made an independent investigation of the financial condition and affairs of
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Borrower prior to entering into this Guaranty, and Guarantor will continue to make such investigation; and in entering into this Guaranty Guarantor has not relied upon any representation of Lender as to the financial condition, operation or creditworthiness of Borrower. Guarantor further agrees that Lender shall have no duty or responsibility now or hereafter to make any investigation or appraisal of Borrower on behalf of Guarantor or to provide Guarantor with any credit or other information which may come to its attention now or hereafter.

11. **Notices.** Notices given under this Guaranty shall be given in accordance with Section 10 {Notices} of the Loan Agreement.
 12. **Guarantor Duties.** Guarantor shall upon notice or demand by Lender promptly and with due diligence pay and perform all Liabilities and Obligations for the benefit of Lender in the event of the occurrence and continuance of any Event of Default under any Loan Documents.
 13. **Remedies.** During the continuance of an Event of Default as a result of Guarantor failing to fulfill its duty to pay and perform all Liabilities and Obligations as required hereunder, Lender shall have all of the remedies of a creditor and, to the extent applicable, of a secured party, under all applicable law, and without limiting the generality of the foregoing, Lender may, at its option and without notice or demand: (a) declare any Liabilities and Obligations due and payable at once; (b) take possession of the Pledged Collateral and/or any collateral pledged by Borrower wherever located, and sell, resell, assign, transfer and deliver all or any part of the Pledged Collateral and/or said collateral of Borrower at any public or private sale or otherwise dispose of any or all of the Pledged Collateral and/or such collateral of Borrower in its then condition, for cash or on credit or for future delivery, and in connection therewith Lender may impose reasonable conditions upon any such sale, and Lender, unless prohibited by law the provisions of which cannot be waived, may purchase all or any part of the Pledged Collateral and/or said collateral of Borrower to be sold, free from and discharged of all trusts, claims, rights or redemption and equities of Borrower or Guarantor whatsoever; Guarantor acknowledges and agrees that the sale of the Pledged Collateral and/or any collateral of Borrower through any nationally recognized broker-dealer, investment banker or any other method common in the securities industry shall be deemed a commercially reasonable sale under the applicable uniform commercial code or any other equivalent statute or federal law, and expressly waives notice thereof except as provided herein or in any other Loan Document; and (c) set-off against the Liabilities and Obligations of Guarantor all money owed by Lender or any of its affiliates in any capacity to Guarantor whether or not due.
 14. **Attorney Fees, Cost and Expenses.** Guarantor shall pay all costs of collection and reasonable out-of-pocket attorney's fees, including reasonable out-of-pocket attorney's fees in connection with any suit, mediation or arbitration proceeding, out of court payment agreement, trial, appeal, bankruptcy proceedings or otherwise, in each case incurred or paid by Lender in enforcing the payment of any Liabilities and Obligations
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during the continuance of an Event of Default in accordance with the terms hereof and the other Loan Documents or defending this Guaranty.

15. **Collateral.** In accordance with the terms of the Loan Agreement, Lender shall have the right to require Guarantor to deliver to Lender, as security for the Liabilities and Obligations, a pledge of all of its right, title and interest in and to all membership interests of Guarantor in Borrower and the certificates, instruments and agreements representing such interests (the "Pledged Collateral").
16. **Preservation of Property.** Lender shall not be bound to take any steps necessary to preserve any rights in any property pledged as collateral to Lender to secure Borrower and/or Guarantor's Liabilities and Obligations as against prior parties who may be liable in connection therewith. Lender, nevertheless, at any time, may during the continuance of an Event of Default (a) take any action it deems appropriate for the care or preservation of such property or of any rights of Borrower and/or Guarantor or Lender therein; (b) demand, sue for, collect or receive any money or property at any time due, payable or receivable on account of or in exchange for any property pledged as collateral to Lender to secure Borrower and/or Guarantor's Liabilities and Obligations to Lender; (c) compromise and settle with any person liable on such property; or (d) extend the time of payment or otherwise change the terms of the Loan Documents as to any party liable on the Loan Documents, all without notice to, without incurring responsibility to, and without affecting any of the Liabilities and Obligations of Guarantor.
17. **Loan Agreement.** This Guaranty is subject to the terms and conditions of the Loan Agreement. All capitalized terms used but not defined herein shall have the meanings given such terms in the Loan Agreement.

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(signature page follows)

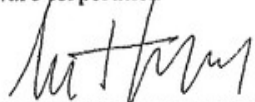
NOTICE

THIS GUARANTY, THE NOTE, THE SECURITY DOCUMENTS AND THE ACCOMPANYING UCC-1 FINANCING STATEMENT AND LOAN AGREEMENT AND/OR ANY AND ALL OTHER LOAN DOCUMENTS EXECUTED AT OR NEAR THE TIME OF THE EXECUTION OF THIS DOCUMENT CONSTITUTE A "LOAN AGREEMENT" AS DEFINED IN SECTION 26.02(a) OF THE TEXAS BUSINESS & COMMERCE CODE, AND REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

This Guaranty is dated to be effective as of September 17, 2014, although it is executed on the dates set out below.

GUARANTOR:

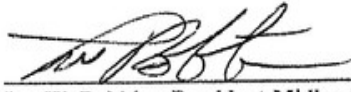
MAGELLAN PETROLEUM CORPORATION,
a Delaware corporation

By: 
Antoine Lafargue, Chief Financial Officer

EXECUTED on this 17th
day of September, 2014

LENDER: (The Lender's signature is provided as its acknowledgment of the above as the final written agreement between the parties.)

WEST TEXAS STATE BANK

By: 
Les W. Robbins, President-Midland

EXECUTED on this 17th
day of September, 2014

[Unlimited Guaranty]

ROOSEVELT COUNTY, MONTANA

**DEED OF TRUST, MORTGAGE, SECURITY AGREEMENT, ASSIGNMENT OF
PRODUCTION AND FINANCING STATEMENT
(As-extracted collateral including, but not limited to, oil, gas and other minerals)
Nautilus Poplar LLC**

Dated as of September 17, 2014

Please return documents with filing information to:

**James R. Leeton, Jr.
Freeman Mills PC
400 W. Illinois, Suite 120
Midland, Texas 79701**

**THIS DEED OF TRUST (INCLUDING FINANCING STATEMENT) IS TO BE FILED
FOR RECORD IN THE REAL ESTATE RECORDS.**

**THIS INSTRUMENT CONTAINS AFTER-ACQUIRED PROPERTY PROVISIONS,
SECURES PAYMENT OF FUTURE ADVANCES AND COVERS PROCEEDS OF
COLLATERAL.**

**THIS INSTRUMENT CONTAINS A NOTICE OF SECURITY INSTRUMENT
AFFECTING REAL PROPERTY IN EACH COUNTY IN WHICH IT IS RECORDED.**

**THIS INSTRUMENT SHALL BE EFFECTIVE AS, AMONG OTHER THINGS, A
SECURITY AGREEMENT AND FINANCING STATEMENT UNDER THE UNIFORM
COMMERCIAL CODE. COLLATERAL INCLUDES FIXTURES AFFIXED TO, AS-
EXTRACTED COLLATERAL (INCLUDING, BUT NOT LIMITED TO, OIL, GAS AND
OTHER MINERALS) PRODUCED FROM AND ACCOUNTS ATTRIBUTABLE
THERETO, SAID PRODUCTION AND ACCOUNTS BEING FINANCED AT THE
WELLHEAD OF THE WELLS LOCATED ON THE PROPERTIES DESCRIBED IN
EXHIBIT "A" ATTACHED HERETO AND MADE A PART HEREOF.**

**DEED OF TRUST, MORTGAGE, SECURITY AGREEMENT,
ASSIGNMENT OF PRODUCTION AND FINANCING STATEMENT**

This Deed of Trust, Mortgage, Security Agreement, Assignment of Production and Financing Statement (this "Mortgage"), to be effective as of September 17, 2014 (the "Effective Date"),

WITNESSETH:

ARTICLE I.

Granting Clauses; Secured Indebtedness

Section 1.1 Grant of Lien. **NAUTILUS POPLAR, LLC**, a Montana limited liability company, whose address is 1775 Sherman Street, Suite 1950, Denver, Colorado 80203, (herein collectively called "Grantor," whether one or more), for and in consideration of the sum of Ten Dollars (\$10.00) to Grantor in hand paid by **MARK W. SPARKS, Trustee**, whose address is 1501 W. University, Odessa, Texas 79764, for the benefit of Noteholder (as hereinafter defined) as to all of the Mortgaged Properties (herein called "Trustee"), in order to secure the payment of the secured indebtedness (as hereinafter defined) and the performance of the obligations, covenants, agreements, warranties and undertakings of Grantor hereinafter described, does hereby GRANT, BARGAIN, SELL, CONVEY, TRANSFER, ASSIGN and SET OVER to Trustee (and where appropriate to effectuate the provisions of Section 4.4 hereof, does hereby grant to Trustee for the benefit of Noteholder a POWER OF SALE with respect thereto pursuant to this Mortgage and applicable law, and where appropriate to effectuate the provisions of Section 4.5 hereof, does hereby MORTGAGE and WARRANT to Noteholder (as hereinafter defined) the following:

A. The oil, gas and/or other mineral leases which are described in Exhibit A attached hereto and made a part hereof, and the lands pooled or unitized therewith, INsofar AND ONLY INsofar as to those depths and formation from the surface down to immediately above the top of the Bakken formation, which is defined as the stratigraphic equivalent of 7032 feet as shown on the electrical log for the Nautilus EPU 119 well (API No. 25-085-21777), located in the NE/4NE/4, Sec. 31, Twp. 29N, R. 51E, MPM, Roosevelt County, Montana (the "Shallow Rights"), and all oil and gas wells described in Exhibit A hereto, INsofar AND ONLY INsofar as such wells are completed to or producing from the Shallow Rights;

B. Without limitation of the foregoing, all other right, title and interest of Grantor of whatever kind or character (whether now owned or hereafter acquired by operation of law or otherwise) in and to the Shallow Rights covering the lands which are described or referred to in Exhibit A hereto as a part of the descriptions (contained in such Exhibit A) of oil, gas and/or other mineral properties, or which are otherwise

described in any of the leases described in Exhibit A hereto, even though the interest of Grantor in such lands may be incorrectly described in, or omitted from, Exhibit A hereto;

C. All of Grantor's interest (whether now owned or hereafter acquired by operation of law or otherwise) in and to all presently existing and hereafter created oil, gas and/or mineral unitization, pooling and/or communitization agreements, declarations and/or orders, and in and to the properties covered and the units created thereby (including, without limitation, units formed under orders, rules, regulations or other official acts of any federal, state or other authority having jurisdiction and so called "working interest units" created under operating agreements or otherwise), which cover, affect or otherwise relate solely to the properties described in clause A or B above, in each case, INsofar AND ONLY INsofar as to the Shallow Rights;

D. All of Grantor's interest in and rights under (whether now owned or hereafter acquired by operation of law or otherwise) all presently existing and hereafter created operating agreements, equipment leases, production sales, purchase, exchange and/or processing agreements, transportation agreements, farmout and/or farm-in agreements, salt water disposal agreements, area of mutual interest agreements, and other contracts and/or agreements which cover, affect, or otherwise relate solely to the properties described in clause A, B or C above or to the operation of such properties or to the treating, handling, storing, transporting or marketing of oil, gas, other hydrocarbons, or other minerals produced from (or allocated to) such properties, in each case, INsofar AND ONLY INsofar as to the Shallow Rights; and

E. All of Grantor's interest (whether now owned or hereafter acquired by operation of law or otherwise) in and to all equipment, improvements, materials, supplies, fixtures and other property (including, without limitation, all wells, pumping units, wellhead equipment, tanks, pipelines, flow lines, gathering lines, compressors, dehydration units, separators, meters, buildings, injection facilities, saltwater disposal facilities, and power, telephone and facsimile lines) and all easements, servitudes, rights-of-way, surface leases and other surface rights, which are now or hereafter used, or held for use, solely in connection with the properties described in clauses A, B and C above, or solely in connection with the operation of such properties, or solely in connection with the treating, handling, storing, transporting or marketing of oil, gas, other hydrocarbons, or other minerals produced from (or allocated to) such properties, in each case, INsofar AND ONLY INsofar as to the Shallow Rights.

TO HAVE AND TO HOLD the foregoing rights, interests and properties, and all rights, estates, powers and privileges appurtenant thereto, in each case, INsofar AND ONLY INsofar as to the Shallow Rights (herein collectively called the "Mortgaged Properties" and individually called a "Mortgaged Property"), unto Trustee, and his successors or substitutes in this trust, and to his or their successors and assigns, in trust, for the benefit of Noteholder however, upon the terms, provisions and conditions herein set forth.

Section 1.2 Grant of Security Interest. In order to further secure the payment of the secured indebtedness and the performance of the obligations, covenants, agreements, warranties, and undertakings of Grantor hereinafter described, Grantor hereby grants to Noteholder a security interest in the entire interest of Grantor (whether now owned or hereafter acquired by operation of law or otherwise) in and to:

- (a) the Mortgaged Properties;
- (b) all as-extracted collateral and all oil, gas, other hydrocarbons, and other minerals produced from or allocated to the Mortgaged Properties, and any products processed or obtained therefrom (herein collectively called the "Production"), and all liens and security interests in the Production securing payment of the proceeds of the Production including, but not limited to, those liens and security interests provided under statutes enacted in the jurisdictions in which the Mortgaged Properties are located;
- (c) all equipment, inventory, improvements, fixtures, accessions, goods and other personal property of whatever nature now or hereafter located on or used or held for use solely in connection with the Mortgaged Properties (or solely in connection with the operation thereof or the treating, handling, storing, transporting, processing, or marketing of Production) and all renewals or replacements thereof or substitutions therefor;
- (d) to the extent assignable all contract rights, contractual rights, and other general intangibles related to the Mortgaged Properties, the operation thereof (whether Grantor is operator or non-operator), or the treating, handling, storing, transporting, processing, or marketing of Production, or under which the proceeds of Production arise or are evidenced or governed;
- (e) to the extent assignable all geological, geophysical, engineering, accounting, title, legal, and other technical or business data concerning the Mortgaged Properties, the Production, or any other item of Property (as hereinafter defined) which are in the possession of Grantor or in which Grantor can otherwise grant a security interest, and all books, files, records, magnetic media, computer records, and other forms of recording or obtaining access to such data;
- (f) all money, documents, instruments, chattel paper, securities, accounts, or general intangibles arising from or by virtue of any transaction related to the Mortgaged Properties or the Production (all of the properties, rights and interests described in subsections (a), (b), (c), (d), and (e) above and this subsection (f) being herein sometimes collectively called the "Collateral"); and
- (g) all proceeds of the Collateral or payments in lieu of Production (such as "take or pay" payments), whether such proceeds or payments are goods, money, documents, instruments, chattel paper, securities, accounts, general intangibles, fixtures, real property, or other assets (the Mortgaged Properties, the Collateral and the proceeds

of the Collateral and payments in lieu of Production being herein sometimes collectively called the "Property").

Section 1.3 Note, Loan Documents, Other Obligations. This Mortgage is made to secure and enforce the payment and performance of the following promissory notes, obligations, indebtedness and liabilities:

(a) A Promissory Note (Revolving Line of Credit Note) dated as of the Effective Date having an original principal commitment amount of \$8,000,000.00 executed by Grantor and payable to the order of West Texas State Bank ("Lender") on or before September 30, 2015, bearing interest as therein provided, and containing a provision for the payment of a reasonable additional amount as attorneys' fees, and all other notes given in substitution or replacement therefor or in modification, renewal or extension thereof, in whole or in part (as from time to time supplemented, amended, or modified and all other notes given in substitution or replacement therefor, or in modification, renewal or extension thereof, in whole or in part, being hereinafter called the "Note" and Lender and each subsequent holder of the Note or any part thereof or interest therein, or any of the other secured indebtedness being herein called "Noteholder");

(b) All indebtedness and other obligations owed to Noteholder now or hereafter incurred or arising pursuant to or permitted by the provisions of the Note, the Loan Agreement as set out below, this Mortgage or any other instrument now or hereafter evidencing, governing, guaranteeing or securing the secured indebtedness or any part thereof or otherwise executed in connection with the loan evidenced or governed by the Note or the Loan Agreement (the Note, the Loan Agreement, this Mortgage and such other instruments being herein sometimes collectively called the "Loan Documents"); and

(c) All other loans and future advances made by Noteholder to Grantor and all other debts, obligations and liabilities of Grantor of every kind and character now or hereafter existing in favor of Noteholder, whether direct or indirect, primary or secondary, joint or several, fixed or contingent, and whether originally payable to Noteholder or to a third party and subsequently acquired by Noteholder, including, without limitation, all obligations of Grantor to Noteholder in connection with letters of credit issued by Noteholder at the application of Grantor, it being contemplated that Grantor may hereafter become indebted to Noteholder for such further debts, obligations and liabilities.

Section 1.4 Future Advances. This Mortgage secures the payment of future advances of revolving loans which may be made after the date hereof to the same extent as if such future advances were made on the date of the execution of this Mortgage, although there may be no advance made on the date of the execution of this Mortgage, and although there may be no indebtedness outstanding at the time any advance is made. The total principal amount of secured indebtedness may decrease or increase from time to time but the total unpaid principal balance so

secured at any one time shall not exceed TEN MILLION DOLLARS AND NO CENTS (\$10,000,000.00), plus interest thereon. The parties hereby acknowledge and intend that all advances of the revolving loans, including future advances whenever hereafter made, shall be a lien from the time this Mortgage is recorded.

Section 1.5 Secured Indebtedness. The indebtedness referred to in Section 1.3 and 1.4, and all renewals, extensions and modifications thereof, and all substitutions therefor, in whole or in part, are hereinafter sometimes referred to as the “secured indebtedness” or the “indebtedness secured hereby.”

ARTICLE II.

Representations, Warranties and Covenants

Section 2.1 Grantor represents, warrants, and covenants as follows:

(a) Title and Permitted Encumbrances. Grantor has, and Grantor covenants to maintain, good and defensible title to the Property free and clear of all liens, security interests, and encumbrances except for Permitted Encumbrances (as defined in the Loan Agreement); Grantor will warrant and defend title to the Property, subject as aforesaid, against the claims and demands of all persons claiming or to claim the same or any part thereof. With respect to each Mortgaged Property, the ownership of Grantor in such Mortgaged Property does and will, (i) with respect to each tract of land described in Exhibit A hereto in connection with such Mortgaged Property, (A) entitle Grantor to receive (subject to the terms and provisions of this Mortgage) a decimal, percentage or fractional share of the Production produced from, or allocated to, such tract equal to not less than the decimal, percentage or fractional share set forth in Exhibit A in connection with such tract opposite the words “Nautilus Net Revenue Interest” (or words of similar import), (B) cause Grantor to be obligated to bear a decimal, percentage or fractional share of the cost of exploration, development and operation of such tract of land not greater than the decimal, percentage or fractional share set forth in Exhibit A in connection with such tract opposite the words “Working Interest” (or words of similar import) and (ii) if such Mortgaged Property is shown in Exhibit A to be subject to a pooled unit or units, with respect to each such unit, (A) entitle Grantor to receive (subject to the terms and provisions of this Mortgage) a decimal, percentage or fractional share of Production produced from, or allocated to, such unit equal to not less than the decimal, percentage or fractional share set forth in Exhibit A in connection with such Mortgaged Property opposite the words “Unit Net Revenue Interest” or words of similar import (and if such Mortgaged Property is subject to more than one unit, words identifying such interest with such unit), and (B) obligate Grantor to bear a decimal share of the cost of exploration, development and operation of such unit not greater than the decimal share set forth in Exhibit A in connection with such Mortgaged Property opposite the words “Unit Working Interest” or words of similar import (and if such Mortgaged Property is

subject to more than one unit, words identifying such interest with such unit); such shares of Production which Grantor is entitled to receive, and shares of expenses which Grantor is obligated to bear, are not and will not be subject to change (other than (i) changes which arise pursuant to non-consent provisions of operating agreements described in Exhibit A in connection with such Mortgaged Properties, respectively, in connection with operations hereafter proposed, (ii) changes resulting from the establishment or amendment after the date hereof of any pooled unit or units or (iii) increases in the decimal share of the cost of exploration, development and operation of such Mortgaged Property or unit in which Grantor is obligated to bear, but only to the extent accompanied by a proportionate increase in the decimal, percentage or fractional share of Production produced from, or allocated to, such Mortgaged Property or unit to which Grantor is entitled) except, and only to the extent that, such changes are reflected in Exhibit A. There is not and will not be any unexpired financing statement covering any part of the Property on file in any public office naming any party other than Lender as secured party and other than in connection with Permitted Encumbrances. The execution, delivery and performance of this Mortgage and the creation of the liens hereunder do not violate any provision or constitute a default under any operating agreement or other instrument to which Grantor is a party.

(b) Leases and Contracts. The oil, gas and/or mineral leases, contracts and other agreements forming a part of the Property, to the extent the same cover or otherwise relate solely to the lands described or referred to in Exhibit A, are in full force and effect, and Grantor agrees to maintain them in full force and effect.

(c) Contracts and Credits for Sale of Production. Neither Grantor, nor its predecessors in title, have received prepayments (including, but not limited to, payments for gas not taken pursuant to "take or pay" arrangements) for Production produced or to be produced from the Mortgaged Properties after the Effective Date, except as expressly set forth in Exhibit A hereto following the description of each affected Mortgaged Property.

(d) Condition of Personal Property. The material inventory, equipment, fixtures and other material tangible personal property forming a part of the Property are and will remain, in good repair and condition (ordinary wear and tear excepted and other than as a result of casualty or condemnation) and are and will be reasonably adequate for the normal operation of the Property in accordance with past practices and prudent industry standards; all of such Property is, and will remain, located on the Mortgaged Properties, except for that portion thereof which is or shall be located elsewhere (including that usually located on the Mortgaged Properties but temporarily located elsewhere) but within the same State in the course of the normal operation of the Property.

(e) Operation of Mortgaged Properties. The Mortgaged Properties (and properties unitized therewith) are being (and, to the extent the same could materially adversely affect the ownership or operation of the Mortgaged Properties after the

Effective Date, during the period that the Mortgage Properties have been operated by Grantor, have been) and hereafter will be maintained, operated and developed in a good and workmanlike manner (other than as a result of casualty or condemnation) and in conformity with all applicable laws and all rules, regulations and orders of all duly constituted authorities having jurisdiction and in conformity in all material respects with all oil, gas and/or other mineral leases and other contracts and agreements forming a part of the Property and in conformity with the Permitted Encumbrances.

(f) Taxes and Other Obligations. Grantor will pay and discharge when due all taxes assessed against the Properties unless being contested in good faith by appropriate proceedings.

(g) Suits and Claims. As of the Effective Date, there are no material suits, actions, claims, investigations, inquiries, proceedings or demands pending (or, to Grantor's knowledge, threatened in writing) which affect the Property (including, without limitation, any which challenge or otherwise pertain to Grantor's title to the Property) and no material judicial or administrative actions, suits or proceedings pending (or, to Grantor's knowledge, threatened in writing) against Grantor.

(h) Organization. In the event Grantor is a corporation, partnership, or other legal entity which is not a natural person, Grantor is and will continue to be duly organized, validly existing and in good standing under the laws of its state of incorporation or other form of organization and is and will continue to be authorized to do business in, and in good standing in, each state which the Mortgaged Properties are located and in each other jurisdiction where the nature of Grantor or the nature of the business transacted by Grantor makes such qualification necessary. Grantor has all requisite corporate or other power to carry on its business and to enter into, and carry out, the transactions contemplated by the Loan Documents and perform its obligations under the Loan Documents. All necessary corporate or other action has been taken to authorize the execution and delivery by Grantor (and the individuals acting on behalf of Grantor) of the Loan Documents and to authorize the consummation of the transactions contemplated by the Loan Documents and the performance by Grantor of its obligations under the Loan Documents.

(i) Environmental.

(i) Current Status. The Property and Grantor are not in violation of or subject to any existing, pending or, to the knowledge of Grantor, threatened (in writing) investigation or inquiry by any governmental authority or to any remedial obligations under any applicable laws or regulations pertaining to health or the environment (such laws or regulations as they now exist or are hereafter enacted and/or amended hereinafter sometimes collectively called "Applicable Environmental Laws").

(ii) Future Performance. Grantor will not cause or permit the Property or Grantor to be in violation of, or do anything or permit anything to be done which will subject the Property to any material remedial obligations under any Applicable Environmental Laws.

(j) Not a Foreign Person. Grantor is not a “foreign person” within the meaning of the Internal Revenue Code of 1986, as amended (hereinafter called the “Code”), Sections 1445 and 7701.

(k) Payment. Grantor will make due and punctual payment of the Note and of all other secured indebtedness and of all installments of principal thereof or interest thereon, as the same become due and payable, whether at a date for payment of a fixed installment, or contingent or other payment, or as a result of acceleration or otherwise. Grantor will timely and properly perform all of the covenants, agreements, and conditions imposed upon it by this Mortgage or the Loan Documents and will not permit an Event of Default to occur hereunder or thereunder.

(l) Defense of Mortgage. If the validity or priority of this Mortgage or of any material rights, titles, liens or security interests created or evidenced hereby with respect to the Property or any part thereof or the title of Grantor to the Property shall be endangered or questioned or shall be attacked directly or indirectly or if any legal proceedings are instituted against Grantor with respect thereto, Grantor will give prompt written notice thereof to Noteholder and at Grantor’s own cost and expense will diligently endeavor to cure any defect that may be developed or claimed, and will take all necessary and proper steps for the defense of such legal proceedings, including, but not limited to, the employment of counsel, the prosecution or defense of litigation and the release or discharge of all adverse claims, and Trustee and Noteholder, or either of them (whether or not named as parties to legal proceedings with respect thereto), are hereby authorized and empowered to take such additional steps as in their reasonable judgment and discretion may be necessary or proper for the defense of any such legal proceedings or the protection of the validity or priority of this Mortgage and the rights, titles, liens and security interests created or evidenced hereby.

(m) Further Assurances. Grantor will, on request of Noteholder, (i) promptly correct any defect, error or omission which may be discovered in the contents of this Mortgage, or in any other Loan Document, or in the execution or acknowledgment of this Mortgage or any other Loan Document; (ii) execute, acknowledge, deliver and record and/or file such further instruments (including, without limitation, further deeds of trust, security agreements, financing statements, continuation statements, and assignments of production, accounts, funds, contract rights, general intangibles, and proceeds) and do such further acts as may be necessary, desirable or proper to carry out more effectively the purposes of this Mortgage and the other Loan Documents and to more fully identify and subject to the liens and security interests hereof any property intended to be covered hereby, including specifically, but without limitation, any renewals, additions, substitutions, replacements, or appurtenances to the Property; and (iii) execute,

acknowledge, deliver, and file and/or record any document or instrument (including specifically any financing statement) reasonably requested by Noteholder to protect the lien or the security interest hereunder against the rights or interests of third persons other than holders of Permitted Encumbrances. Grantor shall pay all reasonable costs connected with any of the foregoing.

(n) Fees and Expenses; Indemnity. Grantor will pay all appraisal fees, recording fees, taxes, brokerage fees and commissions, abstract and other records search fees, reasonable out-of-pocket attorneys' fees and expenses and all other reasonable costs and expenses of every character incurred by Grantor or Noteholder in connection with the closing of the loan or loans evidenced by the Loan Documents and any and all amendments, supplements or modifications to such loan transaction or transactions. Grantor will reimburse Trustee and Noteholder for all expenditures, including reasonable out-of-pocket attorneys' fees and expenses, incurred or expended in connection with (i) the breach by Grantor of any covenant, agreement or condition contained herein or in any other Loan Document, (ii) Noteholder's exercise of any of its rights and remedies hereunder or under any other Loan Document, and (iii) the protection of the Property during the continuance of an Event of Default and/or Noteholder's liens and security interests therein.

(o) Disposition of Property. Grantor shall account fully and faithfully for and, if Noteholder so elects, shall promptly pay or turn over to Noteholder the proceeds in whatever form received from disposition in any manner of any of the Property in violation of the terms of the Loan Agreement.

(p) No Credits Against Take or Pay Provisions. Grantor will not, without prior written consent of Noteholder, authorize the purchaser or transporter of gas from another property to satisfy such purchaser's or transporter's obligations under a "take or pay" or "take and pay" provision of a gas sales contract covering all or any part of the Mortgaged Properties by the purchase or transportation of gas from such other property.

(q) Insurance. If Grantor is the operator of any wells comprising a part of the Mortgaged Properties, Grantor will keep such part of the Mortgaged Properties which is of an insurable nature and of a character usually insured by persons operating similar properties, insured with companies of recognized responsibility reasonably satisfactory to Noteholder and in such amounts as are reasonably acceptable to Noteholder (and in the absence of specification of such amounts by Noteholder, in the amount of the full value of such Mortgaged Properties).

(r) Taxes on Note or Mortgage. Grantor will promptly pay all income, franchise and other taxes owing by Grantor and any stamp taxes or other taxes (unless such payment by Grantor is prohibited by law) which may be required to be paid with respect to the Note, this Mortgage or any other instrument evidencing or securing any of the secured indebtedness

Section 2.2 Compliance by Operator. As to any part of the Mortgaged Properties which is operated by a party other than Grantor, Grantor agrees to take all such commercially reasonable action and to exercise all rights and remedies as are available to Grantor (including, but not limited to, all rights under any Operating Agreement) to cause the party who is the operator of such Mortgaged Properties to comply in all material respects with the covenants and agreements contained herein.

Section 2.3 Performance by Noteholder on Grantor's Behalf. Grantor agrees that, if any Event of Default is continuing as a result of Grantor failure to perform any act or to take any action which hereunder Grantor is required to perform or take, or to pay any money which hereunder Grantor is required to pay, Noteholder, in Grantor's name or its own name, may, but shall not be obligated to, perform or cause to be performed such act or take such action or pay such money, and any expenses so incurred by Noteholder and any money so paid by Noteholder, shall be a demand obligation owing by Grantor to Noteholder (which obligation Grantor hereby expressly promises to pay) and Noteholder, upon making such payment, shall be subrogated to all of the rights of the person, corporation or body politic receiving such payment. Each amount due and owing by Grantor to Noteholder pursuant to this Mortgage shall bear interest each day, from the date of such expenditure or payment until paid, at a rate equal to the rate as provided for past-due principal under the Note (provided that, should applicable law provide for a maximum permissible rate of interest on such amounts, such rate shall not be greater than such maximum permissible rate); all such amounts, together with such interest thereon, shall be a part of the secured indebtedness and shall be secured by this Mortgage.

ARTICLE III.

Assignment of Production, Accounts, and Proceeds

Section 3.1 Assignment of Production. Grantor does hereby absolutely and unconditionally assign, transfer and set over to Noteholder all Production which accrues after the Effective Date to Grantor's interest in the Mortgaged Properties (all proceeds of such Production and payments in lieu of Production such as "take or pay" proceeds and payments in lieu of Production being herein referred to as the "Production Proceeds"), together with the immediate and continuing right to collect and receive such Production Proceeds; provided that Noteholder hereby grants to Borrower a license to continue to collect, receive and use such Production Proceeds except after an Event of Default. Grantor will direct and instruct in the event of an Event of Default any and all purchasers of any Production to pay to Noteholder all of the Production Proceeds accruing to Grantor's interest until such time as such purchasers have been furnished with evidence that all secured indebtedness has been paid and that this Mortgage has been released. Grantor agrees that no purchasers of the Production shall have any responsibility for the application of any funds paid to Noteholder.

Section 3.2 Effectuating Payment of Production Proceeds to Noteholder. Independent of the foregoing provisions and authorities herein granted, Grantor agrees to execute and deliver any and all transfer orders, division orders and other instruments that may be requested by Noteholder or that may be required by any purchaser of any Production for the purpose of

effectuating payment of the Production Proceeds to Noteholder after an Event of Default. If under any existing sales agreements, other than division orders or transfer orders, any Production Proceeds are required to be paid by the purchaser to Grantor so that under such existing agreements payment cannot be made of such Production Proceeds to Noteholder after an Event of Default, Grantor's interest in all Production Proceeds under such sales agreements and in all other Production Proceeds which for any reason may be paid to Grantor shall, when received by Grantor after an Event of Default, constitute trust funds in Grantor's hands and shall be immediately paid over to Noteholder. Without limitation upon any of the foregoing, Grantor hereby constitutes and appoints Noteholder as Grantor's special attorney-in-fact (with full power of substitution, either generally or for such periods or purposes as Noteholder may from time to time prescribe) in the name, place and stead of Grantor to do any and every act and exercise any and every power that Grantor might or could do or exercise personally with respect to all Production and Production Proceeds after an Event of Default (the same having been assigned by Grantor to Noteholder pursuant to Section 3.1 hereof), expressly inclusive, but not limited to, the right, power and authority after an Event of Default to:

(a) Execute and deliver in the name of Grantor any and all transfer orders, division orders, letters in lieu of transfer orders, indemnifications, certificates and other instruments of every nature that may be requested or required by any purchaser of Production from any of the Mortgaged Properties for the purposes of effectuating payment of the Production Proceeds to Noteholder or which Noteholder may otherwise deem necessary or appropriate to effect the intent and purposes of the assignment contained in Section 3.1; and

(b) If under any product sales agreements other than division orders or transfer orders, any Production Proceeds are required to be paid by the purchaser to Grantor so that under such existing agreements payment cannot be made of such Production Proceeds to Noteholder, to make, execute and enter into such sales agreements or other agreements as are necessary to direct Production Proceeds to be payable to Noteholder;

giving and granting unto said attorney-in-fact full power and authority to do and perform any and every act and thing whatsoever necessary and requisite to be done as fully and to all intents and purposes, as Grantor might or could do if personally present; and Grantor shall be bound thereby as fully and effectively as if Grantor had personally executed, acknowledged and delivered any of the foregoing certificates or documents. The powers and authorities herein conferred upon Noteholder may be exercised by Noteholder after an Event of Default through any person who, at the time of the execution of the particular instrument, is an officer of Noteholder. The power of attorney herein conferred is granted for valuable consideration and hence is coupled with an interest and is irrevocable so long as the secured indebtedness, or any part thereof (other than contingent indemnification obligations to the extent no claim giving rise thereto has been asserted), shall remain unpaid and this Mortgage is unreleased. All persons dealing with Noteholder or any substitute, shall be fully protected in treating the powers and authorities conferred by this paragraph as continuing in full force and effect until advised by Noteholder that all the secured indebtedness is fully and finally paid and this Mortgage is released.

Section 3.3 Change of Purchaser. Should any person now or hereafter purchasing or taking Production fail to make payment promptly to Noteholder of the Production Proceeds after an Event of Default, Noteholder shall have the right to make, or to require Grantor to make, a change of connection and the right to designate or approve the purchaser with whose facilities a new connection shall be made, and Noteholder shall have no liability or responsibility in connection therewith so long as ordinary care is used in making such designation.

Section 3.4 Application of Production Proceeds.

After an Event of Default, all Production Proceeds from time to time in the hands of Noteholder shall be applied by it toward the payment of all secured indebtedness (principal, interest, reasonable out-of-pocket attorneys' fees and other fees and expenses) at such times and in such manner and order and to such extent as Noteholder deems advisable. Any Production Proceeds from time to time received by Noteholder after an Event of Default shall be credited to, or sent at the direction of, Borrower.

Section 3.5 Release From Liability; Indemnification. Noteholder and its successors and assigns are hereby absolved from all liability for failure to enforce collection of the Production Proceeds and from all other responsibility in connection therewith, except the responsibility of each to account to Grantor for funds actually received by each and for its gross negligence, willful misconduct and fraud. Grantor agrees to indemnify and hold harmless Noteholder (for purposes of this paragraph, the term "Noteholder" shall include the directors, officers, partners, employees and agents of Noteholder and any persons or entities owned or controlled by or affiliated with Noteholder) against any and all claims, demands, liabilities, losses, damages (including without limitation consequential damages), causes of action, judgments, penalties, reasonable costs and expenses (including without limitation reasonable out-of-pocket attorneys' fees and expenses) by reason of the assertion that Noteholder received, either before or after payment in full of the secured indebtedness, funds from the production of oil, gas, other hydrocarbons or other minerals claimed by third persons (and/or funds attributable to sales of production which (i) were made at prices in excess of the maximum price permitted by applicable law or (ii) were otherwise made in violation of laws, rules, regulations and/or orders governing such sales), and Noteholder shall have the right to defend against any such claims or actions, employing attorneys of its own selection, and if not furnished with indemnity reasonably satisfactory to it, Noteholder shall have the right to compromise and adjust any such claims, actions and judgments, and in addition to the rights to be indemnified as herein provided, all amounts paid by Noteholder in compromise, satisfaction or discharge of any such claim, action or judgment, and all court costs, reasonable out-of-pocket attorneys' fees and other expenses of every character expended by Noteholder pursuant to the provisions of this section shall be a demand obligation (which obligation Grantor hereby expressly promises to pay) owing by Grantor to Noteholder and shall bear interest, from the date expended until paid, at the rate described in Section 2.3 hereof. **WITHOUT LIMITATION, IT IS THE INTENTION OF GRANTOR AND GRANTOR AGREES THAT THE FOREGOING INDEMNITIES SHALL APPLY TO EACH INDEMNIFIED PARTY WITH RESPECT TO ALL CLAIMS, DEMANDS, LIABILITIES, LOSSES, DAMAGES (INCLUDING WITHOUT LIMITATION CONSEQUENTIAL DAMAGES), CAUSES OF ACTION, JUDGMENTS,**

PENALTIES, REASONABLE COSTS AND EXPENSES (INCLUDING WITHOUT LIMITATION REASONABLE OUT-OF-POCKET ATTORNEYS' FEES AND EXPENSES) WHICH IN WHOLE OR IN PART ARE CAUSED BY OR ARISE OUT OF THE SIMPLE NEGLIGENCE OF SUCH (AND/OR ANY OTHER) INDEMNIFIED PARTY. However, such indemnities shall not apply to any particular indemnified party (but shall apply to the other indemnified parties, it being understood that Noteholder shall be considered the same indemnified party as its directors, officers, partners, employees and agents) to the extent the subject of the indemnification is caused by or arises out of the gross negligence, fraud or willful misconduct of such particular indemnified party.

Section 3.5 Grantor's Absolute Obligation to Pay Note. Nothing herein contained shall detract from or limit the obligations of Grantor to make prompt payment of the Note, and any and all other secured indebtedness, at the time and in the manner provided herein and in the Loan Documents, regardless of whether the Production and Production Proceeds herein assigned are sufficient to pay same, and the rights under this Article III shall be cumulative of all other rights of Noteholder under the Loan Documents.

ARTICLE IV.

Remedies Upon Default

Section 4.1 Default. The term "Event of Default" as used in this Mortgage shall mean the occurrence of any of the following events:

(a) the failure of Grantor to make due and punctual payment of the Note or of any other secured indebtedness or of any installment of principal thereof or interest thereon, or any part thereof, as the same shall become due and payable, whether at a date for payment of a fixed installment or contingent or other payment, or as a result of acceleration, or otherwise, and such failure is not remedied within five (5) days of written notice of said non-payment by Noteholder; or

(b) the failure of Grantor to pay over to Noteholder any Production Proceeds which are receivable by Noteholder under this Mortgage but which are paid to Grantor rather than Noteholder (either as provided for in Section 3.2 hereof or otherwise), and such failure is not remedied within 5 days after written notice and demand by Noteholder; or

(c) the failure of Grantor timely and properly to observe, keep or perform any covenant, agreement, warranty or condition herein or in any other Loan Document required to be observed, kept or performed (other than covenant, agreement, warranty or condition otherwise constituting an Event of Default hereunder or under any other Loan Document), and such failure is not remedied within the cure or grace period provided or, if no specific cure period is provided, then within 20 days after written notice and demand by Noteholder; or

(d) any representation contained herein or in any other Loan Document shall prove to have been false or misleading in any material respect on the date, or as of which, made and such representation is not made true and correct (as of the time such corrective action is taken) within the cure or grace period provided or, if no specific cure period is provided, then within 20 days after written notice and demand by Noteholder; or

(e) [intentionally omitted]; or

(f) Grantor suffers the entry against it of a judgment, decree or order for relief by a court of competent jurisdiction in an involuntary case commenced under any applicable bankruptcy, insolvency or other similar law of any jurisdiction now or hereafter in effect, including the United States Bankruptcy Code, as amended; or

(g) Grantor suffers the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for a substantial part of its Property in a proceeding brought against it and (1) such appointment is neither made ineffective nor discharged, released, vacated or fully bonded within thirty days after the making thereof, or (2) such appointment is consented to, requested by, or acquiesced to by Grantor; or

(h) Grantor commences an action or voluntary case under any applicable bankruptcy, insolvency or similar law now or hereafter in effect, including the United States Bankruptcy Code, as amended; or consents to the entry of an order for relief in an involuntary case under any such law or to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or other similar official of any substantial part of its assets or any part of the Property; or

(i) Grantor makes a general assignment for the benefit of creditors or fails generally to pay its debts as such debts become due or takes corporate or other action in furtherance thereof or in furtherance of any proceeding described in subparagraph (h) immediately above; or

(j) Grantor suffers a writ or warrant of attachment or any similar process to be issued by any court against all or any substantial part of its Property, and such writ or warrant of attachment or any similar process is not stayed, vacated, fully bonded or released within thirty days after the entry or levy thereof; or

(k) Any of the events referred to above in subsections (c), (d), (f), (g), (h), (i) and (j) shall occur with respect to any guarantor of the secured indebtedness and shall not be remedied within the applicable grace period (if any) set forth in such subsections; or

(l) a "default" or "event of default" occurs under any Loan Document, other than this Mortgage, which defines either such term and the same is not remedied within the applicable period of cure or grace (if any) provided in such Loan Document.

Section 4.2 Acceleration of Secured Indebtedness. Upon the occurrence of an Event of Default described in subsection (f), (g), or (h) of section 4.1 above, all of the secured

indebtedness shall thereupon be immediately due and payable, without presentment, demand, protest, notice of protest, declaration or notice of acceleration or intention to accelerate, or any other notice or declaration of any kind, all of which are hereby expressly waived by Grantor. During the continuance of any other Event of Default, Noteholder at any time and from time to time may without notice to Grantor or any other person declare any or all of the secured indebtedness immediately due and payable and all such secured indebtedness shall thereupon be immediately due and payable, without presentment, demand, protest, notice of protest, notice of acceleration or of intention to accelerate or any other notice or declaration of any kind, all of which are hereby expressly waived by Grantor, and the liens evidenced hereby shall be subject to foreclosure in any manner provided for herein or provided for by law as Noteholder may elect.

Section 4.3 Pre-Foreclosure Remedies. Upon the occurrence and during the continuance of an Event of Default, Noteholder is authorized, prior or subsequent to the institution of any foreclosure proceedings, to enter upon the Property, or any part thereof, and to take possession of the Property and all books and records relating thereto, and to exercise without interference from Grantor any and all rights which Grantor has with respect to the management, possession, operation, protection or preservation of the Property. All reasonable costs, expenses and liabilities of every character incurred by Noteholder in managing, operating, maintaining, protecting or preserving the Property shall constitute a demand obligation (which obligation Grantor hereby expressly promises to pay) owing by Grantor to Noteholder and shall bear interest from date of expenditure until paid at the rate described in Section 2.3 hereof, all of which shall constitute a portion of the secured indebtedness and shall be secured by this Mortgage and by any other instrument securing the secured indebtedness. If necessary to obtain the possession provided for above, Noteholder may invoke any and all lawful remedies to dispossess Grantor. In connection with any action taken by Noteholder pursuant to this Section 4.3, Noteholder shall not be liable for any loss sustained by Grantor resulting from any act or omission of Noteholder in managing the Property unless such loss is caused by the willful misconduct, gross negligence, fraud or bad faith of Noteholder, nor shall Noteholder be obligated to perform or discharge any obligation, duty or liability of Grantor arising under any agreement forming a part of the Property or arising under any Permitted Encumbrance prior to any foreclosure on, appointment of a receiver for, or deed-in-lieu with respect thereto by or on behalf of Trustee or Noteholder. Grantor hereby assents to, ratifies and confirms any and all actions of Noteholder with respect to the Property taken under this Section 4.3. without willful misconduct and bad faith.

Section 4.4 Foreclosure. Upon the occurrence and during the continuance of an Event of Default, Trustee, or his successor or substitute, is authorized and empowered and it shall be his special duty at the request of Noteholder to sell the Mortgaged Properties or any part thereof as an entirety or in parcels as Noteholder may elect, at such place or places and otherwise in the manner and upon such notice as may be required by law or, in the absence of any such requirement, as Trustee may deem appropriate. To the extent permitted by applicable law, any sale may be adjourned by announcement at the time and place appointed for such sale without further notice except as may be required by law. The sale by Trustee of less than the whole of the Mortgaged Properties shall not exhaust the power of sale herein granted, and Trustee is specifically empowered to make successive sale or sales under such power until the whole of the

Mortgaged Properties shall be sold; and, if the proceeds of such sale of less than the whole of the Mortgaged Properties shall be less than the aggregate of the indebtedness secured hereby and the expense of executing this trust as provided herein, this Mortgage and the lien hereof shall remain in full force and effect as to the unsold portion of the Mortgaged Properties just as though no sale had been made; provided, however, that Grantor shall never have any right to require the sale of less than the whole of the Mortgaged Properties but Noteholder shall have the right, at its sole election, to request Trustee to sell less than the whole of the Mortgaged Properties. After each sale, Trustee shall make to the purchaser or purchasers at such sale good and sufficient conveyances in the name of Grantor, conveying the property so sold to the purchaser or purchasers with special warranty of title, and shall receive the proceeds of said sale or sales and apply the same as herein provided. The power of sale granted herein shall not be exhausted by any sale held hereunder by Trustee or his substitute or successor, and such power of sale may be exercised from time to time and as many times as Noteholder may deem necessary until all of the Mortgaged Properties have been duly sold and all secured indebtedness has been fully paid. In the event any sale hereunder is not completed or is defective in the opinion of Noteholder, such sale shall not exhaust the power of sale hereunder and Noteholder shall have the right to cause a subsequent sale or sales to be made hereunder. Any and all statements of fact or other recitals made in any deed or deeds given by Trustee or any successor or substitute appointed hereunder as to nonpayment of the secured indebtedness beyond any applicable cure or grace period or as to the occurrence of any other Event of Default, or as to Noteholder's having declared all of said indebtedness to be due and payable, or as to the request to sell, or as to notice of time, place and terms of sale and the properties to be sold having been duly given, or as to the refusal, failure or inability to act of Trustee or any substitute or successor trustee, or as to the appointment of any substitute or successor trustee, or as to any other act or thing having been duly done by Noteholder or by such Trustee, substitute or successor, shall be taken as prima facie evidence of the truth of the facts so stated and recited. The Trustee or his successor or substitute may appoint or delegate any one or more persons as agent to perform any act or acts necessary or incident to any sale held by Trustee, including the posting of notices and the conduct of sale, but in the name and on behalf of Trustee, his successor or substitute. If Trustee or his successor or substitute shall have given notice of sale hereunder, any successor or substitute Trustee thereafter appointed may complete the sale and the conveyance of the property pursuant thereto as if such notice had been given by the successor or substitute Trustee conducting the sale. Cumulative of the foregoing provisions, it being expressly understood that:

As to Mortgaged Properties located in the State of Texas, such sales of all or any part of such Mortgaged Properties shall be conducted at the courthouse of any county (whether or not the counties in which the Mortgaged Properties are located are contiguous) in the State of Texas in which any part of the Mortgaged Properties is situated, at public venue to the highest bidder for cash between the hours of ten o'clock a.m. and four o'clock p.m. (and not later than three hours after the time of sale set forth in the notice thereof) on the first Tuesday in any month or at such other place, time and date as provided by the statutes of the State of Texas then in force governing sales of real estate under powers conferred by deed of trust, after having given notice of such sale in accordance with such statutes.

A POWER OF SALE HAS BEEN GRANTED IN THIS MORTGAGE. A POWER OF SALE MAY ALLOW TRUSTEE TO TAKE THE MORTGAGED PROPERTIES AND SELL THEM WITHOUT GOING TO COURT IN A FORECLOSURE ACTION DURING THE CONTINUANCE OF AN EVENT OF DEFAULT BY GRANTOR UNDER THIS MORTGAGE.

Section 4.5 Effective as Mortgage. This instrument shall be effective as a mortgage as well as a deed of trust and upon the occurrence and during the continuance of an Event of Default may be foreclosed as to any of the Property in any manner permitted by applicable law, and any foreclosure suit may be brought by Trustee or by Noteholder. To the extent, if any, required to cause this instrument to be so effective as a mortgage as well as a deed of trust, Grantor hereby mortgages the Mortgaged Properties to Noteholder. In the event a foreclosure hereunder shall be commenced by Trustee, or his substitute or successor, Noteholder may at any time before the sale of the Property direct Trustee to abandon the sale, and may then institute suit for the collection of the Note and/or any other secured indebtedness, and for the foreclosure of this Mortgage. It is agreed that if Noteholder should institute a suit for the collection of the Note or any other secured indebtedness and for the foreclosure of this Mortgage, Noteholder may at any time before the entry of a final judgment in said suit dismiss the same, and require Trustee, his substitute or successor to sell the Property in accordance with the provisions of this Mortgage.

Section 4.6 Receiver. In addition to all other remedies herein provided for, Grantor agrees that, upon the occurrence and during the continuance of an Event of Default, Noteholder shall as a matter of right be entitled to the appointment of a receiver or receivers for all or any part of the Property, whether such receivership be incident to a proposed sale (or sales) of such Property or otherwise, and without regard to the value of the Property or the solvency of any person or persons liable for the payment of the indebtedness secured hereby, and Grantor does hereby consent to the appointment of such receiver or receivers, waives any and all defenses to such appointment, and agrees not to oppose any application therefor by Noteholder, and agrees that such appointment shall in no manner impair, prejudice or otherwise affect the rights of Noteholder under Article III hereof. Nothing herein is to be construed to deprive Noteholder of any other right, remedy or privilege it may now or hereafter have under the law to have a receiver appointed. Any money advanced by Noteholder in connection with any such receivership shall be a demand obligation (which obligation Grantor hereby expressly promises to pay) owing by Grantor to Noteholder and shall bear interest from the date of making such advancement by Noteholder until paid, at the rate described in Section 2.3 hereof.

Section 4.7 Proceeds of Foreclosure. The proceeds of any sale held by Trustee or any receiver or public officer in foreclosure of the liens and security interests evidenced hereby shall be applied:

FIRST, to the payment of all necessary costs and expenses incident to such foreclosure sale, including but not limited to all court costs and charges of every character in the event foreclosed by suit, and a reasonable fee (not exceeding five percent

(5%) of the gross proceeds of such sale) to Trustee acting under the provisions of Section 4.4 if foreclosed by power of sale as provided in said section;

SECOND, to the payment of the secured indebtedness (including specifically without limitation the principal, interest and reasonable out-of-pocket attorneys' fees due and unpaid on the Note and the amounts due and unpaid and owed to Noteholder under this Mortgage) in such manner and order as Noteholder may elect; and

THIRD, the remainder, if any there shall be, shall be paid to Grantor, or to Grantor's heirs, devisees, representatives, successors or assigns, or such other persons as may be entitled thereto by law.

Section 4.8 Noteholder as Purchaser. Each of Noteholder, Grantor and any guarantor of the secured indebtedness shall have the right to become the purchaser at any sale held by any Trustee or substitute or successor or by any receiver or public officer and any Noteholder purchasing at any such sale shall have the right to credit upon the amount of the bid made therefor, to the extent necessary to satisfy such bid, the secured indebtedness owing to such Noteholder, or if such Noteholder holds less than all of such indebtedness, the pro rata part thereof owing to such Noteholder, accounting to all other Noteholders not joining in such bid in cash for the portion of such bid or bids apportionable to such non-bidding Noteholder or Noteholders.

Section 4.9 Personal Property Foreclosure. Upon the occurrence and during the continuance of an Event of Default, Noteholder may exercise its rights of enforcement with respect to the Collateral under the Texas Business and Commerce Code as amended (or under the Uniform Commercial Code in force in any other state to the extent the same is applicable law) and in conjunction with, in addition to or in substitution for those rights and remedies:

(a) Noteholder may enter upon Grantor's premises to take possession of, assemble and collect the Collateral or to render it unusable; and

(b) Noteholder may require Grantor to assemble the Collateral and make it available at a place Noteholder designates which is mutually convenient to allow Noteholder to take possession or dispose of the Collateral; and

(c) written notice mailed to Grantor as provided herein at least fifteen (15) days prior to the date of public sale of the Collateral or prior to the date after which private sale of the Collateral will be made shall constitute reasonable notice; and

(d) any sale made pursuant to the provisions of this section shall be deemed to have been a public sale conducted in a commercially reasonable manner if held contemporaneously with and upon the same notice as required for the sale of the Mortgaged Properties under power of sale as provided in Section 4.4 of this Mortgage; and

(e) in the event of a foreclosure sale, whether made by Trustee under the terms hereof, or under judgment of a court, the Collateral and the Mortgaged Properties may, at the option of Noteholder, be sold as a whole; and

(f) it shall not be necessary that Noteholder take possession of the Collateral or any part thereof prior to the time that any sale pursuant to the provisions of this section is conducted and it shall not be necessary that the Collateral or any part thereof be present at the location of such sale; and

(g) prior to application of proceeds of disposition of the Collateral to the secured indebtedness, such proceeds shall be applied to the reasonable expenses of retaking, holding, preparing for sale or lease, selling, leasing and the like and the reasonable out-of-pocket attorneys' fees and legal expenses incurred by Noteholder; and

(h) any and all statements of fact or other recitals made in any bill of sale or assignment or other instrument evidencing any foreclosure sale hereunder as to nonpayment of the secured indebtedness beyond any applicable cure or grace period or as to the occurrence of any other Event of Default, or as to Noteholder having declared all of such indebtedness to be due and payable, or as to notice of time, place and terms of sale and of the properties to be sold having been duly given, or as to any other act or thing having been duly done by Noteholder, shall be taken as prima facie evidence of the truth of the facts so stated and recited; and

(i) Noteholder may appoint or delegate any one or more persons as agent to perform any act or acts necessary or incident to any sale held by Noteholder, including the sending of notices and the conduct of the sale, but in the name and on behalf of Noteholder.

Section 4.10 Foreclosure as to Matured Debt. Upon the occurrence and during the continuance of an Event of Default, Noteholder shall have the right to proceed with foreclosure of the liens and security interests hereunder without declaring the entire secured indebtedness due, and in such event, any such foreclosure sale may be made subject to the unmatured part of the secured indebtedness and shall not in any manner affect the unmatured part of the secured indebtedness, but as to such unmatured part, this Mortgage shall remain in full force and effect just as though no sale had been made. The proceeds of such sale shall be applied as provided in Section 4.7 except that the amount paid under clause SECOND thereof shall be only the matured portion of the secured indebtedness and any proceeds of such sale in excess of those provided for in clauses FIRST and SECOND (modified as provided above) shall be applied as provided in clause SECOND AND THIRD of Section 3.4 hereof. Several sales may be made hereunder without exhausting the right of sale for any unmatured part of the secured indebtedness.

Section 4.11 Remedies Cumulative. All remedies herein expressly provided for are cumulative of each other and of all other remedies existing at law or in equity and are cumulative of any and all other remedies provided for in any other Loan Document, and Trustee and Noteholder shall, in addition to the remedies herein provided, be entitled to avail themselves of

all such other remedies as may now or hereafter exist at law or in equity for the collection of the secured indebtedness and the enforcement of the covenants herein and the foreclosure of the liens and security interests evidenced hereby, and the resort to any remedy provided for hereunder or under any such other Loan Document or provided for by law shall not prevent the concurrent or subsequent employment of any other appropriate remedy or remedies.

Section 4.12 Noteholder's Discretion as to Security. Noteholder may resort to any security given by this Mortgage or to any other security now existing or hereafter given to secure the payment of the secured indebtedness, in whole or in part, and in such portions and in such order as Noteholder may deem appropriate, and any such action shall not in any way be considered as a waiver of any of the rights, benefits, liens or security interests evidenced by this Mortgage.

Section 4.13 Grantor's Waiver of Certain Rights. To the full extent Grantor may do so, Grantor agrees that Grantor will not at any time insist upon, plead, claim or take the benefit or advantage of any law now or hereafter in force providing for any appraisal, valuation, stay, extension or redemption, and Grantor, for Grantor, Grantor's heirs, devisees, representatives, successors and assigns, and for any and all persons ever claiming any interest in the Property, to the extent permitted by applicable law, hereby waives and releases all rights of redemption, valuation, appraisal, stay of execution, notice of intention to mature or declare due the whole of the secured indebtedness, notice of election to mature or declare due the whole of the secured indebtedness and all rights to a marshaling of assets of Grantor, including the Property, or to a sale in inverse order of alienation in the event of foreclosure of the liens and/or security interests hereby created. To the full extent Grantor may do so, Grantor shall not have or assert any right under any statute or rule of law pertaining to the marshaling of assets, sale in inverse order of alienation, the exemption of homestead, the administration of estates of decedents, or other matters whatever to defeat, reduce or affect the right of Noteholder under the terms of this Mortgage to a sale of the Property for the collection of the secured indebtedness without any prior or different resort for collection, or the right of Noteholder under the terms of this Mortgage to the payment of the secured indebtedness out of the proceeds of sale of the Property in preference to every other claimant whatever. If any law referred to in this section and now in force, of which Grantor or Grantor's heirs, devisees, representatives, successors or assigns or any other persons claiming any interest in the Mortgaged Properties or the Collateral might take advantage despite this section, shall hereafter be repealed or cease to be in force, such law shall not thereafter be deemed to preclude the application of this section.

Section 4.14 Grantor as Tenant Post-Foreclosure. In the event there is a foreclosure sale hereunder and at the time of such sale Grantor or Grantor's heirs, devisees, representatives, successors or assigns or any other persons claiming any interest in the Property by, through or under Grantor are occupying or using the Property, or any part thereof, each and all shall immediately become the tenant of the purchaser at such sale, which tenancy shall be a tenancy from day to day, terminable at the will of either landlord or tenant, at a reasonable rental per day based upon the value of the Property occupied, such rental to be due daily to the purchaser. To the extent permitted by applicable law, the purchaser at such sale shall, notwithstanding any language herein apparently to the contrary, have the sole option to demand immediate possession

following the sale or to permit the occupants to remain as tenants at will. In the event the tenant fails to surrender possession of said property upon demand, the purchaser shall be entitled to institute and maintain a summary action for possession of the property (such as an action for forcible entry and detainer) in any court having jurisdiction.

Section 4.15 Interest Limitation. It is the intention of the parties hereto to comply with all applicable usury laws; accordingly, it is agreed that notwithstanding any provisions to the contrary in any Loan Document, in no event shall any Loan Document require or allow the payment, taking, receiving or charging or permit the collection of interest in excess of the maximum amount permitted by applicable usury law, and all such documents shall be subject to interest reduction to the amount allowed under such laws. If any such excess of interest is contracted for, taken, charged, reserved or received, under any Loan Document, or in the event the maturity of any of the secured indebtedness is accelerated in whole or in part, or in the event that all or part of the principal or interest of the secured indebtedness shall be prepaid, so that under any of such circumstances, the amount of interest contracted for, taken, charged or received, under any Loan Document, and the amount of principal actually outstanding from time to time under the instruments evidencing the secured indebtedness, shall exceed the maximum amount of interest permitted by the applicable usury laws, now or hereafter enacted, then in any such event (a) the provisions of this section shall govern and control, (b) neither Grantor nor any other person or entity now or hereafter liable for the payment of the secured indebtedness shall be obligated to pay the amount of such interest to the extent that it is in excess of the maximum amount of interest permitted by the applicable usury laws, now or hereafter enacted, (c) any such excess shall be cancelled automatically, (d) any such excess that may have been collected shall be either applied as a credit against the then unpaid principal amount or refunded to Grantor, at Noteholder's option, and (e) the effective rate of interest shall be automatically reduced to the maximum lawful contract rate allowed under the applicable usury laws, now or hereafter enacted. It is further agreed that without limitation of the foregoing, all calculations of the rate of interest contracted for, taken, charged or received under any Loan Document that are made for the purpose of determining whether such rate exceeds the maximum lawful contract rate, shall be made, to the extent permitted by the applicable usury laws, now or hereafter enacted, by amortizing, prorating, allocating and spreading in equal parts during the period of the full stated term of the loans evidenced by the instruments evidencing the secured indebtedness, all interest at any time contracted for, taken, charged or received from Grantor or otherwise by Noteholder in connection with such loans. Grantor does not agree to pay usurious interest. Further, the Noteholder hereby consents to the aforementioned paragraph. To the extent this provision conflicts with or is inconsistent with any provision of the Note, the terms of the Note shall prevail and control.

Section 4.16 Montana Provision. In the event there is a foreclosure sale hereunder and at the time of such sale Grantor or Grantor's heirs, devisees, representatives, successors or assigns or any other persons claiming any interest in the Property by, through or under Grantor are occupying or using the Property, or any part thereof, each and all shall immediately become the tenant of the purchaser at such sale, which tenancy shall be a tenancy from day to day, terminable at the will of either landlord or tenant, at a reasonable rental per day based upon the value of the Property occupied, such rental to be due daily to the purchaser. To the extent

permitted by applicable law, the purchaser at such sale shall, notwithstanding any language herein apparently to the contrary, have the sole option to demand immediate possession following the sale or to permit the occupants to remain as tenants at will. In the event the tenant fails to surrender possession of said property upon demand, the purchaser shall be entitled to institute and maintain a summary action for possession of the property (such as an action for forcible entry and detainer) in any court having jurisdiction.

ARTICLE V.

Miscellaneous

Section 5.1 Scope of Mortgage. This Mortgage is a deed of trust and mortgage of both real and personal property, a security agreement, a financing statement and an absolute assignment, and also covers proceeds and fixtures.

Section 5.2 Effective as a Financing Statement. This Mortgage covers goods which are or are to become fixtures on the real property described herein. This Mortgage shall be effective as a financing statement filed as a fixture filing with respect to all fixtures included within the Property and is to be filed for record in the real estate records of each county where any part of the Mortgaged Properties (including said fixtures) is situated. This Mortgage shall also be effective as a financing statement covering minerals or the like (including oil and gas) and accounts subject to Subsection (e) of Section 9.103 of the Texas Business and Commerce Code, as amended, and similar provisions (if any) of the Uniform Commercial Code as enacted in any other state where the Mortgaged Properties are situated which will be financed at the wellhead or minehead of the wells or mines located on the Mortgaged Properties and is to be filed for record in the real estate records of each county where any part of the Mortgaged Properties is situated. This Mortgage shall also be effective as a financing statement covering any other Property and may be filed in any other appropriate filing or recording office. The mailing address of Grantor is the address of Grantor set forth at the end of this Mortgage and the address of Noteholder from which information concerning the security interests hereunder may be obtained is the address of Noteholder set forth at the end of this Mortgage.

Section 5.3 Reproduction of Mortgage as Financing Statement. A carbon, photographic or other reproduction of this Mortgage or of any financing statement relating to this Mortgage shall be sufficient as a financing statement for any of the purposes referred to in Section 5.2.

Section 5.4 Notice to Account Debtors. In addition to the rights granted in Article III hereof, Noteholder may at any time after an Event of Default notify the account debtors or obligors of any accounts, chattel paper, negotiable instruments or other evidences of indebtedness included in the Collateral to pay Noteholder directly.

Section 5.5 Waiver by Noteholder. Noteholder may at any time and from time to time in writing waive compliance by Grantor with any covenant herein made by Grantor to the extent and in the manner specified in such writing, or consent to Grantor's doing any act which

hereunder Grantor is prohibited from doing, or to Grantor's failing to do any act which hereunder Grantor is required to do, to the extent and in the manner specified in such writing, or release any part of the Property or any interest therein or any proceeds of Production from the lien and security interest of this Mortgage, without the joinder of Trustee, or release any party liable, either directly or indirectly, for the secured indebtedness or for any covenant herein or in any other Loan Document, without impairing or releasing the liability of any other party. No such act shall in any way impair the rights or powers of Noteholder or Trustee hereunder except to the extent specifically agreed to by Noteholder in such writing.

Section 5.6 No Impairment of Security. The lien, security interest and other security rights of Noteholder hereunder shall not be impaired by any indulgence, moratorium or release granted by Noteholder including, but not limited to, any renewal, extension or modification which Noteholder may grant with respect to any secured indebtedness, or any surrender, compromise, release, renewal, extension, exchange or substitution which Noteholder may grant in respect of the Property (including without limitation Production Proceeds), or any part thereof or any interest therein, or any release or indulgence granted to any endorser, guarantor or surety of any secured indebtedness.

Section 5.7 Acts Not Constituting Waiver by Noteholder. Noteholder may waive any default or Event of Default without waiving any other prior or subsequent default or Event of Default. Noteholder may remedy any Event of Default without waiving the Event of Default remedied. Neither failure by Noteholder to exercise, nor delay by Noteholder in exercising, any right, power or remedy during the continuance of any Event of Default shall be construed as a waiver of such Event of Default or as a waiver of the right to exercise any such right, power or remedy at a later date (unless such Event of Default has been cured or expressly waived by Noteholder). No single or partial exercise by Noteholder of any right, power or remedy hereunder shall exhaust the same or shall preclude any other or further exercise thereof, and every such right, power or remedy hereunder may be exercised at any time and from time to time. No modification or waiver of any provision hereof nor consent to any departure by Grantor therefrom shall in any event be effective unless the same shall be in writing and signed by Noteholder and then such waiver or consent shall be effective only in the specific instances, for the purpose for which given and to the extent therein specified. No notice to nor demand on Grantor in any case shall of itself entitle Grantor to any other or further notice of demand in similar or other circumstances. Acceptance by Noteholder of any payment in an amount less than the amount then due on any secured indebtedness shall be deemed an acceptance on account only and shall not in any way excuse the existence of a default hereunder.

Section 5.8 Grantor's Successors. In the event the ownership of the Property or any part thereof becomes vested in a person other than Grantor, Noteholder may, without notice to Grantor, deal with such successor or successors in interest with reference to this Mortgage and to the indebtedness secured hereby in the same manner as with Grantor, without in any way vitiating or discharging Grantor's liability hereunder or for the payment of the indebtedness or performance of the obligations secured hereby. No transfer of the Property, no forbearance on the part of Noteholder, and no extension of the time for the payment of the indebtedness secured hereby given by Noteholder shall operate to release, discharge, modify, change or affect, in

whole or in part, the liability of Grantor hereunder or for the payment of the indebtedness or performance of the obligations secured hereby or the liability of any other person hereunder or for the payment of the indebtedness secured hereby.

Section 5.9 Place of Payment. All secured indebtedness which may be owing hereunder at any time by Grantor shall be payable at the place designated in the Note (or if no such designation is made, at the address of Noteholder indicated at the end of this Mortgage), or at such other place as Noteholder may designate in writing.

Section 5.10 Subrogation to Existing Liens. To the extent that proceeds of the Note are used to pay indebtedness secured by any outstanding lien, security interest, charge or prior encumbrance against the Property, such proceeds have been advanced by Noteholder at Grantor's request, and Noteholder shall be subrogated to any and all rights, security interests and liens owned by any owner or holder of such outstanding liens, security interests, charges or encumbrances, irrespective of whether said liens, security interests, charges or encumbrances are released, and it is expressly understood that, in consideration of the payment of such indebtedness by Noteholder, Grantor hereby waives and releases all demands and causes of action for offsets and payments to, upon and in connection with the said indebtedness.

Section 5.11 Application of Payments to Certain Indebtedness. If any part of the secured indebtedness cannot be lawfully secured by this Mortgage or if any part of the Property cannot be lawfully subject to the lien and security interest hereof to the full extent of such indebtedness, then all payments made shall be applied on said indebtedness first in discharge of that portion thereof which is not secured by this Mortgage.

Section 5.12 Compliance With Usury Laws. It is the intent of Grantor and Noteholder and all other parties to the Loan Documents to contract in strict compliance with applicable usury law from time to time in effect. In furtherance thereof, it is stipulated and agreed that none of the terms and provisions contained herein and in the Loan Documents shall ever be construed to create a contract to pay, for the use, forbearance or detention of money, interest in excess of the maximum amount of interest permitted to be charged by applicable law from time to time in effect.

Section 5.13 Trustees. The Trustee may resign by an instrument in writing addressed to Noteholder, or Trustee may be removed at any time with or without cause by an instrument in writing executed by Noteholder. In case of the death, resignation, removal, or disqualification of Trustee, or if for any reason Noteholder shall deem it desirable to appoint a substitute or successor trustee to act instead of the herein named trustee or any substitute or successor trustee or to appoint an additional trustee or trustees to serve concurrently with Trustee, then Noteholder shall have the right and is hereby authorized and empowered to appoint a successor trustee, a substitute trustee or an additional trustee, without other formality than appointment and designation in writing executed by Noteholder and the authority hereby conferred shall extend to the appointment of other successor, substitute and additional trustees successively until the indebtedness secured hereby has been paid in full, or until the Property is sold hereunder.

Section 5.14 No Liability for Trustee. The Trustee shall not be liable for any error of judgment or act done by Trustee in good faith, or be otherwise responsible or accountable under any circumstances whatsoever, except for Trustee's gross negligence, fraud or willful misconduct. The Trustee shall have the right to rely on any instrument, document or signature authorizing or supporting any action taken or proposed to be taken by him hereunder, believed by him in good faith to be genuine. All moneys received by Trustee shall, until used or applied as herein provided, be held in trust for the purposes for which they were received, but need not be segregated in any manner from any other moneys (except to the extent required by law), and Trustee shall be under no liability for interest on any moneys received by him hereunder. Grantor hereby ratifies and confirms any and all acts which the herein named Trustee or his successor or successors, substitute or substitutes, in this trust, shall do lawfully by virtue hereof. Grantor will reimburse Trustee for, and save him harmless against, any and all liability and expenses which may be incurred by him in the performance of his duties.

Section 5.15 Release of Mortgage. If all of the secured indebtedness be paid (other than contingent indemnification obligations to the extent no claim giving rise thereto has been asserted) and Noteholder shall have no further obligation to provide credit or advance funds to Grantor or the maker of any Note secured hereby, then, and in that event only, all rights under this Mortgage shall terminate (except to the extent expressly provided herein with respect to indemnifications and other rights which are expressly to continue following the release hereof) and the Property shall become wholly clear of the liens, security interests, conveyances and assignments evidenced hereby, and evidence of such release of liens and security interests shall be provided by Noteholder in due form at Grantor's cost.

Section 5.16 Notices. All notices, requests, consents, demands and other communications required or permitted hereunder or under any other Loan Document shall be in writing and, unless otherwise specifically provided in such other Loan Document, shall be deemed sufficiently given or furnished if delivered by personal delivery, by electronic mail, by expedited delivery service with proof of delivery, or by registered or certified United States mail, postage prepaid, at the following addresses (unless changed by similar notice in writing given by the particular party whose address is to be changed).

If to Grantor: Nautilus Poplar, LLC
 1775 Sherman Street, Suite 1950
 Denver, Colorado 80203
 Attn: Mr. Antoine Lafargue, Chief Financial Officer
 E-mail: alafargue@magellanpetroleum.com

If to Beneficiary: West Texas State Bank
 1501 W. University
 Odessa, Texas 79764
 Attn: Mr. Les W. Robbins, President-Midland
 E-mail: les@wtstatebk.com

Any such notice or communication shall be deemed to have been given either at the time of personal delivery or, in the case of delivery service or mail, as of the date of first attempted delivery at the address and in the manner provided herein, or, in the case of electronic mail, upon receipt; provided that, service of a notice required by Texas Property Code §51.002, as amended, or any similar statute in any state where any part of the Mortgaged Properties are located shall be considered complete when the requirements of the applicable statute for such part of the Mortgaged Properties located in the respective state are met.

Section 5.17 Invalidity of Certain Provisions. A determination that any provision of this Mortgage is unenforceable or invalid shall not affect the enforceability or validity of any other provision and the determination that the application of any provision of this Mortgage to any person or circumstance is illegal or unenforceable shall not affect the enforceability or validity of such provision as it may apply to other persons or circumstances.

Section 5.18 Gender; Titles. Within this Mortgage, words of any gender shall be held and construed to include any other gender, and words in the singular number shall be held and construed to include the plural, unless the context otherwise requires. Titles appearing at the beginning of any subdivisions hereof are for convenience only, do not constitute any part of such subdivisions, and shall be disregarded in construing the language contained in such subdivisions.

Section 5.19 Recording. Grantor will cause this Mortgage and all amendments and supplements thereto and substitutions therefor and all financing statements and continuation statements relating thereto to be recorded, filed, re-recorded and refiled in such manner and in such places as Trustee or Noteholder shall reasonably request and, to the maximum extent permitted by applicable law, will pay all such recording, filing, re-recording and refiling taxes, fees and other charges.

Section 5.20 Lender as Noteholder. All persons dealing with the Property (other than Grantor) shall be entitled to assume that Lender is the only Noteholder, and may deal with Lender (including without limitation accepting from or relying upon full or partial releases hereof executed by Lender only) without further inquiry as to the existence of other Noteholders, until given actual notice of facts to the contrary or until this Mortgage is supplemented or amended of record to show the existence of other Noteholders.

Section 5.21 Reporting Compliance. Grantor agrees to comply with any and all reporting requirements applicable to the transaction evidenced by the Note and secured by this Mortgage which are set forth in any law, statute, ordinance, rule, regulation, order or determination of any governmental authority, including but not limited to The International Investment Survey Act of 1976, The Agricultural Foreign Investment Disclosure Act of 1978, The Foreign Investment in Real Property Tax Act of 1980 and The Tax Reform Act of 1984 and further agrees upon request of Noteholder to furnish Noteholder with evidence of such compliance.

Section 5.22 Noteholder's Consent. Except where otherwise expressly provided herein, in any instance hereunder where the approval, consent or the exercise of judgment of Noteholder

is required, the granting or denial of such approval or consent and the exercise of such judgment shall be within the sole discretion of Noteholder, and Noteholder shall not, for any reason or to any extent, be required to grant such approval or consent or exercise such judgment in any particular manner, regardless of the reasonableness of either the request or Noteholder's judgment.

Section 5.23 Grantor. Unless the context clearly indicates otherwise, as used in this Mortgage, "Grantor" means the grantors named in Section 1.1 hereof or any of them. The obligations of Grantor hereunder shall be joint and several.

Section 5.24 Successors and Assigns. The terms, provisions, covenants and conditions hereof shall be binding upon Grantor, and the heirs, devisees, representatives, successors and assigns of Grantor, and shall inure to the benefit of Trustee and Noteholder and their respective heirs, devisees, representatives, successors and assigns and shall constitute covenants running with the land described in Exhibit A. All references in this Mortgage to Grantor, Trustee or Noteholder shall be deemed to include all such heirs, devisees, representatives, successors, substitutes and assigns.

Section 5.25 Reporting Requirements. Grantor agrees to comply with any and all reporting requirements applicable to the transaction evidenced by the Note and secured by this Mortgage which are set forth in any law, statute, ordinance, rule, regulation, order or determination of any governmental authority, including but not limited to The Foreign Investment in Real Property Tax Act of 1980 and further agrees upon request of Noteholder to furnish Noteholder with evidence of such compliance.

Section 5.26 CHOICE OF LAW. WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW, THIS MORTGAGE SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF TEXAS APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED ENTIRELY WITHIN THE STATE OF TEXAS AND THE LAWS OF THE UNITED STATES OF AMERICA BUT IN ANY EVENT CHAPTER 346 OF THE TEXAS FINANCE CODE (WHICH REGULATES CERTAIN REVOLVING LOAN ACCOUNTS AND REVOLVING TRIPARTY ACCOUNTS) SHALL NOT APPLY TO THE LOAN EVIDENCED BY THIS NOTE AND EXCEPT THAT TO THE EXTENT THAT THE LAW OF ANOTHER STATE IN WHICH A PORTION OF THE PROPERTY IS LOCATED (OR WHICH IS OTHERWISE APPLICABLE TO A PORTION OF THE PROPERTY) NECESSARILY GOVERNS WITH RESPECT TO PROCEDURAL AND SUBSTANTIVE MATTERS RELATING TO THE CREATION, PERFECTION AND ENFORCEMENT OF THE LIENS, SECURITY INTERESTS AND OTHER RIGHTS AND REMEDIES GRANTED HEREIN, THE LAW OF SUCH OTHER STATE SHALL APPLY AS TO THAT PORTION OF THE PROPERTY LOCATED IN (OR OTHERWISE SUBJECT TO THE LAWS OF) SUCH STATE.

Section 5.27 Loan Agreement. This Mortgage is subject to the terms and conditions of that certain Loan Agreement dated as of the Effective Date, by and between Grantor, Lender and Magellan Petroleum Corporation (as from time to time supplemented, amended and/or restated

and described in this Mortgage as the “Loan Agreement”). All capitalized terms used but not defined herein shall have the meanings given such terms in the Loan Agreement.

Section 5.28 Maturity. The latest final maturity date of the Loans is September 30, 2015.

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(signature page follows)

NOTICE

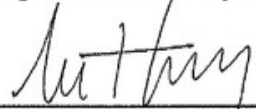
THIS MORTGAGE, THE NOTE DESCRIBED ABOVE AND THE ACCOMPANYING UCC-1 FINANCING STATEMENT AND LOAN AGREEMENT AND/OR ANY AND ALL OTHER DOCUMENTS EXECUTED AT OR NEAR THE TIME OF THIS EXECUTION CONSTITUTE A "LOAN AGREEMENT" AS DEFINED IN SECTION 26.02(a) OF THE TEXAS BUSINESS & COMMERCE CODE, AND REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

IN WITNESS WHEREOF, this instrument is dated to be effective as of the Effective Date, although is executed on the date of the acknowledgments annexed hereto.

GRANTOR:

NAUTILUS POPLAR LLC, a Montana limited liability company

By: Magellan Petroleum Corporation, its manager

By: 

Antoine Lafargue, Chief Financial Officer

LENDER:

WEST TEXAS STATE BANK

By: _____
Les W. Robbins, President-Midland

NOTICE

THIS MORTGAGE, THE NOTE DESCRIBED ABOVE AND THE ACCOMPANYING UCC-1 FINANCING STATEMENT AND LOAN AGREEMENT AND/OR ANY AND ALL OTHER DOCUMENTS EXECUTED AT OR NEAR THE TIME OF THIS EXECUTION CONSTITUTE A "LOAN AGREEMENT" AS DEFINED IN SECTION 26.02(a) OF THE TEXAS BUSINESS & COMMERCE CODE, AND REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

IN WITNESS WHEREOF, this instrument is dated to be effective as of the Effective Date, although is executed on the date of the acknowledgments annexed hereto.

GRANTOR:


NAUTILUS POPLAR LLC, a Montana limited liability company

By: Magellan Petroleum Corporation, its manager

By: _____
Antoine Lafargue, Chief Financial Officer

LENDER:

WEST TEXAS STATE BANK

By:  _____
Les W. Robbins, President-Midland

STATE OF COLORADO §
 §
COUNTY OF Denver §

This instrument was acknowledged before me on this the 15th day of September, 2014, by ANTOINE LAFARGUE, as Chief Financial Officer of MAGELLAN PETROLEUM CORPORATION, the manager of NAUTILUS POPLAR LLC, a Montana limited liability company, on behalf of said limited liability company.


NOTARY PUBLIC, STATE OF COLORADO

MATTHEW R. CIARDIELLO
NOTARY PUBLIC
STATE OF COLORADO
NOTARY ID 20124058105
MY COMMISSION EXPIRES AUGUST 30, 2016

STATE OF TEXAS §
 §
COUNTY OF MIDLAND §

This instrument was acknowledged before me on the _____ day of September, 2014, by LES W. ROBBINS, as President-Midland of WEST TEXAS STATE BANK, on behalf of said bank.

NOTARY PUBLIC, STATE OF TEXAS

STATE OF COLORADO

§
§
§

COUNTY OF _____

This instrument was acknowledged before me on this the _____ day of September, 2014, by ANTOINE LAFARGUE, as Chief Financial Officer of MAGELLAN PETROLEUM CORPORATION, the manager of NAUTILUS POPLAR LLC, a Montana limited liability company, on behalf of said limited liability company.

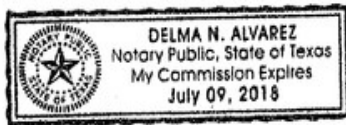
NOTARY PUBLIC, STATE OF COLORADO

STATE OF TEXAS

§
§
§

COUNTY OF MIDLAND

This instrument was acknowledged before me on the 17th day of September, 2014, by LES W. ROBBINS, as President-Midland of WEST TEXAS STATE BANK, on behalf of said bank.



Delma N. Alvarez

NOTARY PUBLIC, STATE OF TEXAS

EXHIBIT "A"

Attached to and made a part of the following documents:

- (a) Deed of Trust, Mortgage, Security Agreement, Assignment of Production and Financing Statement dated September 17, 2014, from NAUTILUS POPLAR LLC, as Grantor, for the benefit of WEST TEXAS STATE BANK, as Beneficiary; and
- (b) UCC-1 Financing Statement from NAUTILUS POPLAR LLC, as Debtor, for the benefit of WEST TEXAS STATE BANK, as Secured Party.

1. If applicable, the terms "BPO WI" and "BPO NRI" in this Exhibit "A" specify the warranted working interest and net revenue interest of Grantor in a particular well or property before the occurrence of a particular event such as payout of costs with respect to such well or property. The terms "APO WI" and "APO NRI" in this Exhibit "A" specify the warranted working interest and net revenue interest of Grantor in a particular well or property after the occurrence of a particular event such as payout of costs with respect to such well or property.

2. Within each Lease or Assignment description, the following explanations apply:

"Lessor" and "Lessee" refer to the original lessor and lessee set forth in the lease.

"Assignor" and "Assignee" refer to the parties identified in a particular document transferring an interest in the affected properties to Grantor.

The descriptions are given by fractions of each section, Section number, Township and Range. For example,

T = Township, R = Range, Blk. = Block, Sec. = Section, N = North, S = South, E = East, W = West

The descriptions may also include characterizations of interests described by abbreviations. For example,

APO = "after pay-out", BPO = "before payout", WI = "working interest", NRI = "net revenue interest", RI = "royalty interest", ORRI = "overriding royalty interest"

The designation "T-29-N, R-50-E" or "T29N-R50E" refers to Township 29 North, Range 50 East. The description "NE/4 of the NE/4 of Section 36, T-29-N, R-50-E" or "Sec 36: NENE, T29N-R50E" refers to the Northeast quarter of the Northeast quarter of Section 36, Township 29 North, Range 50 East, Roosevelt County, Montana.

Fractions are fractions of a section. Fractions may also be written with alpha characters as numerators and numeric characters as denominators. For example, NW/4 = the Northwest one-quarter of a section.

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ROOSEVELT COUNTY, MONTANA

See Pages 1 through and including 14, attached hereto and made a part hereof, all of such lands and leases being located in Roosevelt County, Montana.

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EXHIBIT A									
Lease Number	Type	Lease Name	Original Lessee Name	Gross Acres	Effective Date	Legal Description	Working Interest	Lease Net Revenue Interest	Nautlius Net Revenue Interest
25-085-12617	OG	EVA DENNY WHITE AND DAVID L. WHITE, WH, ET AL. OF THE SIOUX TRIBE	C. H. MURPHY, JR. (3912)	40.00000	12/20/1950	T29N-R50E SEC 36: NENE	1.00000000	0.87500000	0.87500000
25-085-12619	OG	ASSINIBOINE-SIOUX TRIBES	C. H. MURPHY, JR. (4106)	150.52000	12/28/1950	T28N-R52E SEC 6: LOTS 3 (40.03), 4 (35.23, A/D/A NWNW), 5 (35.26, A/D/A SWNW), SENW	1.00000000	0.87500000	0.87500000
25-085-12620	OG	ASSINIBOINE-SIOUX TRIBES	C. H. MURPHY, JR. (4100)	80.00000	1/18/1951	T29N-R51E SEC 7: N2SE	1.00000000	0.87500000	0.87500000
25-085-12621	OG	ASSINIBOINE-SIOUX TRIBES	C. H. MURPHY, JR. (4098)	280.00000	1/8/1951	T29N-R50E SEC 14: E2NE, SWNE, SE	1.00000000	0.87500000	0.87500000
25-085-12622	OG	ASSINIBOINE-SIOUX TRIBES	C. H. MURPHY, JR. (4097)	40.00000	1/8/1951	T29N-R51E SEC 29: NENE	1.00000000	0.87500000	0.87500000
25-085-12623	OG	ASSINIBOINE-SIOUX TRIBES	C. H. MURPHY, JR. (4096)	200.00000	1/9/1951	T29N-R51E SEC 19: SESW, E2NW, W2NE	1.00000000	0.87500000	0.87500000
25-085-12624	OG	ASSINIBOINE-SIOUX TRIBES	C. H. MURPHY, JR. (4095)	119.28000	1/10/1951	T29N-R50E SEC 12: NESE T29N-R51E SEC 7: LOT 3 (39.28, A/D/A NWSW), NESW	1.00000000	0.87500000	0.87500000
25-085-12625	OG	ASSINIBOINE-SIOUX TRIBES	C. H. MURPHY, JR. (4094)	39.69000	1/10/1951	T29N-R51E SEC 30: LOT 1 (39.69, A/D/A NWNW)	1.00000000	0.87500000	0.87500000
25-085-12626	OG	ASSINIBOINE-SIOUX TRIBES	C. H. MURPHY, JR. (4093)	40.00000	1/8/1951	T29N-R51E SEC 28: NENW	1.00000000	0.87500000	0.87500000
25-085-12627	OG	ASSINIBOINE-SIOUX TRIBES	C. H. MURPHY, JR. (4108)	60.00000	1/15/1951	T28N-R51E SEC 4: SWNE, S2NENW	1.00000000	0.87500000	0.87500000
25-085-12628	OG	ASSINIBOINE-SIOUX TRIBES RELINQUISHED TO GERALD WINSTON MURR THEN CURRENT OWNER IN 1954	C. H. MURPHY, JR. (4105)	40.00000	1/8/1951	T29N-R51E SEC 31: SENW	1.00000000	0.87500000	0.87500000
25-085-12629	OG	ASSINIBOINE-SIOUX TRIBES RELINQUISHED TO RUBY MARIE GREGG RASOR THEN CURRENT OWNER IN 1956	C. H. MURPHY, JR. (4104)	20.00000	1/10/1951	T29N-R51E SEC 32: N2NESW	1.00000000	0.87500000	0.87500000
25-085-12630	OG	ASSINIBOINE-SIOUX TRIBES	C. H. MURPHY, JR. (4103)	440.00000	1/16/1951	T29N-R51E SEC 21: E2NE, N2SE, E2SW, SWSW SEC 28: NWSW, W2NW SEC 29: NESE	1.00000000	0.87500000	0.87500000
25-085-12632	OG	ASSINIBOINE-SIOUX TRIBES RELINQUISHED TO HERMAN E. HALLAND, A SINGLE MAN THEN CURRENT OWNER IN 1955	C. H. MURPHY, JR. (4102)	40.06000	1/10/1951	T29N-R51E SEC 31: LOT 4 (40.06, A/D/A SWSW)	1.00000000	0.87500000	0.87500000
25-085-12640	OG	JAMES MELBOURNE, SINGLE ESTELLE BAD TEMPER BRIEN ALBERT BRIEN, WH OF THE SIOUX TRIBE	C. H. MURPHY, JR. (3504)	40.00000	9/26/1950	T29N-R51E SEC 32: SESW	1.00000000	0.87500000	0.87500000
25-085-12641	OG	ASSINIBOINE-SIOUX TRIBES	C. H. MURPHY, JR. (4101)	238.46000	2/23/1951	T29N-R51E SEC 19: LOTS 1 (39.55, A/D/A NWNW), 2 (39.61, A/D/A SWNW), 3 (39.65, A/D/A NWSW), 4 (39.65, A/D/A SWSW), NESW, NWSE	1.00000000	0.87500000	0.87500000
25-085-12642	OG	JOHN MELVIN YOUNGMAN ANNE YOUNGMAN, HW, ET AL OF THE ASSINIBOINE-SIOUX TRIBES	C. H. MURPHY, JR. (6411)	20.00000	2/24/1951	T29N-R51E SEC 26: N2SWNW	1.00000000	0.87500000	0.87500000
25-085-12643	OG	GLENN W. ZIMMERMAN MARGARET E. ZIMMERMAN, HW	THE CARTER OIL COMPANY	160.00000	1/27/1949	T29N-R51E SEC 28: SE	1.00000000	0.87500000	0.87500000
25-085-12644	OG	BUREAU OF LAND MANAGEMENT, AS TRUSTEE FOR THE ASSINIBOINE-SIOUX TRIBES	ESTHER S. SCHMIDT	1,340.00000	8/1/1950	T28N-R51E SEC 3: SE SEC 4: SWNW SEC 11: S2 SEC 12: W2, W2NE, NENE SEC 13: NW SEC 15: NE, S2NENW T29N-R51E	1.00000000	0.86500000	0.86500000
25-085-12645	OG	FRED J. REYNOLDS MARY F. REYNOLDS, HW	THE CARTER OIL COMPANY	280.00000	2/12/1952	T28N-R51E SEC 9: NWNE SEC 10: SE, E2SW	1.00000000	0.87500000	0.87500000

EXHIBIT A									
Lease Number	Type	Lease Name	Original Lessee Name	Gross Acres	Effective Date	Legal Description	Working Interest	Lease Net Revenue Interest	Nautilus Net Revenue Interest
25-085-12646	OG	WILLIAM YOUNGMAN #1 CHARLES JONES SR. WILLIAM YOUNGMAN #2 STELLA YOUNGMAN DOUGLAS YOUNGMAN EVA YOUNGMAN JOSEPHINE YOUNGMAN YOUPEE LEROY YOUPEE CHRISTINE YOUNGMAN NECKLACE FELIX NECKLACE NETTIE YOUNGMAN LAWRENCE YOUNGMAN RITA L. YOUNGMAN MICHAEL WAYNE YOUNGMAN FLORENCE R. YOUNGMAN	C. H. MURPHY, JR. (3815)	40.00000	9/28/1950	T29N-R51E SEC 31: NESE	1.00000000	0.87500000	0.87500000
25-085-12647	OG	ESTELLE BAD TEMPER BRIEN ALBERT BRIEN, W/H OF THE SIOUX TRIBE	C. H. MURPHY, JR. (3465)	360.00000	3/20/1950	T29N-R51E SEC 29: SESE SEC 33: W2	1.00000000	0.87500000	0.87500000
25-085-12648	OG	ASSINIBOINE-SIOUX TRIBES	C. H. MURPHY, JR. (3817-A)	40.00000	3/5/1951	T29N-R51E SEC 32: NWSE	1.00000000	0.87500000	0.87500000
25-085-12653	OG	MAUDE FOOTE BUCKLES, WIDOW AUSTIN R. BUCKLES & AUDREY E. BUCKLES H/W OF THE SIOUX TRIBE	C. H. MURPHY, JR. (3468)	120.00000	3/31/1950	T28N-R51E SEC 8: NESE SEC 22: E2NE	1.00000000	0.87500000	0.87500000
25-085-12654	OG	WINONA SIMONS SHANLEY ERWIN J. SHANLEY, W/H	C. H. MURPHY, JR. (3483)	140.00000	3/5/1951	T29N-R51E SEC 26: S2SWNW, NWSW SEC 27: N2SE	1.00000000	0.87500000	0.87500000
25-085-12655	OG	LEWIS JAMES SAYERS CHRISTINE M. SAYERS OF THE SIOUX TRIBE	C. H. MURPHY, JR. (3584)	40.00000	10/16/1950	T29N-R51E SEC 17: SENW	1.00000000	0.87500000	0.87500000
25-085-12656	OG	GEORGE B. BLOUNT CLARA R. E. BLOUNT, H/W HENRY BLOUNT MELISSA H. BLOUNT ANNA ROSE LONG BAUER EDWARD E. BAUER PHILLIPPENA McCLAMMY ADDIE M. HOVERMAL SANDERS PHILLIPENA LONG DENNY GEORGE DENNY	C. H. MURPHY, JR. (3597)	120.08000	10/16/1950	T28N-R51E SEC 1: LOT 2 (40.08, A/D/A NWNE), S2NE	1.00000000	0.87500000	0.87500000
25-085-12657	OG	JEANNIE A. CULBERTSON COOPER GALE COOPER, W/H OF THE SIOUX TRIBE	C. H. MURPHY, JR. (3626)	40.00000	10/16/1950	T29N-R51E SEC 29: NWNW	1.00000000	0.87500000	0.87500000
25-085-12658	OG	JULIUS YOUNGMAN LIZZIE C. YOUNGMAN, H/W HOWARD RUSSELL MARGARET ELK RUSSELL BESSIE BROWN FERKO JOHN FERKO WILLIS TAYLOR ROGER BROWN JOHN LONGTREE JR ESTHER MELBOURNE LONGTREE MARK LONGTREE CLARENCE DALE LONGTREE ALICE L. LONGTREE IDA LONGTREE ALICE MARIE LONGTREE CROWE SHERMAN CROWE	C. H. MURPHY, JR. (3812)	280.00000	10/27/1950	T29N-R51E SEC 22: W2SE, SESE SEC 27: NE	1.00000000	0.87500000	0.87500000

EXHIBIT A									
Lease Number	Type	Lease Name	Original Lessee Name	Gross Acres	Effective Date	Legal Description	Working Interest	Lease Net Revenue Interest	Nautilus Net Revenue Interest
25-085-12659	OG	ANGELINE TAKES THE SHIELD IRON BEAR CHARLES IRON BEAR CARMELIA LAMBERT MAGDALENE STRETCHES HIMSELF CHARLES HALL JR. ELIZABETH CANTRELL ST. GERMAINE ARTHUR ST. GERMAINE ELWOOD GENE HALL CHARLENE LOU HALL MELVIN JAMES HALL EVERETT HALL GLADYS RENA HALL LUCILLE HALL	C. H. MURPHY, JR (3816)	80.00000	10/12/1950	T29N-R50E SEC 12: N25W	1.00000000	0.87500000	0.87500000
25-085-12660	OG	JOHN MELVIN YOUNGMAN ANNE YOUNGMAN, H/W OF THE ASSINIBOINE-SIOUX TRIBES	C. H. MURPHY, JR. (8410)	40.00000	10/21/1953	T28N-R51E SEC 9: NESE	1.00000000	0.87500000	0.87500000
25-085-12662.000	OG	BUREAU OF LAND MANAGEMENT, AS TRUSTEE FOR THE ASSINIBOINE-SIOUX TRIBES	HENRY H. FORSMAN	620.00000	10/1/1949	T28N-R51E SEC 23: N2, N2S2, N2S2SW, N2SWSE, NWSESE SEC 24: SWNW, N2SENW, SWSSEW	1.00000000	0.86500000	0.86500000
25-085-12662.001	OG	BUREAU OF LAND MANAGEMENT, AS TRUSTEE FOR THE ASSINIBOINE-SIOUX TRIBES	HENRY H. FORSMAN	100.00000	10/1/1949	T28N-R51E SEC 23: NESESE, S2S2S2 SEC 24: SESENW	1.00000000	0.86500000	0.86500000
25-085-12664.001	OG	EVA DENNY WHITE AND DAVID L. WHITE, WIFE AND HUSBAND, ET AL. OF THE SIOUX TRIBE	C. H. MURPHY, JR. (3862)	40.00000	11/10/1950	T29N-R50E SEC 36: NESE	1.00000000	0.87500000	0.87500000
25-085-12664.002	OG	DENNEY FRANK HUTCHESON EVELYN HUTCHESON, H/W MABLE HUTCHESON ARNOLD RALPH E. ARNOLD, W/H RUTH HUTCHESON WILSON DONAL L. WILSON, W/H LOLA L. HUTCHESON, SINGLE FRANK PORTER HUTCHESON, SINGLE	C. H. MURPHY, JR. (3862-A)	40.00000	6/4/1951	T29N-R50E SEC 36: NESE	1.00000000	0.87500000	0.87500000
25-085-12664.003	OG	MAYBELLE ATCHESON, OF THE SIOUX TRIBE	C. H. MURPHY, JR. (3862-B)	40.00000	7/3/1951	T29N-R50E SEC 36: NESE, NENE	1.00000000	0.87500000	0.87500000
25-085-12664.004	OG	BEULAH I. DENNY, A WIDOW FRANK A. DENNY, SINGLE CLAIRE I. SJORDAL HARTZEL SJORDAL, W/H OF THE SIOUX TRIBE	C. H. MURPHY, JR. (3862-C)	40.00000	7/23/1951	T29N-R50E SEC 36: NESE, NENE	1.00000000	0.87500000	0.87500000
25-085-12681	OG	ASSINIBOINE-SIOUX TRIBES	RICHFIELD OIL CORPORATION	80.00000	4/2/1954	T29N-R50E SEC 12: E2NE	1.00000000	0.87500000	0.87500000
25-085-12682	OG	LEONARD J. SMITH LUCILLE B. SMITH, H/W OF THE ASSINIBOINE-SIOUX TRIBES RELINQUISHED IN 1954	C. H. MURPHY, JR. (3812)	40.00000	10/16/1950	T29N-R51E SEC 29: SWNE	1.00000000	0.87500000	0.87500000
25-085-12685	OG	WILLIAM WHITRIGHT NO 2, SINGLE OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3816)	40.00000	5/8/1950	T28N-R51E SEC 9: SWNE	1.00000000	0.87500000	0.87500000
25-085-12686	OG	ELAINE ADELAIDE GOINGS ARMSTRONG, OF THE ASSINIBOINE-SIOUX TRIBES	THE POLUMBUS CORPORATION	320.00000	10/22/1974	T29N-R50E SEC 10: SE SEC 11: SW	0.75000000	0.80702213	0.60526660
25-085-12686.002	OG	LOIS GOINGS YVONNE MACKENZIE OF THE ASSINIBOINE-SIOUX TRIBES	THE POLUMBUS CORPORATION	320.00000	10/22/1974	T29N-R50E SEC 10: SE SEC 11: SW	0.75000000	0.80702213	0.60526660
25-085-12686.003	OG	FRANCIS LOUIS GOINGS CHRISTINA GOINGS OF THE ASSINIBOINE-SIOUX TRIBES	THE POLUMBUS CORPORATION	320.00000	10/22/1974	T29N-R50E SEC 10: SE SEC 11: SW	0.75000000	0.80702213	0.60526660
25-085-12686.004	OG	LOUISE GOINGS ARCASA OF THE ASSINIBOINE-SIOUX TRIBES	THE POLUMBUS CORPORATION	320.00000	10/22/1974	T29N-R50E SEC 10: SE SEC 11: SW	0.75000000	0.80702213	0.60526660
25-085-12686.005	OG	JEANETTE ELIZABETH GOINGS HAUSER OF THE ASSINIBOINE-SIOUX TRIBES	THE POLUMBUS CORPORATION	320.00000	10/22/1974	T29N-R50E SEC 10: SE SEC 11: SW	0.75000000	0.80702213	0.60526660

EXHIBIT A									
Lease Number	Type	Lease Name	Original Lessee Name	Gross Acres	Effective Date	Legal Description	Working Interest	Lease Net Revenue Interest	Nautilus Net Revenue Interest
25-085-12687	OG	PATRICK LEO FOOTE, UNDETERMINED ESTATE MELDA IRON BEAR GONE OF THE ASSINIBOINE-SIOUX TRIBES	THE POLLUMBUS CORPORATION	120.00000	10/22/1974	T29N-R50E SEC 10: S2NW, SWNE	0.75000000	0.83333333	0.62500000
25-085-12687.002	OG	MELDA IRON BEAR GONE OF THE ASSINIBOINE-SIOUX TRIBES	THE POLLUMBUS CORPORATION	120.00000	10/22/1974	T29N-R50E SEC 10: S2NW, SWNE	0.75000000	0.83333333	0.62500000
25-085-12691	OG	MARY FOOTE, A SINGLE WOMAN, MAUDE BUCKLES, A SINGLE WOMAN, ET AL, OF THE SIOUX TRIBE	C. H. MURPHY, JR. (3577)	320.00000	11/30/1950	T28N-R51E SEC 14: W2	1.00000000	0.87500000	0.87500000
25-085-12692	OG	MARY FOOTE, A SINGLE WOMAN, MAUDE BUCKLES, A SINGLE WOMAN, ET AL, OF THE SIOUX TRIBE	C. H. MURPHY, JR. (3578)	160.00000	11/30/1950	T28N-R51E SEC 14: SE	1.00000000	0.87500000	0.87500000
25-085-12693	OG	ASSINIBOINE-SIOUX TRIBES REGINALD BIRTHMARK	C. H. MURPHY, JR. (3818-A)	20.00000	7/27/1951	T29N-R51E SEC 20: S2SESE	1.00000000	0.87500000	0.87500000
25-085-12694	OG	ASSINIBOINE-SIOUX TRIBES REGINALD BIRTHMARK	C. H. MURPHY, JR. (3818-B)	20.00000	7/27/1951	T29N-R51E SEC 21: E2NWSW	1.00000000	0.87500000	0.87500000
25-085-12695	OG	ASSINIBOINE-SIOUX TRIBES	C. H. MURPHY, JR. (4672)	120.00000	7/27/1951	T29N-R50E SEC 11: SESE SEC 12: S2SW	1.00000000	0.87500000	0.87500000
25-085-12696	OG	BIRDIE LESTER VANCE LEROY VANCE, W/H OF THE SIOUX TRIBE	C. H. MURPHY, JR. (3858)	240.00000	7/31/1950	T28N-R51E SEC 10: NW, W2SW	1.00000000	0.87500000	0.87500000
25-085-12697	OG	ETHEL WHITRIGHT ATKINSON, A WIDOW OF THE SIOUX TRIBE	C. H. MURPHY, JR. (3813)	40.00000	7/18/1950	T28N-R51E SEC 4: SWSE	1.00000000	0.87500000	0.87500000
25-085-12698	OG	JOHN LONGTREE JR ESTHER MELBOURNE LONGTREE, HW MARK LONGTREE, SINGLE CLARENCE DALE LONGTREE ALICE L. LONGTREE, HW IDA LONGTREE, SINGLE ALICE MARIE LONGTREE CROWE SHERMAN CROWE, W/H	C. H. MURPHY, JR. (3820)	120.00000	7/12/1950	T29N-R51E SEC 22: S2NW, NWNW	1.00000000	0.87500000	0.87500000
25-085-12699	OG	MARK LONGTREE, SINGLE CLARENCE DALE LONGTREE ALICE L. LONGTREE, HW IDA LONGTREE, SINGLE ALICE MARIE LONGTREE CROWE SHERMAN CROWE, W/H	C. H. MURPHY, JR. (3819)	320.00000	7/13/1950	T29N-R51E SEC 22: SW SEC 27: NW	1.00000000	0.87500000	0.87500000
25-085-12700	OG	ASSINIBOINE-SIOUX TRIBES	C. H. MURPHY, JR. (4673)	280.00000	7/18/1951	T29N-R51E SEC 26: SWSW SEC 27: SW, S2SE	1.00000000	0.87500000	0.87500000
25-085-12701	OG	BUREAU OF LAND MANAGEMENT AS TRUSTEE FOR THE ASSINIBOINE-SIOUX TRIBES	ROCKWOOD BROWN	680.00000	7/11/1950	T29N-R50E SEC 13: E2 SEC 24: E2, NENW	1.00000000	0.86500000	0.86500000
25-085-12702	OG	JAMES SEEDS JOSEPHINE SEEDS, HW BEINGUISHED IN 1976	C. H. MURPHY, JR. (3821)	160.00000	7/12/1950	T28N-R51E SEC 14: NE	1.00000000	0.87500000	0.87500000
25-085-12703	OG	VINA COULTER WAKAN ALBERT WAKAN, W/H OF THE SIOUX TRIBE	C. H. MURPHY, JR. (3814)	40.00000	7/12/1950	T29N-R51E SEC 30: NENW	1.00000000	0.87500000	0.87500000
25-085-12704	OG	ESTELLE BAD TEMPER BRIEN ALBERT BRIEN, W/H OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3460)	40.00000	5/8/1950	T29N-R51E SEC 32: NWNE	1.00000000	0.87500000	0.87500000
25-085-12705	OG	ESTELLE BAD TEMPER BRIEN ALBERT BRIEN, W/H OF THE SIOUX TRIBE	C. H. MURPHY, JR. (3461)	360.00000	5/8/1950	T29N-R51E SEC 32: NENE SEC 33: F2	1.00000000	0.87500000	0.87500000
25-085-12706	OG	ESTELLE BAD TEMPER BRIEN ALBERT BRIEN, W/H OF THE SIOUX TRIBE	C. H. MURPHY, JR. (3462)	40.00000	5/8/1950	T29N-R51E SEC 29: SWSE	1.00000000	0.87500000	0.87500000
25-085-12707	OG	ESTELLE BAD TEMPER BRIEN ALBERT BRIEN, W/H OF THE SIOUX TRIBE	C. H. MURPHY, JR. (3463)	40.00000	5/8/1950	T29N-R51E SEC 32: SENE	1.00000000	0.87500000	0.87500000

EXHIBIT A									
Lease Number	Type	Lease Name	Original Lessee Name	Gross Acres	Effective Date	Legal Description	Working Interest	Lease Net Revenue Interest	Nautilus Net Revenue Interest
25-085-12708	OG	JESSE VERNON PEREAU STELLA B. PEREAU, HW OF THE SIOUX TRIBE	C. H. MURPHY, JR. (3489)	40.00000	5/4/1950	T29N-R51E SEC 17: SESE	1.00000000	0.87500000	0.87500000
25-085-12709	OG	DOUGLAS YOUNGMAN EVA I. R. YOUNGMAN, HW OF THE SIOUX TRIBE	C. H. MURPHY, JR. (3490)	40.00000	5/8/1950	T29N-R51E SEC 31: NESW	1.00000000	0.87500000	0.87500000
25-085-12710	OG	CAROLINE RED, SINGLE WOMAN OF THE SIOUX TRIBE	C. H. MURPHY, JR. (3497)	39.77000	5/8/1950	T29N-R51E SEC 30: LOT 4 (39.77, A/D/A SWSW)	1.00000000	0.87500000	0.87500000
25-085-12711	OG	DOLLY C. AKERS, AKA SARAH SMITH AKERS, & JOHN J. AKERS, WH OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3513)	40.00000	5/8/1950	T29N-R51E SEC 30: SENW	1.00000000	0.87500000	0.87500000
25-085-12712	OG	MABEL DUPREE DANIELS RANDOLPH DANIELS, WH OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3514)	40.00000	5/8/1950	T29N-R51E SEC 26: NWNW	1.00000000	0.87500000	0.87500000
25-085-12713	OG	ALICE ANNIE FOOTE, SINGLE OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3516)	40.00000	5/8/1950	T28N-R51E SEC 4: LOT 1 (40.00, A/D/A NENE)	1.00000000	0.87500000	0.87500000
25-085-12714	OG	AUSTIN R. BUCKLES, AKA AUSTIN R. SCOTT & AUDREY M. BUCKLES, HW OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3519)	40.00000	5/12/1950	T28N-R51E SEC 4: SENE	1.00000000	0.87500000	0.87500000
25-085-12715	OG	MABEL B. FOOTE BIGHORN JACOB BIGHORN, WH OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3520)	39.98000	5/8/1950	T28N-R51E SEC 4: LOT 2 (39.98, A/D/A NWNW)	1.00000000	0.87500000	0.87500000
25-085-12716	OG	WILLIAM YOUNGMAN #2 STELLA C. YOUNGMAN, HW	C. H. MURPHY, JR. (3521)	40.00000	5/8/1950	T29N-R51E SEC 31: NWSE	1.00000000	0.87500000	0.87500000
25-085-12717	OG	ESTELLE BAD TEMPER BRIEN ALBERT BRIEN, WH	C. H. MURPHY, JR. (3464)	40.00000	5/8/1950	T29N-R51E SEC 32: SWNW	1.00000000	0.87500000	0.87500000
25-085-12718-A	OG	JAMES HELMER MARJORIE L. HELMER, HW OF THE SIOUX TRIBE, RELINQUISHED	C. H. MURPHY, JR. (3479)	200.00000	5/8/1950	T29N-R51E SEC 20: NWNW T28N-R52E SEC 20: NW	1.00000000	0.85000000	0.85000000
25-085-12719	OG	CHARLES ROBBINS JULIE ROBBINS, HW OF THE ASSINIBOINE-SIOUX TRIBES	C. H. MURPHY, JR. (3480)	160.00000	5/4/1950	T29N-R50E SEC 25: N2NE, SENE T29N-R51E SEC 31: NENW	1.00000000	0.87500000	0.87500000
25-085-12720	OG	MALCOLM DANIEL SMITH RELINQUISHED, DATE UNKNOWN	C. H. MURPHY, JR. (3496)	279.28000	5/15/1950	T29N-R51E SEC 7: LOT 4 (39.28, A/D/A SWSW), SESW, S2SE T29N-R50E SEC 12: S2SE, NWSE	1.00000000	0.87500000	0.87500000
25-085-12721	OG	MARY RED FEATHER IRON BEAR HARRY IRON BEAR, WH	C. H. MURPHY, JR. (3530)	40.00000	5/8/1950	T28N-R51E SEC 4: SENW	1.00000000	0.87500000	0.87500000
25-085-12722	OG	ADDIE M. HOVERMAIL SANDERS, SINGLE OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3554)	320.00000	5/12/1950	T28N-R51E SEC 1: S2	1.00000000	0.87500000	0.87500000
25-085-12723	OG	THOMAS TRINDER, A SINGLE MAN OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3556)	280.35000	5/8/1950	T28N-R51E SEC 2: LOTS 1 (40.19, A/D/A NENE), 2 (40.16, A/D/A NWNW), S2NE, N2SE T29N-R51E SEC 30: NWSE	1.00000000	0.87500000	0.87500000
25-085-12724	OG	BESSIE F. McDONALD PALMER HAROLD PALMER, WH OF THE ASSINIBOINE TRIBE RELINQ TO BESSIE F. McDONALD PALMER IN 1954	C. H. MURPHY, JR. (3557)	40.00000	5/8/1950	T29N-R51E SEC 30: SWSE	1.00000000	0.87500000	0.87500000
25-085-12725	OG	CATHERINE EDER, SINGLE WOMAN, OF THE SIOUX TRIBE	C. H. MURPHY, JR. (3563)	20.00000	5/8/1950	T29N-R51E SEC 32: S2NESW	1.00000000	0.87500000	0.87500000
25-085-12726	OG	ROSE MARY TRINDER SCHMID MINOR JONES SCHMID, WH OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3571)	40.00000	5/8/1950	T29N-R51E SEC 29: NESW	1.00000000	0.87500000	0.87500000
25-085-12727	OG	SHIRLEY K. HELMER SMITH KENNETH D. SMITH, WH OF THE SIOUX TRIBE	C. H. MURPHY, JR. (3572)	40.00000	5/15/1950	T29N-R51E SEC 19: SWSE	1.00000000	0.87500000	0.87500000
25-085-12728	OG	LOUISE CAIN KIRN HENRY JAY KIRN, WH OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3574)	40.00000	5/8/1950	T28N-R51E SEC 24: NWSW	1.00000000	0.87500000	0.87500000

EXHIBIT A									
Lease Number	Type	Lease Name	Original Lessee Name	Gross Acres	Effective Date	Legal Description	Working Interest	Lease Net Revenue Interest	Nautilus Net Revenue Interest
25-085-12729	OG	MARTHA L. PEREAU OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3590)	40.00000	5/8/1950	T29N-R51E SEC 16: NWSW	1.00000000	0.87500000	0.87500000
25-085-12730	OG	WILLIAM J. DENNY MELDA O. DENNY, H/W OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3581)	40.00000	5/8/1950	T29N-R50E SEC 36: SESE	1.00000000	0.87500000	0.87500000
25-085-12731	OG	FRED DOUGLAS CONNORS ANITA SHARON CONNORS CAROL ARLYNE CONNORS (MINORS) OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3582)	40.00000	5/12/1950	T29N-R51E SEC 31: SWSE	1.00000000	0.87500000	0.87500000
25-085-12732	OG	FRANK KOLLENBAUM KATHERINE P. KOLLENBAUM, H/W OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3591)	40.00000	5/8/1950	T29N-R51E SEC 19: SESE	1.00000000	0.87500000	0.87500000
25-085-12733	OG	MAUDE CAROLINE BOYD HOLLOW ANTON E. HOLLOW, W/H OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3595)	317.60000	5/8/1950	T29N-R51E SEC 18: LOTS 1 (39.34, A/D/A NWNW), 2 (39.44, A/D/A SWNW), 3 (39.51, A/D/A NWSW), 4 (39.51, A/D/A SWSW), E2W2	1.00000000	0.87500000	0.87500000
25-085-12734	OG	ROSE FONTAINE LITTLEFIELD SHAFLEY E. L. SHAFLEY, W/H OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3601)	40.00000	5/8/1950	T29N-R51E SEC 4: NWSE	1.00000000	0.87500000	0.87500000
25-085-12735	OG	MILDRED TATSEY DOORE ROY H. DOORE, W/H OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3602)	40.00000	5/8/1950	T29N-R51E SEC 29: NENW	1.00000000	0.87500000	0.87500000
25-085-12736	OG	JOHN HELMER MYRTLE W. HELMER, H/W OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3604)	40.00000	5/8/1950	T29N-R51E SEC 17: SESW	1.00000000	0.87500000	0.87500000
25-085-12737	OG	GLADYS KOLLENBAUM, SINGLE OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3605)	40.00000	5/8/1950	T29N-R51E SEC 20: NWSW	1.00000000	0.87500000	0.87500000
25-085-12738	OG	COLMA KOLLENBAUM CHARLOTTE S. KOLLENBAUM, H/W OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3606)	40.00000	5/8/1950	T29N-R51E SEC 19: NESE	1.00000000	0.87500000	0.87500000
25-085-12739	OG	LIZZIE KOLLENBAUM BOND GEORGE WILLIAM BOND, W/H OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3607)	40.00000	5/8/1950	T29N-R51E SEC 30: NENE	1.00000000	0.87500000	0.87500000
25-085-12740	OG	LOUISE KOLLENBAUM FORREST AND LEROY FORREST, WIFE AND HUSBAND, OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3614)	40.00000	5/8/1950	T29N-R51E SEC 20: SWSW	1.00000000	0.87500000	0.87500000
25-085-12741	OG	GENEVIEVE KOLLENBAUM BRODALE DOUGLAS BRODALE, W/H OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3623)	40.00000	5/11/1950	T29N-R51E SEC 19: NENE	1.00000000	0.87500000	0.87500000
25-085-12742	OG	VIOLET KOLLENBAUM STEIN AL STEIN, W/H OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3628)	40.00000	5/11/1950	T29N-R51E SEC 19: SENE	1.00000000	0.87500000	0.87500000
25-085-12743	OG	GLADYS OWNS MEDICINE, SINGLE OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3631)	39.96000	5/11/1950	T28N-R51E SEC 4: LOT 4 (39.96, A/D/A NWNW)	1.00000000	0.87500000	0.87500000
25-085-12744	OG	ROMONA TRINDER CHRISTENSEN VERNON E. CHRISTENSEN, W/H OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3642)	40.00000	5/11/1950	T29N-R51E SEC 29: SESW	1.00000000	0.87500000	0.87500000
25-085-12745	OG	LOUISE V. K. BURGE LINDEMAN ALFRED LINDEMAN, W/H OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3645)	40.00000	5/11/1950	T29N-R51E SEC 20: N2SESE, W2NESE	1.00000000	0.87500000	0.87500000
25-085-12746	OG	VIVIAN KOLLENBAUM PATTERSON WESLEY W. PATTERSON, W/H OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3646)	40.00000	5/11/1950	T29N-R51E SEC 20: NESW	1.00000000	0.87500000	0.87500000
25-085-12747	OG	SOPHIA BROUGH KAMPFER LESLIE KAMPFER, W/H OF THE ASSINIBOINE TRIBE REINQUISHED IN 1963	C. H. MURPHY, JR. (3647)	40.00000	5/11/1950	T29N-R51E SEC 29: NWNE	1.00000000	0.87500000	0.87500000
25-085-12748	OG	NELLIE EVA JARMAN DE URENA FRANCISCO DE URENA Y DA FEDERICO, W/H OF THE ASSINIBOINE TRIBE REINQUISHED IN 1954	C. H. MURPHY, JR. (3649)	320.20000	5/8/1950	T28N-R51E SEC 3: LOTS 1 (40.09, A/D/A NENE), 2 (40.06, A/D/A NWNE), 3 (40.04, A/D/A NENW), 4 (40.01, A/D/A NWNW), S2N2	1.00000000	0.87500000	0.87500000

EXHIBIT A									
Lease Number	Type	Lease Name	Original Lessee Name	Gross Acres	Effective Date	Legal Description	Working Interest	Lease Net Revenue Interest	Nautilus Net Revenue Interest
25-085-12749	OG	STEPHEN C. PROCTOR FLORENCE NIGHTENGALE SCHALLER PROCTOR, HW OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3650)	40.00000	5/11/1950	T29N-R51E SEC 29: SENW	1.00000000	0.87500000	0.87500000
25-085-12750	OG	ELSIE LONG LONGEE AKA ELISE LONG WILLIAM H. TAFT LONGEE, HW GEORGE LONG SADIE TELEKISH LONG, HW HEIRS OF LIONIE LONG OF THE ASSINIBOINE-SIOUX TRIBES	C. H. MURPHY, JR. (3865-A)	39.92000	5/21/1951	T29N-R51E SEC 31: LOT 2 (39.92, A/D/A SWNW)	1.00000000	0.87500000	0.87500000
25-085-12751	OG	BENJAMIN FRANKLIN McDONALD AILEEN D. McDONALD, HW OF THE ASSINIBOINE TRIBE RE INCLINISHED IN 1954	C. H. MURPHY, JR. (3639)	40.00000	5/11/1950	T29N-R51E SEC 31: NWNE	1.00000000	0.87500000	0.87500000
25-085-12752	OG	JENNIE V. WALKING EAGLE RUSSELL DANIEL RUSSELL, WH OF THE SIOUX TRIBE	C. H. MURPHY, JR. (3495)	39.75000	6/8/1950	T29N-R51E SEC 30: LOT 3 (39.75, A/D/A NWSW)	1.00000000	0.87500000	0.87500000
25-085-12753	OG	ALTA R. KEISER WILBUR KEISER, WH OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3506)	40.00000	6/8/1950	T29N-R51E SEC 31: SESW	1.00000000	0.87500000	0.87500000
25-085-12754	OG	CARSON WALKING EAGLE CATHERINE RICKER WALKING EAGLE, HW OF THE ASSINIBOINE-SIOUX TRIBES	C. H. MURPHY, JR. (3508)	39.97000	6/13/1950	T29N-R51E SEC 31: LOT 3 (39.97, A/D/A NWSW)	1.00000000	0.87500000	0.87500000
25-085-12756	OG	LAURA SPOTTED DOG, SINGLE FLORENCE BURSHIA, A WIDOW JOSHUA SPOTTED DOG OWL SHIELD WOMAN SPOTTED DOG, HW OF THE SIOUX TRIBE	C. H. MURPHY, JR. (3594)	80.00000	6/12/1950	T28N-R51E SEC 3: N2SW	1.00000000	0.87500000	0.87500000
25-085-12757	OG	CLAUDE R. TRINDER HAZEL R. TRINDER, HW OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3638)	40.00000	6/16/1950	T29N-R51E SEC 30: SENE	1.00000000	0.87500000	0.87500000
25-085-12758	OG	CHARLES SMITH EMMA LONGEE SMITH, HW OF THE SIOUX TRIBE	C. H. MURPHY, JR. (3651)	40.00000	6/8/1950	T29N-R51E SEC 29: NWSE	1.00000000	0.87500000	0.87500000
25-085-12759	OG	ALICE I. MURIN, A DIVORCED WOMAN OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3656)	40.00000	6/8/1950	T29N-R51E SEC 30: SWNE	1.00000000	0.87500000	0.87500000
25-085-12760	OG	GLADYS IRENE BURGE MICHAEL ANTHONY E. MICHAEL, WH OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3690)	40.00000	6/16/1950	T29N-R51E SEC 20: E2NESE SEC 21: W2NWSW	1.00000000	0.87500000	0.87500000
25-085-12761	OG	BUREAU OF LAND MANAGEMENT, AS TRUSTEE FOR THE ASSINIBOINE-SIOUX TRIBES	GUY R. CAMPBELL, JR.	440.02000	6/11/1951	T29N-R51E SEC 34: W2 SEC 35: W2NW T28N-R51E SEC 1: LOT 1 (40.02, A/D/A NENE)	1.00000000	0.87500000	0.87500000
25-085-12762	OG	ANNA M. BRACKEN RAY BRACKEN, WH OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3583)	40.00000	6/8/1950	T29N-R51E SEC 17: NWSW	1.00000000	0.87500000	0.87500000
25-085-12764	OG	ANGELINE T. LAMBERT IRON BEAR CHARLES IRON BEAR CARMELITA LAMBERT EAGLE BOY NELSON EAGLE BOY MAGDALENE STRETCHES HIMSELF RICKER CHARLES HALL JR. WIDOWER ELWOOD GENE HALL ARLENE F. HALL CHARLENE L. HALL TERMIN MELVIN JAMES HALL, SINGLE EVERETT HALL, SINGLE GLADYS R. HALL DESJARLAIS, DIVORCED LUCILLE HALL ARTHUR RAY ST. GERMAINE DONNA ST. GERMAINE JARDIS BAE ST. GERMAIN, A MINOR	TRIPOL, INC., A COLORADO CORPORATION	240.00000	6/16/1965	T29N-R50E SEC 12: NW, W2NE	0.75000000	0.71329100	0.53496825

EXHIBIT A									
Lease Number	Type	Lease Name	Original Lessee Name	Gross Acres	Effective Date	Legal Description	Working Interest	Lease Net Revenue Interest	Nautilus Net Revenue Interest
25-085-12765	OG	JOAN S. LAMBERT WAR CLUB CHARLES WAR CLUB GERALD RODNEY BIGSHIELD OF THE ASSINIBOINE-SIOUX TRIBES	TRIPOL, INC., A COLORADO CORPORATION	280.00000	6/29/1965	T29N-R50E SEC 2: E2SE SEC 11: E2NE, N2SE, SWSE	0.75000000	0.83333333	0.62500000
25-085-12766	OG	AMELIA KEYES, A SINGLE WOMAN OF THE SIOUX TRIBE	C. H. MURPHY, JR. (3610)	40.00000	6/8/1950	T29N-R51E SEC 17: NWNW	1.00000000	0.87500000	0.87500000
25-085-12767	OG	WINIFRED ABBOTT SWINDALL LESLIE SWINDALL, WH OF THE ASSINIBOINE TRIBE RELINQUISHED IN 1953	C. H. MURPHY, JR. (3613)	39.74000	6/22/1950	T29N-R51E SEC 30: LOT 2 (39.74, A/D/A SWNW)	1.00000000	0.87500000	0.87500000
25-085-12768	OG	BETTY LOU EDER WELCH FRANÇOIS WELCH OF THE ASSINIBOINE-SIOUX TRIBES, RELINQUISHED	C. H. MURPHY, JR. (3659)	240.00000	9/25/1950	T29N-R51E SEC 21: S2SE SEC 28: S2SW, NESW, SENW	1.00000000	0.87500000	0.87500000
25-085-12769	OG	CARL BIERE IMOGENE BIERE, HW	C. H. MURPHY, JR. (3929-3)	80.00000	9/5/1951	T28N-R51E SEC 22: E2N2SE (Unit Tract 232) SEC 22: NWSE, W2NESE (Inside Unit, but Outside of PA)	1.00000000	0.75000000	0.75000000
25-085-12770	OG	JAMES O'CONNOR PAULINE O'CONNOR, HW	C. H. MURPHY, JR. (3929-2)	160.00000	9/5/1951	T28N-R51E SEC 24: N2NW (Unit Tract 233) SEC 24: N2NE (Outside PA and Outside Unit)	1.00000000	0.75000000	0.75000000
25-085-12771	OG	ROOSEVELT COUNTY MONTANA	HUNT OIL COMPANY	40.00000	9/5/1941	T28N-R51E 22: N2SE (EPU 232 - E2NESE inside Unit, W2NESE outside PA, NWSE outside unit) 24: N2NE (EPU 233 - outside PA and outside unit) T29N-R51E SEC 29: S2SW, N2NE	1.00000000	0.75000000	0.75000000
25-085-12772	OG	ALICE V. PEREAU MARIE SMITH WILFRED H. SMITH JESSE V. PEREAU, AKA VERNON J. PEREAU STELLA BARSE PEREAU OF THE SIOUX TRIBE, RELINQUISHED IN 1963	C. H. MURPHY, JR. (3579)	40.00000	9/29/1950	T29N-R51E SEC 16: NESW	1.00000000	0.75000000	0.75000000
25-085-12773	OG	JOHN KOON ALICE KOON, HW OF THE ASSINIBOINE-SIOUX TRIBES RELINQUISHED IN 1960	C. H. MURPHY, JR. (3528)	310.64000	5/8/1950	T28N-R52E SEC 6: LOTS 6 (35.30, A/D/A NWSW), AND 7 (35.34, A/D/A SWSW), E2SW, SE	1.00000000	0.75000000	0.75000000
25-085-12775	OG	WILLIAM KNORR NO 2, SINGLE OF THE ASSINIBOINE TRIBE RELINQUISHED IN 1954	C. H. MURPHY, JR. (3527)	320.00000	5/8/1950	T28N-R51E SEC 15: S2	1.00000000	0.75000000	0.75000000
25-085-12776	OG	BELVA KENNEDY CORBETT BELVA KENNEDY CORBETT MCCLAMMY DANIEL MCCLAMMY, WH	C. H. MURPHY, JR. (3526)	40.00000	5/4/1950	T29N-R51E SEC 17: NWNE	1.00000000	0.75000000	0.75000000
25-085-12777	OG	ESTHER WALKING EAGLE SPOTTED BULL ALLEN SPOTTED BULL, WH OF THE SIOUX TRIBE RELINQUISHED IN 1953	C. H. MURPHY, JR. (3522)	40.00000	5/8/1950	T29N-R51E SEC 8: SWSW	1.00000000	0.75000000	0.75000000
25-085-12778	OG	MERCEDES TAYLOR RUNNING BEAR AMBROSE RUNNING BEAR, WH OF THE SIOUX TRIBE	C. H. MURPHY, JR. (3491)	40.00000	5/8/1950	T29N-R51E SEC 29: SENE	1.00000000	0.75000000	0.75000000
25-085-12779	OG	CLEMENT D. STANFORD, SINGLE OF THE SIOUX TRIBE RELINQUISHED IN 1956 TO CLEMENT D. & BELL A.M. STANFORD, HW	C. H. MURPHY, JR. (3600)	40.00000	5/8/1950	T29N-R51E SEC 32: NWSW	1.00000000	0.75000000	0.75000000
25-085-12780	OG	BERNADINE STANFORD RUGGLES JUSTIN RALPH RUGGLES, WH OF THE SIOUX TRIBE RELINQUISHED IN 1957	C. H. MURPHY, JR. (3603)	40.00000	5/8/1950	T29N-R51E SEC 32: NENW	1.00000000	0.75000000	0.75000000
25-085-12781	OG	AMOS HENRY KENNEDY RELINQUISHED, DATE UNKNOWN	C. H. MURPHY, JR. (3611)	40.00000	5/8/1950	T29N-R51E SEC 8: SESW	1.00000000	0.75000000	0.75000000
25-085-12782	OG	VIVIAN FRANCES STAFFORD BRITT JOEL F. BRITT, WH OF THE SIOUX TRIBE RELINQUISHED IN 1958	C. H. MURPHY, JR. (3625)	40.00000	5/11/1950	T29N-R51E SEC 32: SWSW	1.00000000	0.75000000	0.75000000

EXHIBIT A									
Lease Number	Type	Lease Name	Original Lessee Name	Gross Acres	Effective Date	Legal Description	Working Interest	Lease Net Revenue Interest	Nautilus Net Revenue Interest
25-085-12783	OG	BERT P. EDER GLADYS D. EDER, H/W OF THE SIOUX TRIBE, RELINQUISHED IN 1957	C. H. MURPHY, JR. (3641)	40.00000	5/11/1950	T28N-R51E SEC 4: NESE	1.00000000	0.75000000	0.75000000
25-085-12785	OG	CHAUNCY WHITRIGHT VIOLA B. WHITRIGHT, H/W OF THE SIOUX TRIBE RELINQUISHED IN 1957 TO CHAUNCY WHITRIGHT, SR. CHAUNCY WHITRIGHT, JR. H/W OF CHAUNCY WHITRIGHT, SR.	C. H. MURPHY, JR. (3566)	40.00000	5/8/1950	T28N-R51E SEC 9: SENE	1.00000000	0.75000000	0.75000000
25-085-12786	OG	GEORGE BURSHIA OF THE ASSINIBOINE-SIOUX TRIBES RELINQUISHED TO BENJAMIN BURSHIA HEIR OF GEORGE BURSHIA IN 1933	C. H. MURPHY, JR. (3644)	19.98000	5/15/1950	T28N-R51E SEC 4: LOT 5 (19.98, A/D/A N2NENW)	1.00000000	0.75000000	0.75000000
25-085-12787	OG	BESSIE BROWN FERKO JOHN FERKO, H/W OF THE SIOUX TRIBE	C. H. MURPHY, JR. (3617)	40.00000	6/8/1950	T29N-R51E SEC 21: NENW	1.00000000	0.75000000	0.75000000
25-085-12788	OG	JAMES ALVIN MCDONALD, DIVORCED OF THE ASSINIBOINE TRIBE RELINQUISHED IN 1954	C. H. MURPHY, JR. (3609)	40.00000	5/8/1950	T29N-R51E SEC 31: SWNE	1.00000000	0.75000000	0.75000000
25-085-12789	OG	FANNIE BUCKLES CHARTETTE, SINGLE OF THE ASSINIBOINE-SIOUX TRIBES RELINQUISHED IN 1953	C. H. MURPHY, JR. (3486)	40.00000	6/8/1950	T28N-R51E SEC 9: NENE	1.00000000	0.75000000	0.75000000
25-085-12790	OG	RAYMOND EDWARD SMITH CAROL W. SMITH, H/W OF THE ASSINIBOINE TRIBE RELINQUISHED IN 1953	C. H. MURPHY, JR. (3493)	40.00000	6/8/1950	T29N-R51E SEC 30: NWNE	1.00000000	0.75000000	0.75000000
25-085-12791	OG	EUGENE LEONARD DUPREE VIOLET PEARL DUPREE, H/W OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3569)	320.00000	5/8/1950	T29N-R51E SEC 18: E2	1.00000000	0.75000000	0.75000000
25-085-12792	OG	WALTER ALLEN BUCKLES, SINGLE OF THE ASSINIBOINE-SIOUX TRIBES RELINQUISHED IN 1953	C. H. MURPHY, JR. (3488)	40.00000	5/4/1950	T28N-R51E SEC 4: SESE	1.00000000	0.75000000	0.75000000
25-085-12793	OG	RAYMOND BUCKLEY CONNORS ROSE M. CONNORS, H/W OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3507)	40.00000	5/11/1950	T29N-R51E SEC 31: SESE	1.00000000	0.75000000	0.75000000
25-085-12794	OG	HOWARD R. TRINDER IVA G. TRINDER, H/W OF THE ASSINIBOINE TRIBE RELINQUISHED IN 1952	C. H. MURPHY, JR. (3487)	40.00000	5/8/1950	T29N-R51E SEC 29: SWNW	1.00000000	0.75000000	0.75000000
25-085-12795	OG	HOWARD L. HELMER MARGUERITE W. HELMER, H/W OF THE SIOUX TRIBE RELINQUISHED IN 1956	C. H. MURPHY, JR. (3476)	200.00000	5/8/1950	T29N-R51E SEC 20: NWNE T28N-R52E SEC 17: SW	1.00000000	0.75000000	0.75000000
25-085-12796	OG	GEORGE KIRN MAGGIE KIRN OF THE ASSINIBOINE TRIBE	C. H. MURPHY, JR. (3477)	320.00000	5/8/1950	T29N-R50E SEC 13: W2	1.00000000	0.75000000	0.75000000
25-085-12797	OG	DAVID ROY ARCHAMBEAU, DIVORCED OF THE SIOUX TRIBE RELINQUISHED IN 1955	C. H. MURPHY, JR. (3648)	40.00000	5/15/1950	T28N-R51E SEC 4: NESW	1.00000000	0.75000000	0.75000000
25-085-12798	OG	GEORGE THOMPSON, JR. JOSEPHINE M. THOMPSON, H/W OF THE SIOUX TRIBE RELINQUISHED IN 1954	C. H. MURPHY, JR. (3562)	40.00000	5/11/1950	T29N-R51E SEC 30: NESE	1.00000000	0.75000000	0.75000000
25-085-12799	OG	WILLIAM KNORR NO 1 OF THE ASSINIBOINE TRIBE RELINQUISHED IN 1953	C. H. MURPHY, JR. (3555)	20.00000	5/8/1950	T28N-R51E SEC 15: N2NENW	1.00000000	0.75000000	0.75000000
25-085-12800	OG	RICHARD H. STANFORD, SINGLE OF THE SIOUX TRIBE RELINQUISHED IN 1953	C. H. MURPHY, JR. (3590)	40.00000	5/8/1950	T29N-R51E SEC 32: SENW	1.00000000	0.75000000	0.75000000
25-085-12801	OG	MARIE PEREAU SMITH WILFRED SMITH, H/W OF THE ASSINIBOINE TRIBE RELINQUISHED IN 1952	C. H. MURPHY, JR. (3585)	40.00000	5/11/1950	T29N-R51E SEC 16: SWSW	1.00000000	0.75000000	0.75000000

EXHIBIT A									
Lease Number	Type	Lease Name	Original Lessee Name	Gross Acres	Effective Date	Legal Description	Working Interest	Lease Net Revenue Interest	Nautilus Net Revenue Interest
25-085-12802.001	OG	VERA ROBBINS SHERRED AND S. S. SHERRED, WIFE AND HUSBAND, OF THE SIOUX TRIBE, RELINQUISHED IN 1954	C. H. MURPHY, JR. (3615)	119.84000	5/8/1950	T29N-R50E SEC 25: E2SE SEC 25: SW, W2SE T29N-R51E SEC 31: LOT 1, 2, 3, 4 A/D/A N/2000	1.00000000	0.75000000	0.75000000
25-085-12802.002	OG	VERA ROBBINS SHERRED AND S. S. SHERRED, WIFE AND HUSBAND, OF THE SIOUX TRIBE	C. H. MURPHY, JR. (3615)	240.00000	5/8/1950	T29N-R50E SEC 25: SW, W2SE	1.00000000	0.75000000	0.75000000
25-085-12818	OG	BEN ZIMMERMAN EDITH MAY ZIMMERMAN HUSBAND AND WIFE	MAVERICK OIL AND GAS COMPANY	320.25000	4/18/1949	T28N-R51E SEC 2: LOTS 3 (40.14, A/D/A NENW), 4 (40 11, A/D/A N/2000), S2NW, SW	1.00000000	0.85000000	
25-085-12819	OG	MARY DENNY LEE GLENN LEE, W/H OF THE SIOUX TRIBE RELINQUISHED, DATE UNKNOWN	C. H. MURPHY, JR. (3689)	40.00000	6/16/1950	T29N-R50E SEC 36: SENE	1.00000000	0.87500000	0.87500000
25-085-12820	OG	KATE WINN SIMONS HARRY J. SIMONS SR., W/H OF THE ASSINBOINE TRIBE RELINQUISHED TO IN 1954	C. H. MURPHY, JR.	40.00000	5/11/1950	T29N-R51E SEC 16: SWSE	1.00000000	0.87500000	0.87500000
25-085-12821	OG	JOHN M. HELMER ECHO GAULKE HELMER, H/W	THE CARTER OIL COMPANY	40.00000	10/1/1941	T29N-R51E SEC 17: SWSW	1.00000000	0.87500000	0.87500000
25-085-12822	OG	FLORENCE M. RENZ, A SINGLE WOMAN ROBERT L. RENZ SOPHIA RENZ, H/W	THE CARTER OIL COMPANY	80.00000	10/29/1941	T28N-R51E SEC 3: S2SW	1.00000000	0.87500000	0.87500000
25-085-12823	OG	LEO L. COMBS GLADYS COMBS, HIS WIFE	THE CARTER OIL COMPANY	40.00000	3/6/1942	T29N-R51E SEC 20: SWNW	1.00000000	0.87500000	0.87500000
25-085-12825	OG	FRANK P. SHERBURNE AND MAY SHERBURNE, HIS WIFE	THE CARTER OIL COMPANY	160.00000	8/14/1947	T29N-R51E SEC 28: NE	1.00000000	0.87500000	0.87500000
25-085-12826	OG	W. B. WALKER ESTHER N. WALKER, H/W	C. H. MURPHY, JR. (3929-4)	120.00000	9/5/1951	T29N-R51E SEC 32: S2SE, NESE	1.00000000	0.75000000	0.75000000
25-085-12827	OG	FRED J. REYNOLDS MARY F. REYNOLDS, H/W	C. H. MURPHY, JR. (3929-1)	320.00000	9/5/1951	T28N-R51E SEC 11: N2	1.00000000	0.75000000	0.75000000
25-085-12829.001	OG	DAY INVESTMENTS	BALLARD PETROLEUM HOLDINGS, LLC	80.00000	2/6/2003	T29N-R50E SEC 11: E2NW	0.75000000	0.87500000	0.65625000
25-085-12829.002	OG	BLACK STONE MINERALS LP	BALLARD PETROLEUM HOLDINGS, LLC	80.00000	8/21/2003	T29N-R50E SEC 11: E2NW	0.75000000	0.87500000	0.65625000
25-085-12837	OG	JOHN D. O'CONNOR MARIE O'CONNOR, H/W	THE CARTER OIL COMPANY	320.00000	1/18/1949	T28N-R51E SEC 13: S2	1.00000000	0.87500000	0.87500000
25-085-12838	OG	LILLIAN HELMER LILLIBRIDGE BY JOHN M. HELMER, ATTORNEY-IN-FACT	THE CARTER OIL COMPANY	40.00000	10/9/1944	T29N-R51E SEC 20: SENW	1.00000000	0.87500000	0.87500000
25-085-12839	OG	JOSEPH H. FRERICH EUNICE FRERICH, H/W	THE CARTER OIL COMPANY	320.00000	1/19/1949	T29N-R51E SEC 34: E2	1.00000000	0.87500000	0.87500000
25-085-12840	OG	FRED FRERICH MARY FRERICH, H/W	THE CARTER OIL COMPANY	160.30000	1/19/1949	T28N-R51E SEC 1: LOTS 3 (40.12, A/D/A NENW), 4 (40.18, A/D/A N/2000), S2NW	1.00000000	0.87500000	0.87500000
25-085-12841	OG	WILLIAM M. JOHNSON, SINGLE HENRY H. JOHNSON, SINGLE	THE CARTER OIL COMPANY	1,160.00000	10/28/1949	T29N-R51E SEC 16: SWNW, SESW SEC 17: NENE, S2NE, N2SE, SWSE, SWNW, NENW, NESW SEC 20: NENW, SESW, SWSE, SWNE, E2NE SEC 21: W2NW, SENW, W2NE SEC 29: W2SW SEC 30: SESE SEC 31: E2NE	1.00000000	0.87500000	0.87500000
25-085-12842	OG	ALBERT HUBER AND KATIE HUBER, HUSBAND AND WIFE	C. C. THOMAS	160.00000	12/4/1951	T28N-R51E SEC 10: NE	1.00000000	0.79000000	0.79000000
25-085-12843.001	OG	MARGARET ZIMMERMAN	MURPHY EXPLORATION & PRODUCTION COMPANY	80.00000	8/24/1995	T28N-R51E SEC 2: S2SE	1.00000000	0.83333333	0.83333333
25-085-12843.002	OG	MARILYN TUNNELL, A/K/A MARILYN ZIMMERMAN, MWDHSSP	MURPHY EXPLORATION & PRODUCTION COMPANY	80.00000	8/24/1995	T28N-R51E SEC 2: S2SE	1.00000000	0.83333333	0.83333333
25-085-12843.003	OG	GLENN RUSTY ZIMMERMAN, A SINGLE MAN	MURPHY EXPLORATION & PRODUCTION COMPANY	80.00000	8/24/1995	T28N-R51E SEC 2: S2SE	1.00000000	0.83333333	0.83333333
25-085-12843.004	OG	ROBERT A. ZIMMERMAN, MMDHSSP	MURPHY EXPLORATION & PRODUCTION COMPANY	80.00000	8/20/1996	T28N-R51E SEC 2: S2SE	1.00000000	0.83333333	0.83333333

EXHIBIT A									
Lease Number	Type	Lease Name	Original Lessee Name	Gross Acres	Effective Date	Legal Description	Working Interest	Lease Net Revenue Interest	Nautilus Net Revenue Interest
25-085-12843.005	OG	JUDY REID, A SINGLE WOMAN	MURPHY EXPLORATION & PRODUCTION COMPANY	80.00000	8/24/1995	T28N-R51E SEC 2: S2SE	1.00000000	0.83333333	0.83333333
25-085-12843.006	OG	TIM J. ZIMMERMAN, A MMDIHSSP	MURPHY EXPLORATION & PRODUCTION COMPANY	80.00000	8/24/1995	T28N-R51E SEC 2: S2SE	1.00000000	0.83333333	0.83333333
25-085-12843.007	OG	BILL B. ZIMMERMAN, TRUSTEE JIM ZIMMERMAN, AKA JAMES A. ZIMMERMAN, TRUSTEE JUDY J. ALLEN ZIMMERMAN, DECEASED	MURPHY EXPLORATION & PRODUCTION COMPANY	80.00000	8/24/1995	T28N-R51E SEC 2: S2SE	1.00000000	0.83333333	0.83333333
25-085-12844	OG	LEO L. COMBS GLADYS COMBS, HW	THE CARTER OIL COMPANY	40.00000	1/19/1949	T29N-R51E SEC 20: NWSE	1.00000000	0.87500000	0.87500000
25-085-12845.001	OG	JOSEPH HOMAN TRUST	THE POLUMBUS CORPORATION	320.00000	4/11/1974	T29N-R50E SEC 2: SW SEC 3: E2SE SEC 10: SENE SEC 11: SWNW	0.75000000	0.81250000	0.60937500
25-085-12845.002	OG	CAROLYN L. THOMPSON	THE POLUMBUS CORPORATION	320.00000	4/9/1974	T29N-R50E SEC 2: SW SEC 3: E2SE SEC 10: SENE SEC 11: SWNW	0.75000000	0.87500000	0.65625000
25-085-12845.003	OG	HAROLD HUNT	THE POLUMBUS CORPORATION	320.00000	2/12/1974	T29N-R50E SEC 2: SW SEC 3: E2SE SEC 10: SENE SEC 11: SWNW	0.75000000	0.87500000	0.65625000
25-085-12845.004	OG	THE MONTANA CONFERENCE ASSOCIATION OF SEVENTH DAY ADVENTISTS	THE POLUMBUS CORPORATION	320.00000	2/28/1974	T29N-R50E SEC 2: SW SEC 3: E2SE SEC 10: SENE SEC 11: SWNW	0.75000000	0.87500000	0.65625000
25-085-12845.005	OG	EDITH RICHARDS, ET AL	THE POLUMBUS CORPORATION	320.00000	2/12/1974	T29N-R50E SEC 2: SW SEC 3: E2SE SEC 10: SENE SEC 11: SWNW	0.75000000	0.87500000	0.65625000
25-085-12845.006	OG	MELVIN A. BROWN	THE POLUMBUS CORPORATION	320.00000	4/11/1974	T29N-R50E SEC 2: SW SEC 3: E2SE SEC 10: SENE SEC 11: SWNW	0.75000000	0.81250000	0.60937500
25-085-12847	OG	THE ZIMMERMAN COMPANY	THE POLUMBUS CORPORATION	80.00000	5/20/1974	T29N-R50E SEC 11: W2NE	0.75000000	0.78531333	0.58898500
25-085-12861	OG	JOHN MCGOWAN JANE S. MCGOWAN, HW	MURPHY CORPORATION, A LOUISIANA CORPORATION	120.00000	6/20/1958	T29N-R50E SEC 3: SWSE SEC 10: NENE SEC 11: NWNW	1.00000000	0.87500000	0.87500000
25-085-12864.001	OG	JOSEPH R. MCGOWAN IRENE S. MCGOWAN, HW	THE POLUMBUS CORPORATION	1,116.82000	2/9/1974	T29N-R50E SEC 2: LOTS 3 (39.96, A/D/A NENW), 4 (39.22, A/D/A NWNW), S2NW SEC 3: LOTS 1 (39.18, A/D/A NENE), 2 (39.16, A/D/A NWNE), SENE, SW, NWSE SEC 4: SESE SEC 9: NENE, SE SEC 10: SW, NENW, NWNW SEC 14: S2SW	0.75000000	0.85500000	0.64125000

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Lease Number	Type	Lease Name	Original Lessee Name	Gross Acres	Effective Date	Legal Description	Working Interest	Lease Net Revenue Interest	Nautilus Net Revenue Interest
25-085-12864.002	OG	FRANCIS W. MCGOWAN MADELINE C. MCGOWAN, HW	THE POLUMBUS CORPORATION	1,356.82000	2/8/1974	T29N-R50E SEC 2: LOTS 3 (39.96, A/D/A NENW), 4 (39.22, A/D/A NWNW), S2NW SEC 3: LOTS 1 (39.18, A/D/A NENE), 2 (39.16, A/D/A NWNE), SENE, SW, NWSE SEC 4: SESE SEC 9: NENE, SE SEC 10: SW, NENW, NWNE SEC 14: S2SW	0.75000000	0.85500000	0.64125000
25-085-12864.003	OG	MARY E. KOHL JOHN KOHL, WH	THE POLUMBUS CORPORATION	680.00000	2/9/1974	T29N-R50E SEC 3: SW, NWSE SEC 4: SESE SEC 9: NENE, SE SEC 10: SW, NENW, NWNE	0.75000000	0.85500000	0.64125000
25-085-12864.004	OG	MABEL A. REID MAXWELL REID, WH	THE POLUMBUS CORPORATION	680.00000	2/9/1974	T29N-R50E SEC 3: SW, NWSE SEC 4: SESE SEC 9: NENE, SE SEC 10: SW, NENW, NWNE	0.75000000	0.85500000	0.64125000
25-085-12864.005	OG	GRACE M. MCANALLY JAMES W. MCANALLY, WH	THE POLUMBUS CORPORATION	680.00000	2/9/1974	T29N-R50E SEC 3: SW, NWSE SEC 4: SESE SEC 9: NENE, SE SEC 10: SW, NENW, NWNE	0.75000000	0.85500000	0.64125000
25-085-12996	OG	NELLIE MACDONALD JAMES MACDONALD, WH	A. B. COBB, JR.	160.00000	7/25/1952	T29N-R50E SEC 15: NW	1.00000000	0.82500000	0.82500000
25-085-12616	ROW	LAWRENCE E AULT TESTAMENTARY TRUST DTD 11/5/1996	MURPHY EXPLORATION & PRODUCTION		12/6/2001	PIPELINE EASEMENT FOR WAR CLUB 1 TO EPU 'P' BATTERY AND TULE CREEK PL TO CENTRAL TANKS ACROSS: T29N-R50E SEC 14: E2NE, SWNE			
25-085-12633	ROW	USA BIA ROW EPU PIPELINE							
25-085-12634	ROW	USA BIA ROW EPU PIPELINE	MURPHY CORPORATION		12/15/1954	T29N-R50E SEC 13: PART E2 FOR PIPELINE ROW			
25-085-12635	ROW	USA BIA ROW EPU PIPELINE	MURPHY CORPORATION		10/27/1958	ROW FOR EPU GATHERING SYSTEM ACROSS: T28N-R51E, MPM SEC 3: PART SE			
25-085-12636	ROW	USA BIA ROW EPU PIPELINE			1/1/1953				
25-085-12637	ROW	USA BIA ROW TULE CREEK PL			2/20/1963	T29N-R51E SEC 30: NESW			
25-085-12638	ROW	ANNA D COULTER	GRACE PETROLEUM CORPORATION		1/16/1981	COWAN WESTERN #1 - ROW AND ACCESS AGREEMENT OVER: 29N-50E SEC 11: PART OF NW			
25-085-12639	ROW	WILLIAM G COULTER EARL BAKER	GRACE PETROLEUM CORPORATION		1/16/1981				
25-085-12680	ROW	WICKI LYNN SMITH	MURPHY EXPLORATION & PRODUCTION COMPANY		4/15/2000	T29N-R51E SEC 8: SWSWSE			
25-085-12688	ROW	LAWRENCE E AULT	THE POLUMBUS CORPORATION		10/25/1977	BATTERY ROW OVER: T29N-R50E SEC 3: SWSW			
25-085-12689	ROW	LAWRENCE E AULT			8/1/1977	ROW - ACCESS TO REID 10-1 OVER: T29N-R50E SEC 10: NWNE			
25-085-12690	ROW	Zimmerman Inc	Nautilus Poplar LLC			ROW for Huber #5 SWD - 1 acre wellpad, plus ROW for pipeline and access road across T28N-R51E 10: NE, NWSE			
25-085-12814	ROW	BIA FORT PECK EPU ROW	BALLARD PETROLEUM HOLDINGS		9/27/2002	ROW TO ACCESS EPU 44-19H: T29N-R51E, MPM Sec 19: SESE SEC 30: NENE			

EXHIBIT A									
Lease Number	Type	Lease Name	Original Lessee Name	Gross Acres	Effective Date	Legal Description	Working Interest	Lease Net Revenue Interest	Nautilus Net Revenue Interest
25-085-12815	ROW	BIA FORT PECK EPU ROW	BALLARD PETROLEUM HOLDINGS LLC		10/29/2002	29N-51E SEC 19: SWSE FOR ROAD ROW 380 FT LONG AND 50 FT WIDE TO ACCESS TO EPU 44-19H WELL			
25-085-12862	ROW	JOHN MCGOWAN JANE S. MCGOWAN, HW	MURPHY CORPORATION, A LOUISIANA CORPORATION		10/20/1961	T29N-R50E SEC 3: SWSE SEC 10: NWNE ROW FOR PIPELINE			
25-085-12866.000	ROW	ROBERT & ROSEMARY CLARK	MURPHY OIL CORPORATION		8/31/1961	TULE CREEK GATHERING SYSTEM 50' WIDE EASEMENT FOR PIPELINE ACROSS: T29N-R49E SEC 3: SE SEC 4: LOTS 2(39.74), 3 (39.78), 4(39.80), SWNE, W2SE, S2NW			
25-085-12867	ROW	BIA FORT PECK EPU ROW	MURPHY OIL CORPORATION		11/9/1972	ROW - 2ND EXTENSION TO EAST POPLAR PIPELINE OVER: T29N-R51E SEC 17: NWNE, SENW SEC 18: E2 SEC 19: E2E2 SEC 30: NENE T28N-R51E			
25-085-12868	ROW	BIA FORT PECK EPU ROW	MURPHY OIL CORPORATION		12/15/1954	THIRD EXTENSION TO EPU PIPELINE GATHERING SYSTEM OVER: T29N-R51E SEC 17: SESW, SESE SEC 18: E2, W2			
25-085-12869	ROW	BIA FORT PECK EPU ROW	MURPHY OIL CORPORATION		11/1/1955	T29N-R51E SEC 7: NWSE, NESW, SENW SEC 8: SESW, NWSE SEC 16: W2SESE, NWSE SEC 17: SESE, NWNW SEC 18: E2			
25-085-12870	ROW	BIA FORT PECK EPU ROW	MURPHY OIL CORPORATION		3/1/1950	T29N-R51E SEC 29: SWSE, SESW SEC 32: NENE, NWNE			
25-085-12871	ROW	BIA FORT PECK EPU ROW	MURPHY OIL CORPORATION		7/1/1956	PIPELINE ROW ACROSS T29N-R50E SEC 12: SENE T29N-R51E SEC 7: LOT 2, SENW			
25-085-12872	ROW	FRANK KOLLENBAUM	MURPHY OIL CORPORATION		9/10/1975	T29N-R51E SEC 19: SESE			
25-085-12873	ROW	JESSIE J KIRN SR	THE POLUMBUS CORPORATION		7/24/1974	PIPELINE ROW OVER: T29N-R50E 13: NWNW			
25-085-12874.000	ROW	GERTRUDE WALLETT	MURPHY OIL CORPORATION		8/31/1961	TULE CREEK GATHERING SYSTEM 50' WIDE EASEMENT FOR PIPELINE ACROSS: T29N-R49E SEC 12: SE T29N-R50E SEC 7: LOT 4 (39.48 SWSW), SESW			
25-085-12876	ROW	GEORGE ROGERS ANDERSON	MURPHY EXPLORATION & PRODUCTION		12/1/2000	TULE CREEK 8' WIDE & 2081' LONG PIPELINE ROW AND EASEMENT OVER: T29N-R50E SEC 14: W2SE			
25-085-12877	ROW	BIA FORT PECK EPU ROW	MURPHY OIL CORPORATION		11/1/2001	PIPELINE EASEMENT ACROSS: 29N-50E SEC 11: SESE			

EXHIBIT A									
Lease Number	Type	Lease Name	Original Lessee Name	Gross Acres	Effective Date	Legal Description	Working Interest	Lease Net Revenue Interest	Nautilus Net Revenue Interest
25-085-12878	ROW	BIA FORT PECK EPU ROW	BALLARD PETROLEUM HOLDINGS LLD		12/3/2002	EPU 34-11H ACCESS ROAD AND WELL LOCATION ACROSS: T28N-R51E SEC 11: SWSE CONTAINING 20.01 RODS, 111'			
25-085-12879	ROW	HARRY MASON BEATRICE MASON, HW	MURPHY CORPORATION		9/1/1961	TULE CREEK PIPELINE ROW 50 FT WIDE OVER: T29N-R49E, MPM SEC 11: SE T29N-R50E, MPM SEC 2: SESE			
25-085-12880.001	ROW	LILY O'GRADY, AKA LILLY O'GRADY IRENE ANGELO	MURPHY CORPORATION		9/12/1961	TULE CREEK PIPELINE ROW, 50 FT IN WIDTH OVER: T29N-R49E, MPM SEC 4: E2E2 SEC 10: N2NE, SENE SEC 11: N2NE, SWNW			
25-085-12880.002	ROW	ROBERT CLARK ET AL	MURPHY CORPORATION		8/31/1961	TULE CREEK GATHERING SYSTEM 50' WIDE EASEMENT FOR PIPELINE ACROSS: T29N-R49E, MPM SEC 4: E2E2 10: N2NE, SENE 11: N2NE, SWNW CONTAINING 20.01 RODS, 111'			
25-085-12894	ROW	BLUE OX COMPANY	NAUTILUS POPLAR LLC	NA	9/1/2011	SURFACE USE AGREEMENT OVER: T29N-R51E SEC 29: SWNW ACCESS TO EBILL 120			
25-085-12896	ROW	ZIMMERMAN INC	NAUTILUS POPLAR	NA	4/10/2013	SURFACE USE AGREEMENT OVER: T29N-R51E SEC 34: SE			
25-085-12897	ROW	ZIMMERMAN INC	NAUTILUS POPLAR	NA	4/10/2013	SURFACE USE AGREEMENT OVER: T29N-R51E SEC 28: SE, E2SW, SWSW			
25-085-12898	ROW	ZIMMERMAN INC	NAUTILUS POPLAR	NA	4/10/2013	SURFACE USE AGREEMENT OVER: T29N-R51E SEC 32: SWSE, E2SE			
25-085-12900	ROW	ZIMMERMAN INC	NAUTILUS POPLAR	NA	9/23/2013	POWER LINE ROW OVER: T28N-R51E SEC 2: NW			
25-085-12901	ROW	ZIMMERMAN INC	NAUTILUS POPLAR	NA	10/28/2013	PIPE LINE ROW OVER: T28N-R51E SEC 2: NW			
25-085-12902	ROW	ZIMMERMAN INC	NAUTILUS POPLAR	NA	10/22/2013	SURFACE USE AGREEMENT OVER: T28N-R51E SEC 11: N2			

SUBSIDIARIES OF THE REGISTRANT

SUBSIDIARY	STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION	OWNERSHIP
Magellan Petroleum Corporation owns the following subsidiaries directly:		
Nautilus Poplar LLC	Montana, USA	100%
Magellan Petroleum (UK) Investment Holdings Limited	United Kingdom	100%
Magellan Petroleum Australia Pty Ltd (*)	Queensland, Australia	70% (*)
Magellan Petroleum (UK) Investment Holdings Limited owns the following subsidiary directly:		
Magellan Petroleum (UK) Limited	United Kingdom	100%
Magellan Petroleum Australia Pty Ltd owns the following subsidiaries directly:		
Magellan Petroleum (Eastern) Pty. Ltd.	Queensland, Australia	100%
Magellan Petroleum (Offshore) Pty. Ltd.	Queensland, Australia	100%

(*) Magellan Petroleum Corporation ("MPC") directly owns 70% of Magellan Petroleum Australia Pty Ltd ("MPA"), and the remaining 30% of MPA is directly owned by Magellan Petroleum (UK) Investment Holdings Limited, a wholly owned subsidiary of MPC.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-70567, 333-162668, 333-171149, and 333-189614 on Form S-8, and Registration Statement No. 333-177331 on Form S-3 of our report dated September 18, 2014, relating to the consolidated financial statements of Magellan Petroleum Corporation and subsidiaries, appearing in this Annual Report on Form 10-K of Magellan Petroleum Corporation for the fiscal year ended June 30, 2014.

/s/ EKS&H LLLP
Denver, Colorado
September 18, 2014

CONSENT OF INDEPENDENT PETROLEUM ENGINEERS

The undersigned firm of Independent Petroleum Engineers, of Casper, Wyoming, United States, knows that it is named as having prepared an audit of a constant dollar reserves evaluation prepared by Nautilus Poplar LLC dated August 21, 2014, of the Montana interests of Magellan Petroleum Corporation, and hereby gives its consent to the use of its name and to the use of the said estimates in the form and context in which they appear in the Annual Report on Form 10-K of Magellan Petroleum Corporation for the fiscal year ended June 30, 2014. We hereby further consent to the use of the information contained in our audit letter dated August 21, 2014 relating to said estimates. We further consent to the incorporation by reference thereof in Magellan Petroleum Corporation's Registration Statement Nos. 333-70567, 333-162668, 333-171149, and 333-189614 on Form S-8, and Registration Statement No. 333-177331 on Form S-3.

ALLEN & CROUCH PETROLEUM ENGINEERS, INC

By: /s/ Richard L. Vine, P.E.

Richard L. Vine, P.E.

Date: September 18, 2014

CERTIFICATIONS

I, J. Thomas Wilson, certify that:

1. I have reviewed this annual report on Form 10-K of Magellan Petroleum Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) 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 officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ J. Thomas Wilson

John Thomas Wilson, President and Chief Executive Officer
(as Principal Executive Officer)

Date: September 18, 2014

CERTIFICATIONS

I, Antoine J. Lafargue, certify that:

1. I have reviewed this annual report on Form 10-K of Magellan Petroleum Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) 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 officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

By: /s/ Antoine J. Lafargue

Antoine J. Lafargue, Vice President - Chief Financial Officer and Treasurer
(as Principal Financial and Accounting Officer)

Date: September 18, 2014

SECTION 1350 CERTIFICATIONS

In connection with the Annual Report of Magellan Petroleum Corporation (the "Company") on Form 10-K for the fiscal year ended June 30, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, J. Thomas Wilson, President and Chief Executive Officer of the Company, do hereby certify, pursuant to and solely for the purpose of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ J. Thomas Wilson
John Thomas Wilson, President and Chief Executive Officer
(as Principal Executive Officer)

Date: September 18, 2014

SECTION 1350 CERTIFICATIONS

In connection with the Annual Report of Magellan Petroleum Corporation (the "Company") on Form 10-K for the fiscal year ended June 30, 2014 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Antoine J. Lafargue, Vice President - Chief Financial Officer and Treasurer of the Company, do hereby certify, pursuant to and solely for the purpose of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Antoine J. Lafargue

Antoine J. Lafargue, Vice President - Chief Financial Officer and Treasurer
(as Principal Financial and Accounting Officer)

Date: September 18, 2014



MAGELLAN PETROLEUM CORP.

RESERVES AUDIT

POPLAR AREA

ROOSEVELT COUNTY, MT.

As of July 01, 2014



August 21, 2014



August 21, 2014

Mrs. Andrea Brady
Magellan Petroleum Corporation
1775 Sherman Street, Suite 1950
Denver, Colorado 80203

Re: Magellan Petroleum Corporation
Allen & Crouch Audit of the Nautilus
Reserve and Economic Evaluation of
Interests in the Poplar East Unit and
Poplar Northwest Field
Roosevelt County, MT
Reserves As of July 01, 2014

Dear Mrs. Brady:

In accordance with your request, an engineering audit was performed on Magellan Petroleum Corporation (Magellan) reserves and corresponding net present value of working interests owned in the East Poplar Unit and the Poplar Northwest Field, Roosevelt County, MT, (together "Poplar"). The reserves evaluation was prepared by Mr. Hector A. Wills with MI3 Petroleum Engineering in Golden, Colorado. The evaluation included proved developed producing (PDP) reserves attributable to currently producing wells, proved developed non producing (PDNP) reserves associated with pump upsizing, current zone stimulations, recompletions and water shut-offs, proved undeveloped (PUD) reserves associated with development of the Charles formation and probable undeveloped reserves (PRB) associated with development of the Tyler formation. The effective date of the evaluation is July 01, 2014. This evaluation was prepared using constant prices and costs and conforms to our understanding of the U.S. Securities and Exchange Commission (SEC) guidelines and applicable financial accounting rules. All prices, costs and cash flow estimates are expressed in U.S. dollars (US\$). The reserves and future net revenue are net to the interests of Magellan. We believe the assumptions, data, methods and procedures used in preparing this report are appropriate for the purpose of this report. Allen & Crouch has reviewed 100% of Magellan's US reserves.

Table 1 summarizes the estimates of the net reserves and future net revenues, as of July 01, 2014 for the Magellan evaluated properties. Unescalated prices and costs were used for all properties contained in this evaluation.

Table 1

Estimated Net Reserves and Future Net Revenue
 Certain Proved and Probable Oil and Gas Interests
 Magellan Petroleum Corporation
 Poplar
 As of July 01, 2014

	Proved			Total	
	Producing Reserves	Non-Producing Reserves	Undeveloped Reserves	Proved Reserves	Probable Reserves
<u>Remaining Net Reserves</u>					
Oil/Cond/Ngl - Bbls	1,416,780	1,077,840	3,241,080	5,735,700	1,949,740
Gas - MMscf	0	0	0	0	0
<u>Income Data (\$)</u>					
Future Net Revenue	121,999,110	92,812,670	279,089,000	493,900,780	167,891,730
Deductions					
Operating Expense	58,462,350	29,483,920	53,049,540	140,995,810	36,037,230
Production Taxes	23,669,630	17,969,900	43,829,040	85,468,570	33,175,410
Investment	1,466,190	8,222,490	13,905,000	23,593,680	12,360,000
Future Net Cashflow	38,400,940	37,136,370	168,305,420	243,842,730	86,319,100
Discounted PV @ 10% (\$)	15,416,350	19,682,730	84,131,440	119,230,520	28,895,360

Values in the tables of this report may not add up arithmetically due to the rounding procedure in the computer software program used to prepare the economic projections. All hydrocarbon liquids are reported as 42 gallon barrels.

Allen & Crouch Petroleum Engineers, Inc. is an independent petroleum engineering firm with respect to Magellan, as provided in the Society of Petroleum Engineers', "Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves". Allen & Crouch neither owns an interest in any Magellan properties, nor is employed by them on a retainer or contingent basis.

Oil and gas reserves by definition fall into one of the following categories: proved, probable, and possible. The proved category is further divided into: developed and undeveloped. The developed reserve category is even further divided into the appropriate reserve status subcategories: producing and non-producing. Non-producing reserves include shut-in and behind-pipe reserves. The reserves included in this report include proved and probable reserves. The reserves and income attributable to the various reserve categories included in this report have not been adjusted to reflect the varying degrees of risk associated with them.

Reserve estimates are strictly technical judgments. The accuracy of any reserve estimate is a function of the quality and the quantity of data available and of the engineering and geological interpretations. The reserve estimates presented in this report are believed reasonable; however, they are estimates only and should be accepted with the understanding that reservoir performance subsequent to the date of the estimate may justify their revision. A portion of these reserves are for non-producing wells that lack sufficient production history to utilize conventional performance-based reserve estimates. In these cases, the reserves are based on volumetric estimates and recovery efficiencies along with analogies to similar producing wells. These reserve estimates are subject to a greater degree of uncertainty than those based on substantial production and pressure data. As additional production and pressure data becomes available, these estimates may be revised up or down. Actual future prices may vary significantly from the prices used in this evaluation; therefore, future hydrocarbon volumes recovered and the income received from these volumes may vary significantly from those estimated in this report. The present worth is shown to indicate the effect of time on the value of money and should not be construed as being the fair market value of the properties.

A portion of these reserves are for undeveloped acreage. Reserves for these cases are based on volumetric estimates and recovery efficiencies along with analogies to similar producing areas. These reserve estimates are subject to a greater degree of uncertainty than those based on substantial production and pressure data. As additional production and pressure data becomes available, these estimates may be revised up or down. The proved undeveloped (PUD) reserves are based upon developmental drilling in the Charles formation. The production forecast is based upon a typecurve of historical production from existing Charles wells in the area. The probable undeveloped (PRB) reserves are based upon development drilling in the Tyler formation. The Tyler production forecast is based upon Tyler production from the EPU #7 well. Probable reserves estimates are subject to an even greater degree of uncertainty than proved reserves.

Allen & Crouch has used all methods and procedures it considers necessary under the circumstances in the audit of these reserves evaluations. The appropriate combination of conventional decline curve analysis (DCA), production data analysis and type curves were used to estimate the remaining reserves in the various producing areas. All assumptions, data, methods and procedures used in the preparation of this report were appropriate for the purpose served by the report.

All prices used in preparation of this report were based on twelve month unweighted arithmetic average of the first day of the month price for the period July 2013 through June 2014. The resulting oil price used was \$86.11/Bbl. This price was adjusted for local differentials and gravity. As required by the SEC guidelines, all pricing was held constant for the life of the projects (no escalation).

Operating costs used in this report were based on values reported by Magellan and reviewed by Allen & Crouch. Magellan's estimates for capital costs for all non-producing wells are included in the evaluation. Magellan has indicated to Allen & Crouch that they have the ability and intent to implement their capital expenditure program as scheduled. Operating costs and capital costs were held constant for the life of the projects (no escalation).

Net revenue (sales) is defined as the total proceeds from the sale of oil, condensate, natural gas liquids (NGL), and gas adjusted for the commodity price basis differential and gathering/transportation expense. Future net income (cashflow) is future net revenue less net lease operating expenses, state severance or production taxes, operating/development capital expenses and net salvage. Future plugging, abandonment and salvage costs are considered in this report. No provisions for State or Federal income taxes have been made in this evaluation. The present worth (discounted cashflow) at various discount rates is calculated on a monthly basis.

In the conduct of our evaluation, we have not independently verified the accuracy and completeness of information and data furnished by Nautilus with respect to ownership, interests, costs of operation and development, product prices, payout balances and agreements relating to current and future operations and sales of production. If in the course of our examination something came to our attention which brought into question the validity or sufficiency of any of the information or data provided by Magellan, we did not rely on such information or data until we had satisfactorily resolved our questions relating thereto or independently verified such information or data.

Magellan's operations may be subject to various levels of governmental controls and regulations. These controls and regulations may include matters relating to land tenure, drilling, production practices, environmental protection, marketing and pricing policies, royalties, various taxes and levies including income tax and are subject to change from time to time. Such changes in governmental regulations and policies may cause volumes of reserves actually recovered and amounts of income actually received to differ significantly from the estimated quantities.

In our opinion, the above-described estimates of Magellan's proved reserves and supporting data are, in the aggregate, reasonable. There was no aggregate difference larger than 10%. It is also our opinion that the above-described estimates of Magellan's proved reserves conform to the definitions of proved, probable and possible oil and gas reserves promulgated by the SEC.

All data used in this study were obtained from Magellan or the non-confidential files of Allen & Crouch. A field inspection of the properties was not made in connection with the preparation of this report. The potential environmental liabilities attendant to ownership and/or operation of the properties have not been addressed in this report. Abandonment and clean-up costs and possible salvage value of the equipment were considered in this report.

Data and worksheets used in the preparation of this evaluation will be maintained in our files in Casper and will be available for inspection by anyone having proper authorization from Magellan.

Thank you for the opportunity to perform this audit. If you have any questions or require additional information regarding the evaluation, please don't hesitate to call.

Sincerely,



Richard L. Vine, P.E.
Wyoming License No. 10041
Allen & Crouch Petroleum Engineers, Inc.

