

FORM 10-K  
United States  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

(Mark One)

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

For the fiscal year ended June 30, 1996  
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OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-5507

MAGELLAN PETROLEUM CORPORATION  
(Exact name of registrant as specified in its charter)

DELAWARE 06-0842255  
State or other jurisdiction of (I.R.S. Employer  
incorporation or organization Identification No.)

149 Durham Road, Madison, Connecticut 06443  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (203) 245-8380

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

| Title of each class                    | Name of each exchange on<br>which registered |
|----------------------------------------|----------------------------------------------|
| Common stock par value \$.01 per share | Boston Stock Exchange                        |
|                                        | Pacific Stock Exchange                       |

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

NONE  
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K ss.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

The aggregate market value of the voting stock held by non-affiliates of the registrant was \$72,092,000 at September 4, 1996 (based on the last sale price of such stock as quoted on the Pacific Stock Exchange).

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

Common Stock, par value \$.01 per share, 24,691,245 shares outstanding as of

September 4, 1996.

## DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement related to the Annual Meeting of Stockholders for the fiscal year ended June 30, 1996, are incorporated by reference in Part III of this Form 10-K to the extent stated herein.

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Unless otherwise indicated, all dollar figures set forth herein are in United States currency. Amounts expressed in Australian currency are indicated as "A.\$00". The exchange rate at September 4, 1996 was A.\$1.00 equaled U.S.\$ .7922.

### PART I

#### Item 1. Business.

Magellan Petroleum Corporation (the "Company" or "MPC") is engaged, directly and through its majority-owned subsidiary, in the sale of oil and gas and the exploration for and development of oil and gas reserves. At June 30, 1996, the Company's principal asset was a 50.7% equity interest in its subsidiary, Magellan Petroleum Australia Limited ("MPAL"), which has one class of stock that is publicly held and traded in Australia.

MPAL owns interests in various oil and gas properties in Australia, the United States and Belize, Central America. MPAL's major Australian assets are two petroleum production leases covering the Mereenie oil and gas field (35% working interest) and one petroleum production lease covering the Palm Valley gas field (50.775% working interest). Both fields are located in the Amadeus Basin in the Northern Territory of Australia ("NTA"). Santos Ltd ("Santos"), an Australian company, which owns a 37.4% interest in the Palm Valley field and a 65% interest in the Mereenie field, also owns 18.2% of MPAL's outstanding stock. Boral Limited, an Australian company owns 1.2% of the Palm Valley field and also owns a 18.1% interest in MPAL's outstanding stock.

MPAL and its co-venturers in the Mereenie and Palm Valley fields have been discussing the sale of additional quantities of gas from these fields with the Power and Water Authority ("PAWA") in the Northern Territory and other purchasers. While another new gas supply contract for the sale of gas from both fields appears likely, the ultimate purchaser, the timing, and terms of any new contracts are uncertain.

In Canada, the Company has a direct 2.67% carried interest in the Kotaneelee gas field in the Yukon Territory of Canada. The Company has not received any revenues from this field to date. See Item 3 - Legal Proceedings.

MPC also has a 10% working interest in a Baca County, Colorado exploration program with MPAL (90%). In addition, the Company also has a 2 1/2% working interest in the Belize Joint Venture in which MPAL has a 20% working interest.

The following chart illustrates the various relationships between the Company and the various companies discussed above.

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

#### MPC - MPAL RELATIONSHIPS CHART

MPC owns 50.7% of MPAL.  
MPAL owns 50.8% of the Palm Valley Field, Australia.  
MPAL owns 35% of the Mereenie Field, Australia.  
BORAL owns 18.1% of MPAL.  
BORAL owns 1.2% of the Palm Valley Field, Australia.  
SANTOS owns 18.2% of MPAL.  
SANTOS owns 37.4% of the Palm Valley Field, Australia.  
SANTOS owns 65% of the Mereenie Field, Australia.

#### (a) General Development of Business.

Operational Developments Since the Beginning of the Last Fiscal Year.

#### AUSTRALIA

##### Mereenie

##### Field Operations

MPAL (35%) and Santos (65%), the operator, (together known as the Mereenie Joint Venture or "MJV") own the Mereenie field which is located in the Amadeus Basin of the NTA. MPAL's share of production from the field is subject to net overriding royalties aggregating 3.0625% and the statutory government royalty of 10%. MPAL's share of the Mereenie field proved developed oil reserves was approximately 1.2 million barrels at June 30, 1996.

Four development wells were drilled in fiscal 1996 and subsequently

completed as oil wells. The field was producing about 2800 (MPAL share 980) barrels of crude oil per day ("bpd") from 36 wells at June 30, 1996. During 1996, MPAL's share of oil sales was 365,000 barrels and 2.8 bcf of gas sold. The oil is transported by means of a 167 mile eight-inch oil pipeline from the field to the Brewer Estate industrial park near Alice Springs. Most of the oil is then shipped south approximately 950 miles by rail and road to a refinery in the Adelaide area. The cost of transporting the oil to the refinery is being borne by the producers.

The MJV is also providing Mereenie gas to the Power and Water Authority ("PAWA") of the NTA for use in Darwin and other NTA centers. See "Darwin Gas Supply Contracts".

#### Palm Valley

##### Field Operations

MPAL has a 50.775% interest in the Palm Valley gas field which is located in the NTA. Ten wells have been drilled in the field, six of which are currently connected to the gas treatment plant and are flowed at maximum deliverability levels to meet the Alice Springs and Darwin supply contracts with PAWA. During fiscal 1996, MPAL's share of gas sales was 3.4 bcf.

In 1981, the Palm Valley Joint Venture ("PVJV") agreed to supply the PAWA facility in Alice Springs with 48 bcf of natural gas (MPAL share - 24.4 bcf) from the field. During the twenty-five year period 1983-2008, PAWA is required to take and/or pay for at least 28 bcf (MPAL share -14.2 bcf). The price of gas is adjusted quarterly to reflect fully changes in the Australian Consumer Price Index.

The PVJV is also providing Palm Valley gas for use in Darwin and other NTA centers. See "Darwin Gas Supply Contracts".

MPAL's share of Palm Valley production revenues is subject to a 10% statutory government royalty and net overriding royalties aggregating 4.2548%.

#### Darwin Gas Supply Contracts

In 1985, MPAL signed an agreement as a participant in the PVJV and also signed an agreement as a participant in the MJV for the sale of gas to PAWA for use in PAWA's Darwin generating station and at a number of other generating stations in the Northern Territory. The gas is being delivered via the 922 mile Amadeus Basin to Darwin gas pipeline which was built by an Australian consortium.

##### Palm Valley Agreement

The PVJV has contracted to supply a maximum of 175 bcf (MPAL share - 88.9 bcf) of gas from the Palm Valley field and PAWA has agreed to take or pay for 134 bcf (MPAL share - 68 bcf) during the 25 year period of the contract. The price is subject to quarterly adjustments to partially reflect changes in the Australian Consumer Price Index and certain increases in the price of electricity.

##### Mereenie Agreement

The MJV has agreed to supply a maximum of 56 bcf (MPAL share - 19.6 bcf) of gas from the Mereenie field and PAWA has agreed to take or pay for 40 bcf (MPAL share - 14 bcf) during the 25 year period of the contract. This agreement also provides for price adjustments identical to the Palm Valley agreement. The difference in price between Palm Valley gas and Mereenie gas for the first 20 years of the contract takes into account the additional cost to the pipeline consortium to build a spur line to the Mereenie field and increase the size of the pipeline from Palm Valley to Mataranka.

On May 29, 1995, the MJV concluded a contract for sale of an additional 21.4 bcf of gas to PAWA. The additional gas was required to meet the power needs of new mining developments in the NTA including the McArthur River Mine.

## Agreements Between the PVJV and the MJV

In consideration for the PVJV forgoing 20% of the Amadeus Basin to Darwin gas supply contract during the first twenty contract years, the MJV made a payment to the PVJV to partially compensate the PVJV for the reduced net present value of the future gas sales revenue which were postponed from contract years 1 to 20 to contract years 21 to 26. The agreement also provides that if the MJV sells any additional gas from the Mereenie field, the PVJV is entitled, as additional consideration, to 35% of the revenues from the first 38 bcf (MPAL share - 19.5 bcf) of gas sold. At June 30, 1996, the balance of the MJV gas subject to this entitlement was 29 bcf (MPAL share - 15 bcf).

### Other Related Matters

The PVJV and the MJV are now entitled to receive a share of pipeline tariffs earned for transporting gas in excess of the contracted volumes referred to above. In fiscal 1996, MPAL's share was approximately A.\$1,126,000.

### Summary of Amadeus Basin Gas Supply Contracts

The following is a summary of MPAL's interest in the Palm Valley Joint Venture and the Mereenie Joint Venture gas supply contracts.

<TABLE>

<CAPTION>

| <S>           | Maximum contract<br>(Before/after royalties)<br>(bcf) |       | Take or pay<br>(Before/after royalties)<br>(bcf) |                | Percentage of<br>contract completed |     |
|---------------|-------------------------------------------------------|-------|--------------------------------------------------|----------------|-------------------------------------|-----|
|               | <C>                                                   | <C>   | <C>                                              | Maximum<br><C> | Take or Pay<br><C>                  | <C> |
| Palm Valley:  |                                                       |       |                                                  |                |                                     |     |
| Alice Springs | 24.4                                                  | 21.0  | 14.2                                             | 12.3           | 40                                  | 53  |
| Darwin        | 88.9                                                  | 76.6  | 68.0                                             | 58.6           | 34                                  | 45  |
|               | -----                                                 | ----  | ----                                             | ----           |                                     |     |
|               | 113.3                                                 | 97.6  | 82.2                                             | 70.9           |                                     |     |
|               | -----                                                 | ----  | ----                                             | ----           |                                     |     |
| Mereenie:     |                                                       |       |                                                  |                |                                     |     |
| Darwin (1985) | 19.6                                                  | 17.0  | 14.0                                             | 12.2           | 37                                  | 52  |
| Darwin (1995) | 7.5                                                   | 6.5   | 6.0                                              | 5.2            | 27                                  | 34  |
| Cosmo Howley  | 1.8                                                   | 1.5   | 1.8                                              | 1.5            | 78                                  | 78  |
| N.T. Gas      | .3                                                    | .3    | .3                                               | .3             | -                                   | -   |
|               | -----                                                 | ----- | -----                                            | -----          |                                     |     |
|               | 29.2                                                  | 25.3  | 22.1                                             | 19.2           | -                                   | -   |
|               | -----                                                 | ----- | -----                                            | -----          |                                     |     |
| Total         | 142.5                                                 | 122.9 | 104.3                                            | 90.1           |                                     |     |
|               | =====                                                 | ===== | =====                                            | =====          |                                     |     |

</TABLE>

<TABLE>

<CAPTION>

| <S>           | Contract Period      | Contract Price<br>at June 30, 1996<br>(mcf) |                        |
|---------------|----------------------|---------------------------------------------|------------------------|
|               |                      | <C>                                         | <C>                    |
| Palm Valley:  |                      |                                             |                        |
| Alice Springs | 25 years (1983-2008) | A.\$2.94                                    |                        |
| Darwin        | 25 years (1987-2012) | A.\$2.02                                    |                        |
| Mereenie:     |                      |                                             |                        |
| Darwin (1985) | 25 years (1987-2012) | A.\$ .48*                                   | (Contract years 6-21)  |
| Darwin (1985) | 25 years (1987-2012) | A.\$2.07                                    | (Contract years 22-26) |
| Darwin (1995) | 10 years (1995-2009) | A.\$2.70                                    |                        |
| Cosmo Howley  | 10 years (1989-1999) | A.\$2.92                                    |                        |
| N.T. Gas      | 10 years (1996-2006) | A.\$2.72                                    |                        |

<FN>

(\*) To the extent that PAWA purchases gas from the Mereenie field in excess of probable requirements, then the MJV receives A.\$2.07 per mcf.

</FN>

</TABLE>

Dingo Gas Field

MPAL has a 34.26 percent interest in the Dingo gas field which is held under Retention License 2. The Dingo gas field, which is located in the Amadeus Basin in the NTA, has approximately 18 bcf of presently proved and recoverable reserves based on three production gas wells. Sufficient reserves are indicated to fulfill a modest gas contract, however, the initial well flow rates and consequent reserves per well are considered too low to be currently economic, given the high drilling costs of the wells. The current retention license requires that a well be drilled by May, 1997 at an estimated cost of A.\$3.5 million (MPAL share - A.\$1.2 million). Because of the sub-commercial status of the field, an application to waive the drilling commitment will be filed. It is expected that the waiver will be granted. MPAL's share of potential production from these permit areas is subject to a 10% statutory government royalty and overriding royalties aggregating 2.5043%.

#### The Surat Basin

MPAL currently has a 15.625% working interest in the Burunga permit in Queensland (ATP 378P). During fiscal 1996, the Scotia No. 3 well was drilled to test for coal bed methane gas. The gas well is presently being tested to determine whether it would be economic to develop the discovery.

#### Ngalia Basin

MPAL has been granted a renewal of permit EP-15 in the Ngalia basin in the NTA which expires in May 1999. The renewal permit covers 1.9 million acres. The minimum obligations of this permit total A.\$1.2 million for the period 1997-1999 including an obligation to drill a well by May 1998. Previously MPAL had held a permit in the Ngalia basin where a 6,000 foot wildcat well, Davis No. 1, was drilled in 1981. Although the well was abandoned as a dry hole, it did yield minor shows of natural gas. MPAL is seeking co-venturers in this project.

#### Maryborough Basin

MPAL is seeking partners for exploration permit ATP 613P, a 670,000 acre block, in the Maryborough Basin in Queensland, Australia. During fiscal 1996, a seismic survey was completed on the permit. Processing and analysis of the data is being completed. The minimum expenditure obligation of the permit is A.\$9 million over the term of the permit which ends March 1999.

#### UNITED STATES

##### Baca County, Colorado

MPC (10%) and MPAL (90%) are participating in an exploration program in Colorado. During late April 1995, MPAL commenced an initial three well exploration drilling program. The initial three well appraisal program has been completed. All three wells were dry holes. MPC has the right, but not the obligation, to a 10% participation in drilling of future prospects. Based on the data derived from the appraisal program during fiscal 1996, the Company has written off \$2,500,000 in costs incurred to date. In early 1997, the Company expects to drill an additional exploration well on the most prospective structure.

##### Belize

##### Gladden Basin PSA

During January 1996, MPAL acquired a 20% working interest in a Production Sharing Agreement ("Gladden PSA") which covers approximately 351,000 acres offshore Belize, Central America. On May 30, 1996, MPC acquired a 2 1/2% working interest in the Gladden PSA. The Gladden PSA expires on May 31, 2001 and requires that a well be drilled by December 1, 1996. The estimated cost of the well is \$10 million (MPAL share \$2 million, MPC share \$250,000).

##### Block 13 PSA

MPC (2 1/2%) and MPAL (20%) are also participants in a Production Sharing Agreement ("Block 13 PSA") offshore Belize adjoining the western and southern boundaries of the Gladden PSA. The Block 13 PSA covers approximately 788,000 acres. The Block 13 PSA expires on January 31, 2004. The aggregate estimated cost for 1997 and 1998 is approximately \$68,000 for MPAL and MPC.

## CANADA

The Company owns a 2.67% carried interest in a lease (31,885 gross acres, 850 net acres) in the southeast Yukon Territory, Canada, which includes the Kotaneelee gas field. This partially developed field is connected to a major pipeline system. Three wells have been completed to date and are capable of an estimated output of in excess of 60 mmcf, the capacity of the field dehydration plant. Present production is approximately 40-45 million cubic feet per day. Anderson Oil & Gas, Inc., ("Anderson") is the operator of the field.

Production at the Kotaneelee field commenced in February 1991. Total production from the field according to government reports, has been as follows:

| Calendar Year     | Production (BCF) |
|-------------------|------------------|
| 1991              | 8.1              |
| 1992              | 18.0             |
| 1993              | 17.5             |
| 1994              | 16.7             |
| 1995              | 15.7             |
| 1996 (To June 30) | 7.4              |

In a 1989 application to the National Energy Board, a reserve study by the operator estimated gas in place at 1.6 trillion cubic feet with proved and probable recoverable reserves of 781 bcf.

The operator has not permitted the Company access to detailed pricing and volume information, citing the litigation regarding the field. See Item 3 - Legal Proceedings for a discussion of litigation relating to the Kotaneelee field which may affect the status of the carried interest and the amount of the carried interest account.

The Company is not entitled to any revenue from the field until the working interest owners recover their costs. The operator last reported to the Company unrecovered development costs totaling approximately Cdn. \$30,264,000 (Company share - Cdn. \$807,000) at January 31, 1996. It is expected that the Company will begin to receive proceeds from the field in 1998 based upon present prices. The period before payment to the Company begins may be shorter or longer, depending on prevailing market conditions, gas volumes sold and the results of the litigation. Under ordinary circumstances, increased natural gas prices or increased volumes would result in a shorter period to payout.

For financial statement purposes in fiscal 1987 and 1988, the Company wrote down its Canada cost center which included the Kotaneelee field to a nominal value because of the uncertainty as to the date when sales of Kotaneelee gas might begin and the immateriality of the carrying value of the investment. Although the field is now producing, the Company has not yet classified its share of the Kotaneelee gas reserves as proved because the gas field is still the subject of litigation. The Company will reclassify the reserves at the Kotaneelee field as proved when there is greater assurance as to the timing and assumptions regarding the investment.

### (b) Financial Information about Industry Segments.

Since the Company is engaged in only one industry, namely, oil and gas exploration, development, production and sale this item is not applicable to the Company.

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

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

### (i) Principal Products.

MPAL has an interest in the Palm Valley gas field which began production in 1983 and in the Mereenie oil and gas field which began production in 1984. See

Item 1(a) - Australia - for a discussion of the oil and gas production from the Mereenie and Palm Valley fields. The Company has a direct 2.67% carried interest in the Kotaneelee gas field in Canada.

(ii) Status of Product or Segment.

See Item 1(a) - Australia - for a discussion of the current and future operations of the Mereenie and Palm Valley fields in Australia.

(iii) Raw Materials.

Not applicable.

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

In Australia, the Company has interests directly and indirectly through its subsidiaries in the following permits. Permittees are required to carry out agreed work and expenditure programs.

<TABLE>

<CAPTION>

| Permit                                   | Expiration Date    | Location           |
|------------------------------------------|--------------------|--------------------|
| <S>                                      | <C>                | <C>                |
| Retention License 2 (Dingo)              | May 24, 1997       | Northern Territory |
| Exploration Permit 15 (Ngalia)           | May 14, 1999       | Northern Territory |
| Authority to Prospect 378P (Sarat)       | September 30, 1996 | Queensland         |
| Authority to Prospect 613P (Maryborough) | March 31, 1999     | Queensland         |

In 1981, the NTA issued Petroleum Leases No. 4 and No. 5 in the NTA which cover the Mereenie oil and gas field to MPAL's subsidiaries. As part of the lease conditions, MPAL and its Mereenie partners had agreed to construct an oil refinery near Alice Springs, if it were determined that such a refinery is economically feasible. MPAL believes that the oil refinery would not be economically viable under current market conditions, and the NTA has not raised any current objection to this conclusion. In the event that a refinery becomes economically viable and the MJV does not construct the refinery, MPAL and its partners will be required to pay the NTA liquidated damages based on the value of the crude oil produced from the lands under lease. The amount to be paid to the Territory is an amount per barrel which is the greater of (a) A.\$3.00 per barrel or (b) A.\$2.00 per barrel plus 10% of the amount by which the market price of Mereenie crude oil exceeds A.\$27.50. Production is subject to a statutory 10 percent royalty payable to the NTA.

In 1982 the NTA granted a production lease for the Palm Valley gas field to a MPAL subsidiary. Production is subject to a statutory 10 percent royalty payable to the NTA.

The above leases are subject to the Petroleum (Prospecting and Mining) Act of the Northern Territory. Lessees have the exclusive right to produce petroleum from the land subject to a lease upon payment of a rental and a royalty at the rate of 10% of the wellhead value of the petroleum produced. Rental payments may be offset against the royalty paid. The term of a lease is 21 years, and leases may be renewed for successive terms of 21 years each.

During 1992, the Australian High Court overthrew the doctrine of terra nullius ("no man's land") in the so-called "Mabo" case. Although the wider implications of this specific judgment have yet to be tested in the Courts, it allows particular groups of Aborigines who can prove an uninterrupted and continuing link with their traditional lands to claim ownership of such land provided it has not previously been alienated by the Crown (either the Federal or State Governments). Subsequently, the Australian Federal Government passed the Native Title Act validating all titles granted to June 30, 1993 and providing that any compensation payable to Aborigines for the dispossession of their lands will be funded by the Government and not by the title owner. The Company does not consider that this issue will have a material adverse impact on MPAL's properties.



In Belize, Central America, the Company has interests directly and indirectly through a subsidiary in the following Production Sharing Agreements ("PSA"). Permits in Belize are issued for eight years but work and expenditure obligations are calculated in two year blocks. Application is made ninety days prior to the two year block expiration.

| PSA           | Expiration Date  | Next Block Application Date |
|---------------|------------------|-----------------------------|
| Gladden Basin | May 31, 2001     | Year 5 - March 1, 1998      |
| Block 13      | January 31, 2004 | Year 3 - November 1, 1998   |

SUMMARY OF BENEFICIAL OWNERSHIP OF MAJOR WORKING INTERESTS  
(BEFORE ROYALTIES)  
June 30, 1996

<TABLE>  
<CAPTION>

| <S>                                   | Palm       | Dingo      |            | Belize       |            | Gladden    |
|---------------------------------------|------------|------------|------------|--------------|------------|------------|
|                                       | Valley     | Mereenie   | Gas        | Baca County, | Surat      |            |
|                                       | Field      | Field      | Field      | Colorado     | 378P       | Basin      |
|                                       | %          | %          | %          | %            | %          | %          |
| <S>                                   | <C>        | <C>        | <C>        | <C>          | <C>        | <C>        |
| MPAL                                  | 50.775     | 35.00      | 34.2583    | 90           | 15.625     | 20.0       |
| Santos Ltd.                           | 37.354     | 65.00      | 52.9333    | -            | 84.375     |            |
| Kufpec Australia Pty. Ltd.            |            | 1.248      | -          | -            | -          |            |
| Boral Limited                         |            | 1.248      | -          | 10.9744      | -          |            |
| GFE Resources Ltd                     |            | 9.375      | -          | 1.7558       | -          |            |
| Canada Southern Petroleum Ltd.        |            | -          | -          | .0782        | -          |            |
| Magellan Petroleum Corporation        |            | -          | -          | -            | 10.        | 2.5        |
| Dover Technology, Inc.                |            | -          | -          | -            | -          | 20.0       |
| Fina Exploration Belize B.V.          |            | -          | -          | -            | -          | 30.0       |
| Deminez Belize Petroleum Ltd.         |            | -          | -          | -            | -          | 20.0       |
| Mountain States Petroleum Corporation |            | -          | -          | -            | -          | 5.0        |
| Mallon Production Co.                 |            | -          | -          | -            | -          | 2.5        |
| <b>TOTAL</b>                          | <b>100</b> | <b>100</b> | <b>100</b> | <b>100</b>   | <b>100</b> | <b>100</b> |

</TABLE>

(v) Seasonality of Business.

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

(vi) Working Capital Items.

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

(vii) Customers.

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

MPAL's principal customer and the most likely customer for future gas sales is PAWA, a governmental authority of the Northern Territory Government, which also has substantial regulatory authority over MPAL's oil and gas operations.

Oil Production

There is presently a small local market for the Australian Mereenie crude oil in the Alice Springs area. Most of the crude oil production is being shipped

and sold to a refinery in Adelaide.

#### Natural Gas Production

(viii) Backlog.

Not applicable.

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

Not applicable.

(x) Competitive Conditions in the Business.

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

Furthermore, competitive conditions may be substantially affected by various forms of energy legislation which have been or may be proposed in Australia, Canada, the United States and Belize; however, it is not possible to predict the nature of any such legislation which may ultimately be adopted or its effects upon the future operations of the Company.

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

(xi) Research and Development.

Not applicable.

(xii) Environmental Regulation.

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

(xiii) Number of Persons Employed by Company.

At June 30, 1996, the Company had no full time employees in the United States and MPAL had 32 employees in Australia. The Company relies to a great extent on consultants for legal, accounting and administrative services.

(d) Financial Information About Foreign and Domestic Operations and Export Sales.

(1) Financial Information Relating to Foreign and Domestic Operations.

See Note 1 to the Consolidated Financial Statements.

(2) Risks Attendant to Foreign Operations.

Most of the properties in which the Company has interests are located outside the United States and are subject to certain risks involved in the ownership and development of such foreign property interests. These risks include but are not limited to those of: nationalization; expropriation;

confiscatory taxation; changes in foreign exchange controls; currency revaluations; price controls or excessive royalties; export sales restrictions; limitations on the transfer of interests in exploration licenses; and other laws and regulations which may adversely affect the Company's properties, such as

those providing for conservation, proration, curtailment, cessation, or other limitations of controls on the production of or exploration for hydrocarbons. Thus, an investment in the Company represents a speculation with risks in addition to those inherent in domestic petroleum exploratory ventures.

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

MPAL and its co-venturers in the Mereenie and Palm Valley fields have been negotiating with PAWA and other parties to sell production out of the uncommitted gas reserves at both fields. A new gas supply contract for the uncommitted reserves in the Palm Valley or Mereenie fields could substantially increase revenue from gas sales in the future. While new contracts appear likely, the ultimate purchaser, the timing and the terms of any new contracts are uncertain.

Item 2. Properties

(a) The Company has interests in properties in Australia, United States and Canada and Belize. In Australia, it has interests through its 50.7% equity interest in MPAL in exploratory permits, a retention license and production leases in the Northern Territory and Queensland. In Canada, the Company has direct interests in 5 leases and one exploration license. The Company also has interests in properties in the United States and Belize directly through MPAL's interests in these areas. For additional information regarding the Company's properties, See Item 1 - Business.

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

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

AMADEUS BASIN PROJECTS MAP

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

- Palm Valley Gas Field
- Mereenie Oil & Gas Field
- Dingo Gas Field
- Ngalia Basin
- Palm Valley - Alice Springs Gas Pipeline
- Palm Valley - Darwin Gas Pipeline
- Mereenie Spur Gas Pipeline

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

CANADIAN PROPERTY INTERESTS MAP

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

Kotaneelee Gas Field  
 Wells drilled on the permit  
 Pointed Mountain Gas Field  
 Beaver River Gas Field  
 Westcoast Transmission Pipeline

(2) Reserves reported to other agencies.

None

(3) Production

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

<TABLE>

<CAPTION>

|                     | June 30,  |           |           |
|---------------------|-----------|-----------|-----------|
|                     | 1996      | 1995      | 1994      |
|                     | -----     | -----     | -----     |
| <S>                 | <C>       | <C>       | <C>       |
| Australia:          |           |           |           |
| Gas (per mcf)       | A.\$ 2.24 | A.\$ 2.06 | A.\$ 1.99 |
| Crude oil (per bbl) | A.\$23.85 | A.\$23.83 | A.\$23.76 |
| Americas:           |           |           |           |
| Gas (per mcf)       | \$ -      | \$ 1.56   | \$ 1.54   |
| Crude oil (per bbl) | \$ -      | \$ 17.31  | \$15.29   |

The average production cost per unit of production for the following fiscal years has been impacted by transportation costs on Mereenie oil in Australia:

<TABLE>

<CAPTION>

|                     | June 30,  |           |            |
|---------------------|-----------|-----------|------------|
|                     | 1996      | 1995      | 1994       |
|                     | -----     | -----     | -----      |
| <S>                 | <C>       | <C>       | <C>        |
| Australia:          |           |           |            |
| Gas (per mcf)       | A.\$ .32  | A.\$ .21  | A.\$ .29   |
| Crude oil (per bbl) | A.\$ 6.68 | A.\$10.37 | A.\$ 10.83 |
| Americas:           |           |           |            |
| Gas (per mcf)       | \$ -      | \$ 2.09   | \$ 3.42    |
| Crude oil (per bbl) | \$ -      | \$ 4.15   | \$ 6.07    |

(4) Productive Wells and Acreage.

Productive wells and acreage at June 30, 1996:

<TABLE>

<CAPTION>

|           | Productive Wells |       | Developed Acreage |       |             |           |
|-----------|------------------|-------|-------------------|-------|-------------|-----------|
|           | Oil              | Gas   | Gross             | Net   | Gross Acres | Net Acres |
| <S>       | <C>              | <C>   | <C>               | <C>   | <C>         | <C>       |
| Australia | 36               | 12.60 | 28                | 10.69 | 72,025      | 30,001    |
| Americas  | -                | -     | 3                 | .08   | 3,350       | 89        |
|           | 36               | 12.60 | 31                | 10.77 | 75,375      | 30,090    |

</TABLE>

(5) Undeveloped Acreage.

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

GROSS AND NET ACREAGE AS OF JUNE 30, 1996

(i) MPAL has interests in the following properties (before royalties). The Company has an interest in these properties through its 50.7% interest in MPAL.

Properties held by MPAL:

<TABLE>

<CAPTION>

|                              | MPAL        |           |            | The Company |            |     |
|------------------------------|-------------|-----------|------------|-------------|------------|-----|
|                              | Gross Acres | Net Acres | Interest % | Net Acres   | Interest % |     |
| <S>                          | <C>         | <C>       | <C>        | <C>         | <C>        | <C> |
| Australia                    |             |           |            |             |            |     |
| Northern Territory:          |             |           |            |             |            |     |
| Amadeus Basin:               |             |           |            |             |            |     |
| Mereenie (OL4&5) (1)         | 69,407      | 24,292    | 35.00      | 12,316      | 17.74      |     |
| Palm Valley (OL3)(2)         | 151,905     | 77,130    | 50.78      | 39,105      | 25.74      |     |
| Dingo (RL2)                  | 115,596     | 39,601    | 34.26      | 20,078      | 17.37      |     |
| Total Amadeus Basin          | 336,908     | 141,023   |            | 71,499      |            |     |
| Ngalia Basin (EP-15)         | 1,914,497   | 1,914,497 | 100.00     | 970,650     | 50.70      |     |
| Queensland:                  |             |           |            |             |            |     |
| Bowen-Surat Basin (ATP 378P) | 76,076      | 11,887    | 15.63      | 6,027       | 7.92       |     |
| Maryborough Basin(ATP 613P)  | 631,085     | 618,463   | 98.00      | 313,561     | 49.69      |     |
| Total Australia              | 2,958,566   | 2,685,870 |            | 1,361,737   |            |     |
| United States                |             |           |            |             |            |     |
| Colorado (Baca County)       | 75,088      | 67,579    | 90.00      | 34,263      | 45.63      |     |
| Belize                       |             |           |            |             |            |     |
| Gladden Basin                | 350,740     | 70,148    | 20.00      | 35,565      | 10.14      |     |
| Block 13                     | 787,436     | 157,487   | 20.00      | 79,846      | 10.14      |     |
| Total MPAL                   | 4,171,830   | 2,981,084 |            | 1,511,411   |            |     |

Properties held directly by the Company:

United States

|                                  |           |   |   |           |       |
|----------------------------------|-----------|---|---|-----------|-------|
| Colorado (Baca County) (3)       | -         | - | - | 7,509     | 10.00 |
| Belize                           |           |   |   |           |       |
| Gladden Basin (3)                | -         | - | - | 8,769     | 2.50  |
| Block 13 (3)                     | -         | - | - | 19,686    | 2.50  |
|                                  |           |   |   | -----     |       |
|                                  |           |   |   | 28,455    |       |
| Canada                           |           |   |   |           |       |
| Yukon and Northwest Territories: |           |   |   |           |       |
| Carried interest (4)             | 35,076    |   |   | 935       | 2.67  |
|                                  | -----     |   |   | -----     |       |
| Total                            | 4,206,906 |   |   | 1,548,310 |       |
|                                  | =====     |   |   | =====     |       |

<FN>

- (1) Includes 41,644 gross developed acres and 14,575 net acres.  
(2) Includes 30,381 gross developed acres and 15,426 net acres .  
(3) Gross acres shown above.  
(4) Includes 3,350 gross developed acres and 89 net acres.

</FN>

</TABLE>

- (6) Drilling activity.

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

<TABLE>

<CAPTION>

|            |      | Australia   |     |             |     |
|------------|------|-------------|-----|-------------|-----|
|            |      | Exploratory |     | Development |     |
| Year ended |      | Productive  | Dry | Productive  | Dry |
| June 30,   |      | -----       | --- | -----       | --- |
| <S>        | <C>  | <C>         | <C> | <C>         | <C> |
|            | 1996 | .16         | -   | 1.75        | -   |
|            | 1995 | -           | -   | 1.40        | .51 |
|            | 1994 | -           | -   | 2.10        | -   |

|            |      | United States |      |             |     |
|------------|------|---------------|------|-------------|-----|
|            |      | Exploratory   |      | Development |     |
| Year ended |      | Productive    | Dry  | Productive  | Dry |
| June 30,   |      | -----         | ---  | -----       | --- |
|            | 1996 | -             | 1.00 | -           | -   |
|            | 1995 | .24           | 1.00 | -           | -   |
|            | 1994 | .24           | -    | -           | -   |

</TABLE>

- (7) Present Activities.

At June 30, 1996, there were no wells being drilled.

- (8) Delivery Commitments.

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

### Item 3. Legal Proceedings.

#### Kotaneelee Gas Field

The Company's 2.67% carried interest in the Kotaneelee gas field is held in trust by Canada Southern Petroleum Ltd. ("Canada Southern") which has a 30% carried interest in the field. Canada Southern and the Company (the "Plaintiffs") believe that the working interest owners in the Kotaneelee gas field have not adequately pursued the attainment of contracts for the sale of

Kotanelee gas; accordingly, legal action in the United States was commenced by Canada Southern in 1987 against Allied Signal Inc. and Allied Corporation (collectively, Allied Signal). This suit was ultimately dismissed in December 1988.

In October 1989 and in March 1990, Canada Southern filed statements of claim in the Court of Queens Bench of Alberta, Judicial District of Calgary, Canada, against the working interest partners in the Kotanelee gas field. The named defendants were Amoco Canada Petroleum Corporation, Ltd., Dome Petroleum Limited (now Amoco Canada Resources Ltd.), and Amoco Production Company (collectively the "Amoco Dome Group"), Columbia Gas Development of Canada Ltd. ("Columbia"), Mobil Oil Canada Ltd. ("Mobil") and Esso Resource of Canada Ltd. ("Esso") (collectively the "Defendants").

The Plaintiffs claim that the Defendants breached either a contract obligation or a fiduciary duty owed to the Plaintiffs to market gas from the Kotanelee gas field when it was possible to so do. The Plaintiffs asserts that marketing the Kotanelee gas was possible in 1984 and that the Defendants deliberately failed to do so. The Company seeks money damages and the forfeiture of the Kotanelee gas field. The Plaintiffs expects to argue at trial that the money damages sustained by the Plaintiffs are at least Cdn. \$ 96 million (Company share-Cdn. \$8 million).

In addition, the Plaintiffs have claimed that the Plaintiff's carried interest account should be reduced because of the negligent operation of the field and improper charges to the carried interest account by the Defendants. The Plaintiffs claim that when the Defendants in 1980 suspended production from the field's gas wells, they failed to take precautionary measures necessary to protect and maintain the wells in good operating condition. The wells thereafter deteriorated, which caused unnecessary expenditures to be incurred, including expenditures to redrill one well. In addition, the Plaintiffs claim that expenditures made to repair and rebuild the field's dehydration plant should not have been necessary had the facilities been properly constructed and maintained by the Defendants. The expenditures, the Plaintiffs claim, were inappropriately charged to the field's carried interest account. The effect of an increased carried interest account is to extend the period before payout begins to the carried interest account owners.

The Plaintiffs claim that production from the field should have commenced in 1984. At that time the field's carried interest account was approximately Cdn. \$63 million. The Company claims that by 1993 at least Cdn. \$34 million of unnecessary expenses had been wrongfully charged to the carried interest account. The Company's 2.6% share of these expenses would be approximately Cdn. \$9 million. The Plaintiffs further claim that, if production had commenced in 1984, the carried interest account would have been paid off in approximately two years and the Company would have begun to receive revenues from the field in 1986. At present, the Company does not expect to receive revenues until 1998.

Columbia has filed a counterclaim against the Plaintiffs seeking, if the Plaintiffs are successful in its claim for the forfeiture of the field, repayment from the Plaintiffs of all sums Columbia has expended on the Kotanelee lands before the Plaintiffs are entitled to their interest.

The parties to the litigation have conducted extensive discovery since the filing of the claims. The Court has scheduled a six-month trial which started on September 3, 1996.

#### Matters Ancillary to Kotanelee Litigation

In its 1989 statement of claim, the Plaintiffs sought a declaratory judgment regarding two issues:

- (1) whether interest accrued on the carried interest account; and
- (2) whether expenditures for gathering lines and dehydration equipment are expenditures chargeable to the carried interest account or whether the Plaintiff will be assessed a processing fee on gas throughput.

With respect to the first issue, the Plaintiffs maintains that no interest

should accrue on the account and the Defendants have not contested this position. With regard to the second issue, the Plaintiffs maintain that the expenditures are chargeable to the carried interest account. Mobil, Esso and Columbia have essentially agreed to the Company's position while the Amoco Dome Group continues to contest this issue.

On January 22, 1996, the Plaintiffs settled two claims outstanding against the Company in the Court of Queens Bench, Calgary, Alberta, which related to a suit brought against AlliedSignal Inc. ("AlliedSignal") in Florida which was dismissed on the basis that Canada was the appropriate forum for the litigation. AlliedSignal had sought additional relief against the Company in Canada to preclude other types of suits by the Company and to recover the costs of the defense of the initial action. The settlement bars Allied Signal from making a claim against the Plaintiffs for any costs in connection with the Kotaneelee Litigation. The Plaintiffs agreed not to bring any action against AlliedSignal in connection with the Kotaneelee gas field. Neither party made any monetary payment to the other party.

In 1991, Anderson Exploration Ltd. acquired all of the shares in Columbia and changed its name to Anderson Oil & Gas Inc. ("Anderson"). Anderson is now the sole operator of the field and is a direct defendant in the Canada Court lawsuits. Columbia's previous parent, The Columbia Gas System, Inc., which was reorganized in a bankruptcy proceeding in the United States, is contractually liable to Anderson in the legal proceeding described above.

The working interest owners have reported that they have been selling Kotaneelee gas since February 1991. The Company is uncertain as to what impact, if any, these sales may have on the status of the litigation.

Under Canadian law, certain costs of the litigation are assessed against the nonprevailing party. These costs consist primarily of attorney and expert witness fees during trial. The trial is presently scheduled to last six months, therefore, these costs could be substantial. While the costs are not now determinable, the Company estimates that such costs, assuming a six month trial, would not exceed Cdn. \$1.1 million (Company share - Cdn. \$88,000). There are no assurances however, that such costs will not exceed this amount or that the duration of the trial will not exceed six months.

Canada Southern has been advancing and paying all the legal and other expenses of the Kotaneelee litigation. The Company has not received an accounting of the amounts spent to date. However the Company believes that the outcome of the Kotaneelee litigation is not reasonably likely to have a material adverse effect on the Company's future consolidated financial condition or results of operations.

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

None.

Executive Officers of the Company

The following information with respect to the executive officers of the Company is furnished pursuant to Instruction 3 to Item 401(b) of Regulation S-K.

<TABLE>  
<CAPTION>

| Name             | Age | Office Held                           | Length of Service as an Officer | Other Positions Held with Company |
|------------------|-----|---------------------------------------|---------------------------------|-----------------------------------|
| <S>              | <C> | <C>                                   | <C>                             | <C>                               |
| James R. Joyce   | 55  | President and Chief Financial Officer | President since July 1, 1993    | Director                          |
| Dennis D. Benbow | 57  | General Manager - MPAL                | Since 1993                      | Director                          |

The Company is not aware of any arrangements or understandings between any of the individuals named above and any other person pursuant to which any individual named above was selected as an officer.



All officers of MPC are elected annually by the Board of Directors and serve at the pleasure of the Board of Directors.

## PART II

### Item 5. Market for the Company's Common Stock and Related Stockholder Matters.

#### (a) Principal Market

The principal markets for the Company's common stock is the Pacific Stock Exchange [MPC] and the NASDAQ SmallCap market [MPET]. The stock is also traded on the Boston Stock Exchange. The quarterly high and low closing prices on the Pacific Stock Exchange during the calendar quarterly periods indicated were as follows:

<TABLE>

<CAPTION>

| 1996      | 1st quarter | 2nd quarter | 3rd quarter* | 4th quarter |
|-----------|-------------|-------------|--------------|-------------|
| <S>       | <C>         | <C>         | <C>          | <C>         |
| High..... | 2 7/16      | 3           | 3            |             |
| Low.....  | 1 15/16     | 2 3/8       | 2 3/16       |             |

| 1995      | 1st quarter | 2nd quarter | 3rd quarter | 4th quarter |
|-----------|-------------|-------------|-------------|-------------|
| High..... | 1 1/2       | 2 3/8       | 2 3/16      | 4 1/16      |
| Low.....  | 3/4         | 1 7/16      | 1 9/16      | 2 1/16      |

| 1994      | 1st quarter | 2nd quarter | 3rd quarter | 4th quarter |
|-----------|-------------|-------------|-------------|-------------|
| High..... | 1           | 13/16       | 3/4         | 1           |
| Low.....  | 3/4         | 11/16       | 5/8         | 9/16        |

<FN>

\* Through September 4, 1996, on which date the closing price was \$2 15/16.

</FN>

</TABLE>

#### (b) Approximate Number of Holders of Common Stock at September 4, 1996

| Title of Class                          | Number of Record Holders |
|-----------------------------------------|--------------------------|
| Common stock, par value \$.01 per share | 13,000                   |

#### (c) Frequency and Amount of Dividends

The Company has never paid a cash dividend on its common stock. The Company will consider the payment of dividends when it has the ability to make such payments.

### Item 6. Selected Consolidated Financial Information

The following table sets forth selected data (in thousands) of the Company insofar as it relates to each of the five fiscal years in the period ended June 30, 1996. This data should be read in conjunction with Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and Notes thereto.

<TABLE>

<CAPTION>

Year ended June 30,

| <S>                                                                                                                                 | 1996<br><C> | 1995<br><C> | 1994<br><C> | 1993<br><C> | 1992<br><C> |
|-------------------------------------------------------------------------------------------------------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Financial Data                                                                                                                      | \$          | \$          | \$          | \$          | \$          |
| Operating revenues                                                                                                                  | 15,667      | 13,556      | 12,528      | 12,999      | 13,959      |
| Total revenues                                                                                                                      | 18,073      | 15,424      | 13,318      | 13,863      | 14,763      |
| Net income (loss)                                                                                                                   | 881         | 821         | 502         | 660         | (916)       |
| Net income (loss) per share                                                                                                         | .04         | .03         | .02         | .03         | (.04)       |
| Working capital                                                                                                                     | 9,858       | 8,806       | 8,559       | 7,722       | 8,220       |
| Cash provided by operating activities                                                                                               | 9,185       | 8,587       | 4,376       | 6,969       | 7,091       |
| Total assets                                                                                                                        | 58,422      | 48,828      | 46,431      | 43,281      | 44,897      |
| Long-term liabilities                                                                                                               | 12,957      | 11,005      | 9,157       | 8,333       | 11,471      |
| Minority interests                                                                                                                  | 18,966      | 16,616      | 16,764      | 14,931      | 14,310      |
| Stockholders' equity:                                                                                                               |             |             |             |             |             |
| Capital                                                                                                                             | 43,492      | 43,358      | 43,227      | 43,223      | 43,214      |
| Accumulated deficit                                                                                                                 | (18,735)    | (19,616)    | (20,437)    | (20,939)    | (21,598)    |
| Foreign currency translation adjustments                                                                                            | (2,785)     | (4,833)     | (4,474)     | (5,760)     | (4,290)     |
|                                                                                                                                     | 21,972      | 18,909      | 18,316      | 16,524      | 17,326      |
| Exchange rate A.\$=U.S. at end of period                                                                                            | .7875       | .7097       | .7287       | .6667       | .7484       |
| Common stock outstanding                                                                                                            | 24,691      | 24,544      | 24,387      | 24,382      | 24,382      |
| Book value per share                                                                                                                | .89         | .77         | .75         | .68         | .71         |
| Quoted market value per share                                                                                                       | 2.50        | 1.94        | .69         | 1.19        | .81         |
| Operating Data                                                                                                                      |             |             |             |             |             |
| Annual production (Net of royalties)                                                                                                |             |             |             |             |             |
| Gas (BCF)                                                                                                                           | 5.422       | 5.066       | 5.141       | 4.751       | 6.856       |
| Oil(BBLS)(In thousands)(net of royalties)                                                                                           | 318         | 369         | 374         | 300         | 289         |
| Standard measure of discounted future cash flow relating to proved oil and gas reserves. (49.3% attributable to minority interests) | 44,213      | 38,381      | 46,720      | 46,127      | 44,433      |

</TABLE>

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

(1) Liquidity and Capital Resources - June 30, 1996

Consolidated

At June 30, 1996, the Company on a consolidated basis had approximately \$11,279,000 of cash and cash equivalents as compared to approximately \$8,983,000 at June 30, 1995. A summary of the major changes in cash items during the period is as follows:

|                                                  |              |
|--------------------------------------------------|--------------|
| Cash and cash equivalents at beginning of period | \$ 8,983,000 |
| Cash provided by operations                      | 9,185,000    |
| Dividends to MPAL minority shareholders          | (1,619,000)  |
| Net additions to property and equipment          | (5,596,000)  |
| Other                                            | 326,000      |
|                                                  | -----        |
| Cash and cash equivalents at end of period       | \$11,279,000 |

As to the Company (unconsolidated)

At June 30, 1996, Magellan Petroleum Corporation ("MPC"), on an unconsolidated basis, had cash and cash equivalents of approximately \$2,067,000. MPC's annual operating budget is approximately \$700,000 and its current cash position and annual MPAL dividend should be adequate to meet its current cash requirements. During fiscal 1997, MPC has budgeted approximately \$350,000 for oil and gas exploration. MPC also has available a \$1.5 million bank line of credit. MPC has in the past invested and may in the future invest substantial portions of its cash to maintain its majority interest in its subsidiary company, Magellan Petroleum Australia Limited ("MPAL").

During December 1995, MPC received a dividend from MPAL of \$1,662,000 less Australian withholding taxes of \$249,000. The net proceeds of \$1,413,000 were added to MPC's working capital.

As to MPAL

At June 30, 1996, MPAL had cash and cash equivalents of approximately \$9,212,000. MPAL has budgeted approximately \$2.9 million for exploration in fiscal 1997 as compared to the \$5.6 million incurred during fiscal 1996. The current composition of MPAL's oil and gas reserves are such that the Company's future revenues in the long term are expected to be derived from the sale of gas in Australia.

MPAL expects to fund its exploration costs through its cash flow from Australian operations and any balance from its A.\$10 million bank line of credit.

(2) Results of Operations

1996 vs. 1995

The Company had consolidated net income of \$880,606 for fiscal 1996 compared to net income of \$820,843 for fiscal 1995. The components of consolidated net income for the comparable periods were as follows:

|                                | Year ended June 30, |              |
|--------------------------------|---------------------|--------------|
|                                | 1996                | 1995         |
| MPC unconsolidated pretax loss | \$ (889,808)        | \$ (845,349) |
| MPC income tax expense         | (251,888)           | (260,580)    |
| Share of MPAL pretax income    | 2,574,166           | 3,044,725    |
| Share of MPAL income tax       | (551,864)           | (1,117,953)  |
| Consolidated net income        | \$ 880,606          | \$ 820,843   |
| Net Income per share           | \$ .04              | \$ .03       |

Revenues

Oil and Gas Sales

Oil and gas sales (in thousands) by geographic location for the comparable periods were as follows:

|           | 1996     |     | 1995     |     |  |
|-----------|----------|-----|----------|-----|--|
|           | Sales    | %   | Sales    | %   |  |
| Australia | \$15,667 | 100 | \$13,078 | 96  |  |
| Americas  | -        |     | 478      | 4   |  |
|           | \$15,667 | 100 | \$13,556 | 100 |  |

Oil sales increased 4% in fiscal 1996. Oil sales in Australia increased 11% to \$5,922,000 from \$5,693,000 in 1995 because of a 13% increase in the number of units produced with a 1% increase in oil prices and a 2% increase in the average value of the Australian dollar. Sales of Mereenie crude increased in fiscal 1996 as a result of additional development drilling. There were no oil sales in the United States (\$363,000 in 1995) because the producing properties were sold on March 31, 1995. Oil unit sales

(before deducting royalties) in barrels ("bbls") and the average price per barrel sold during the periods indicated were as follows:

<TABLE>  
<CAPTION>

|                      | Fiscal 1996 Sales |           | Fiscal 1995 Sales |           |  |
|----------------------|-------------------|-----------|-------------------|-----------|--|
|                      | Average Price     |           | Average Price     |           |  |
|                      | bbls              | per bbl   | bbls              | per bbl   |  |
| <S>                  | <C>               | <C>       | <C>               | <C>       |  |
| Australia - Mereenie | 365,325           | A.\$23.85 | 322,414           | A.\$23.83 |  |

Gas sales in Australia increased 24% in fiscal 1996. Gas sales increased from \$7,863,000 in 1995 to \$9,746,000 in 1996 because of increases in gas prices under long term contracts, an 8% increase in the volume of gas sold and a 2% increase in the average value of the Australian dollar. Total gas sales increased primarily because of the 1995 Mereenie gas contract. The volumes in billion cubic feet ("bcf") (before deducting royalties) and the average price of gas per thousand cubic feet ("mcf") sold during the periods indicated were as follows:

<TABLE>  
<CAPTION>

|                        | Fiscal 1996 Sales |         | Fiscal 1995 Sales |         |  |
|------------------------|-------------------|---------|-------------------|---------|--|
|                        | Average Price     |         | Average Price     |         |  |
|                        | bcf               | per mcf | bcf               | per mcf |  |
| <S>                    | <C>               | <C>     | <C>               | <C>     |  |
| Australia:             |                   | (A.\$)  |                   | (A.\$)  |  |
| Palm Valley            |                   |         |                   |         |  |
| Alice Springs contract | 1.070             | 2.89    | 1.012             | 2.77    |  |
| Darwin contract        | 2.328             | 2.01    | 2.854             | 1.98    |  |
| Mereenie               |                   |         |                   |         |  |
| Darwin contract        | 1.917             | 1.97    | 1.700             | 1.71    |  |
| Other                  | .908              | 2.65    | .208              | 2.68    |  |
| Total                  | 6.223             |         | 5.774             |         |  |

</TABLE>

Other production income increased 128% to \$1,360,000 in 1996 compared to \$597,000 in 1995. The primary reason for this increase is that MPAL's share of gas pipeline tariffs increased to \$1,126,000 compared to \$167,000 in 1995.

Interest income increased 16% to \$696,000 in 1996 from \$597,000 in 1995. The combination of additional funds available for investment and higher interest

rates is the reason for this increase.

### Costs and Expenses

Production costs increased 22%. The 22% increase in Australia relates to an increase in costs at Palm Valley in preparation for the installation of compression units in the field. The increase was also the result of development activities being undertaken in the Mereenie field. The U.S. producing properties were sold March 31, 1995. Production costs (in thousands) by geographic area are as follows:

|               | 1996           | 1995           |
|---------------|----------------|----------------|
| Australia     | \$4,409        | \$3,455        |
| United States | -              | 145            |
|               | <u>\$4,409</u> | <u>\$3,600</u> |

Salaries increased 16% from \$1,500,000 in 1995 to \$1,742,000 in 1996 because of increased compensation costs in Australia and a 2% increase in the value of the Australian dollar.

Depreciation, depletion and amortization decreased 2% in 1996. There was a 20% increase in the Australian component because of the increase in the number of units sold in Australia and an increase in capitalized costs. The U.S. component was eliminated because the U.S. producing properties were sold March 31, 1996. The following table is a summary of the depreciation, depletion and amortization expense (in thousands) by geographic area:

|               | 1996           | 1995           | % Change |
|---------------|----------------|----------------|----------|
| Australia     | \$3,288        | \$2,734        | 20       |
| United States | -              | 621            |          |
|               | <u>\$3,288</u> | <u>\$3,355</u> |          |

Shareholder communications increased 15% in 1996. The increase from \$157,000 in 1995 to \$181,000 in 1996 is attributable to higher printing and mailing costs.

Abandonments and write downs include a \$2,500,000 write down of costs relating to the United States cost center that pertains to the Baca County, Colorado project. The write down was based on a thorough evaluation of the remaining prospects and the drilling data derived from the three dry holes that were drilled in 1995.

Other costs increased 11%. In 1996 other costs increased from \$928,610 to \$1,026,889. The increase is primarily due to higher travel and insurance costs.

### Income Taxes

MPC's income tax provision (in thousands) was computed as follows:

<TABLE>

<CAPTION>

|                                  | Fiscal 1996 | Fiscal 1995 |
|----------------------------------|-------------|-------------|
|                                  | -----       | -----       |
|                                  | <C>         | <C>         |
| Pretax consolidated net income   | \$ 1,684    | \$2,199     |
| Losses (income) not recognized:  |             |             |
| MPC's U.S. operations            | 890         | 845         |
| MPAL's non Australian operations | 423         | (63)        |
| Permanent differences            | (818)       | (109)       |
|                                  | -----       | -----       |
| Book taxable income              | \$2,179     | \$2,872     |

|                                                                        |        |         |
|------------------------------------------------------------------------|--------|---------|
| Australian income tax rate                                             | 36%    | 36%     |
| Australian income tax provision                                        | \$ 784 | \$1,034 |
| Australian withholding taxes on dividend                               | 252    | 261     |
| Tax provision attributable to reconciliation of year end tax liability | (232)  | 84      |
| Consolidated income tax provision                                      | \$ 804 | \$1,379 |

</TABLE>

#### Exchange Effect

The value of the Australian dollar relative to the U.S. dollar increased to \$.7875 at June 30, 1996 compared to the value of \$.7097 at June 30, 1995. This resulted in a \$2,049,000 credit to accumulated translation adjustments for fiscal 1996. The 11% increase in the value of the Australian dollar increased the reported asset and liability amounts in the balance sheet at June 30, 1996 from the June 30, 1995 amounts. The annual average exchange rate used to translate MPAL's operations in Australia for fiscal 1996 was \$.7593, which is a 2% increase compared to a \$.7427 rate for the comparable 1995 period.

#### 1995 vs. 1994

The Company had consolidated net income of \$820,843 for fiscal 1995 compared to net income of \$501,868 for fiscal 1994. The components of consolidated net income for the comparable periods were as follows:

|                                   | Year ended June 30, |               |
|-----------------------------------|---------------------|---------------|
|                                   | 1995                | 1994          |
| MPC unconsolidated pretax loss    | \$ (845,349)        | \$(1,321,218) |
| MPC income tax expense            | (260,580)           | (222,900)     |
| Share of MPAL pretax income       | 3,044,725           | 2,025,999     |
| Share of MPAL income (tax) credit | (1,117,953)         | 19,987        |
| Consolidated net income           | \$ 820,843          | \$ 501,868    |
| Net Income per share              | \$ .03              | \$ .02        |

#### Oil and Gas Sales

Oil and gas sales (in thousands) by geographic location for the comparable periods were as follows:

<TABLE>

<CAPTION>

|               | 1995     |     | 1994     |     |
|---------------|----------|-----|----------|-----|
|               | Sales    | %   | Sales    | %   |
| Australia     | \$13,078 | 96  | \$11,816 | 94  |
| United States | 478      | 4   | 712      | 6   |
|               | \$13,556 | 100 | \$12,528 | 100 |

</TABLE>

#### Oil Sales

Oil sales decreased 1% in fiscal 1995. Oil sales in Australia increased 2% despite a 2% decrease in the number of units produced with a relatively small increase in oil prices because of a 7% increase in the average value of the Australian dollar. Sales of Mereenie crude are expected to increase in fiscal 1996 as a result of additional development drilling. U.S. oil sales decreased 33% as a result of declining production (40%) which was partially offset by a 13% increase in prices. Oil unit sales (before deducting royalties) in barrels

("bbls") and the average price per barrel sold during the periods indicated were as follows:

<TABLE>  
<CAPTION>

|                            | Fiscal 1995 Sales |                       | Fiscal 1994 Sales |                       |     |
|----------------------------|-------------------|-----------------------|-------------------|-----------------------|-----|
|                            | bbls              | Average Price per bbl | bbls              | Average Price per bbl |     |
| <S>                        | <C>               | <C>                   | <C>               | <C>                   | <C> |
| Australia - Mereenie       | 322,414           | A.\$23.83             | 328,287           | A.\$23.76             |     |
| U. S. - Navajo Venture (*) | 28,359            | U.S. \$17.31          | 47,197            | U.S.\$15.29           |     |

<FN>  
(\* ) Properties sold March 31, 1995.

</FN>  
</TABLE>

#### Gas Sales

Gas sales in Australia increased 16% in fiscal 1995. Gas sales increased with modest increases in gas prices under long term contracts, a 4% increase in the volumes of gas sold and a 7% increase in the average value of the Australian dollar. Total gas

volumes are expected to increase in fiscal 1996 as the result of the new Mereenie gas contract. The volumes in billion cubic feet ("bcf") (before deducting royalties) and the average price of gas per thousand cubic feet ("mcf") sold during the periods indicated were as follows:

<TABLE>  
<CAPTION>

|                        | Fiscal 1995 Sales |                       | Fiscal 1994 Sales |                       |     |
|------------------------|-------------------|-----------------------|-------------------|-----------------------|-----|
|                        | bcf               | Average Price per mcf | bcf               | Average Price per mcf |     |
| <S>                    | <C>               | <C>                   | <C>               | <C>                   | <C> |
| Australia:             |                   | (A.\$)                |                   | (A.\$)                |     |
| Palm Valley            |                   |                       |                   |                       |     |
| Alice Springs contract | 1.012             | 2.77                  | .948              | 2.70                  |     |
| Darwin contract        | 2.854             | 1.98                  | 3.565             | 1.97                  |     |
| Mereenie               |                   |                       |                   |                       |     |
| Darwin contract        | 1.700             | 1.71                  | .834              | 1.12                  |     |
| Other                  | .208              | 2.68                  | .225              | 2.52                  |     |
| Total                  | 5.774             |                       | 5.572             |                       |     |

</TABLE>

#### Interest and Other Income

Interest and other income increased 51% in 1995. Interest and other income includes \$167,000, MPAL's share of gas pipeline tariffs which commenced in May 1995. Interest income also increased \$248,000.

#### Gain on Sale of Producing Properties

Effective March 31, 1995, MPAL sold its interest in the Navajo venture for approximately \$906,000 and recognized a gain of \$672,533.

#### Costs and Expenses

Production costs decreased 7%. The 2% decrease in Australia relates to a reduction in costs at Palm Valley. U. S. costs in 1995 have declined primarily because production decreased and field operations were scaled back during the year. In addition, the U.S. producing properties were sold March 31, 1995. Production costs (in thousands) by geographic area and the relationship to oil

and gas sales is as follows:

<TABLE>  
<CAPTION>

|               | 1995             |               |                    | 1994             |               |                    |
|---------------|------------------|---------------|--------------------|------------------|---------------|--------------------|
|               | Production costs | % total sales | % sales by country | Production costs | % total sales | % sales by country |
| Australia     | \$3,455          | 25            | 26                 | \$3,524          | 28            | 30                 |
| United States | 145              | 1             | 30                 | 354              | 3             | 50                 |
|               | <u>\$3,600</u>   | <u>26</u>     |                    | <u>\$3,878</u>   | <u>31</u>     |                    |

</TABLE>

Salaries increased 21% because of increased compensation costs in Australia and a 7% increase in the value of the Australian dollar.

Depreciation, depletion and amortization increased 1% in 1995. There was an increase in the Australian component because of the increase in the number of units sold in Australia. The U.S. component decreased because of a decline in U.S. production. The following table is a summary of the depreciation, depletion and amortization expense (in thousands) by geographic area:

<TABLE>  
<CAPTION>

|               | Fiscal 1995    | Fiscal 1994    | % Change |
|---------------|----------------|----------------|----------|
| Australia     | \$2,734        | \$2,424        | 13       |
| United States | 621            | 898            | 31       |
|               | <u>\$3,355</u> | <u>\$3,322</u> |          |

</TABLE>

#### Income Taxes

Effective July 1, 1995, the Australian income tax rate increased from 33% to 36%. The effect of the change was to increase the consolidated income tax provision for fiscal 1995 by \$375,000.

MPC's income tax provision (in thousands) was computed as follows:

<TABLE>  
<CAPTION>

|                                                                                 | Fiscal 1995  | Fiscal 1994  |
|---------------------------------------------------------------------------------|--------------|--------------|
| Pretax consolidated net income                                                  | \$2,199      | \$ 705       |
| Losses (income) not recognized:                                                 |              |              |
| MPC's U.S. operations                                                           | 845          | 1,321        |
| MPAL's U.S. operations                                                          | (63)         | 309          |
| Permanent differences                                                           | (109)        | 59           |
| Book taxable income                                                             | <u>2,872</u> | <u>2,394</u> |
| Australian income tax rate                                                      | <u>36%</u>   | <u>33%</u>   |
| Australian income tax provision                                                 | \$1,034      | \$ 790       |
| Australian withholding taxes on dividend                                        | 261          | 223          |
| Tax credit attributable to settlement of Australian tax audit                   | -            | (810)        |
| Tax provision attributable to reconciliation of year end deferred tax liability | 84           | -            |



Consolidated income tax provision \$1,379 \$ 203

</TABLE>

#### Exchange Effect

The value of the Australian dollar relative to the U.S. dollar decreased to \$.7097 at June 30, 1995 compared to the value of \$.7287 at June 30, 1994. This resulted in a \$360,000 charge to accumulated translation adjustments for fiscal 1995. The 3% decrease in the value of the Australian dollar decreased the reported asset and liability amounts in the balance sheet at June 30, 1995 from the June 30, 1994 amounts. The annual average exchange rate used to translate MPAL's operations in Australia for fiscal 1995 was \$.7427, which is a 7% increase compared to a \$.6922 rate for the comparable 1994 period.

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

##### REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
Magellan Petroleum Corporation

We have audited the accompanying consolidated balance sheet of Magellan Petroleum Corporation as of June 30, 1996, and 1995, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended June 30, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 consolidated financial position of Magellan Petroleum Corporation at June 30, 1996 and 1995, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 30, 1996, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

Hartford, Connecticut  
September 5, 1996

##### MAGELLAN PETROLEUM CORPORATION CONSOLIDATED BALANCE SHEET

<TABLE>  
<CAPTION>

|                                | June 30,     |              |
|--------------------------------|--------------|--------------|
|                                | -----        |              |
| <S>                            | 1996         | 1995         |
|                                | <C>          | <C>          |
| <b>ASSETS</b>                  |              |              |
| Current assets:                |              |              |
| Cash and cash equivalents      | \$11,278,957 | \$ 8,982,582 |
| Accounts receivable            | 2,496,085    | 1,772,342    |
| Reimbursable development costs | 237,112      | 141,015      |

|                                                                  |              |              |              |
|------------------------------------------------------------------|--------------|--------------|--------------|
| Inventories                                                      | 371,925      | 208,334      |              |
| Total current assets                                             | 14,384,079   | 11,104,273   |              |
| Property and equipment:                                          |              |              |              |
| Oil and gas properties (full cost method)                        | 65,621,151   | 54,334,921   |              |
| Land, buildings and equipment                                    | 2,328,174    | 2,084,616    |              |
| Field equipment                                                  | 1,621,561    | 1,457,894    |              |
|                                                                  | 69,570,886   | 57,877,431   |              |
| Less accumulated depletion, depreciation and amortization        |              | (26,053,222) | (20,516,580) |
|                                                                  | 43,517,664   | 37,360,851   |              |
| Other assets                                                     | 519,759      | 363,084      |              |
|                                                                  | \$58,421,502 | \$48,828,208 |              |
| LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS' EQUITY Current |              |              |              |
| liabilities:                                                     |              |              |              |
| Accounts payable                                                 | \$ 1,504,167 | \$ 1,416,315 |              |
| Accrued liabilities                                              | 1,041,372    | 881,734      |              |
| Income taxes payable                                             | 1,980,817    | -            |              |
| Total current liabilities                                        | 4,526,356    | 2,298,049    |              |
| Long term liabilities:                                           |              |              |              |
| Deferred income taxes                                            | 9,054,117    | 8,877,253    |              |
| Reserve for future restoration costs                             | 3,902,909    | 2,127,805    |              |
|                                                                  | 12,957,026   | 11,005,058   |              |
| Minority interests                                               | 18,966,281   | 16,616,405   |              |
| Commitments (Note 2)                                             | -            | -            |              |
| Stockholders' equity:                                            |              |              |              |
| Common stock, par value \$.01 per share:                         |              |              |              |
| Authorized 50,000,000 shares                                     |              |              |              |
| Outstanding 24,691,245 and 24,543,745 shares, respectively       |              | 246,912      | 245,437      |
| Capital in excess of par value                                   | 43,244,901   | 43,112,376   |              |
|                                                                  | 43,491,813   | 43,357,813   |              |
| Accumulated deficit                                              | (18,735,378) | (19,615,984) |              |
| Foreign currency translation adjustments                         | (2,784,596)  | (4,833,133)  |              |
|                                                                  | 21,971,839   | 18,908,696   |              |
|                                                                  | \$58,421,502 | \$48,828,208 |              |

See accompanying notes.

</TABLE>

MAGELLAN PETROLEUM CORPORATION  
CONSOLIDATED STATEMENT OF OPERATIONS

<TABLE>  
<CAPTION>

|           | Year ended June 30, |              |             |
|-----------|---------------------|--------------|-------------|
|           | 1996                | 1995         | 1994        |
|           | -----               | -----        | -----       |
| <S>       | <C>                 | <C>          | <C>         |
| Revenues: |                     |              |             |
| Oil sales | \$ 5,921,529        | \$ 5,693,108 | \$5,764,794 |
| Gas sales | 9,745,520           | 7,863,457    | 6,762,688   |

|                                                                                |            |            |            |
|--------------------------------------------------------------------------------|------------|------------|------------|
| Other production related revenues                                              | 1,360,403  | 597,451    | 441,262    |
| Interest income                                                                | 695,613    | 597,423    | 348,985    |
| Gain on sale of assets                                                         | 349,953    | 672,533    | -          |
|                                                                                | -----      | -----      | -----      |
|                                                                                | 18,073,018 | 15,423,972 | 13,317,729 |
|                                                                                | -----      | -----      | -----      |
| Costs and expenses:                                                            |            |            |            |
| Production costs                                                               | 4,409,440  | 3,600,452  | 3,878,339  |
| Salaries and employee benefits                                                 | 1,741,721  | 1,500,289  | 1,238,757  |
| Depletion, depreciation and amortization                                       | 3,287,774  | 3,355,081  | 3,322,394  |
| Auditing, accounting and legal services                                        | 703,833    | 689,400    | 664,654    |
| Shareholder communications                                                     | 181,039    | 157,222    | 162,811    |
| Interest expense                                                               | 30,690     | 27,937     | 28,416     |
| Other                                                                          | 1,026,889  | 928,610    | 931,385    |
| Abandonments and write downs                                                   | 2,500,000  | -          | -          |
| Tender offer and litigation expenses                                           | -          | -          | 412,840    |
|                                                                                | -----      | -----      | -----      |
|                                                                                | 13,881,386 | 10,258,991 | 10,639,596 |
|                                                                                | -----      | -----      | -----      |
| Income before minority interests and income taxes                              |            | 4,191,632  | 5,164,981  |
| Minority interests                                                             | 2,507,274  | 2,965,605  | 1,973,352  |
|                                                                                | -----      | -----      | -----      |
| Income before income taxes                                                     |            | 1,684,358  | 2,199,376  |
| Income tax provision                                                           | 803,752    | 1,378,533  | 202,913    |
|                                                                                | -----      | -----      | -----      |
| Net income                                                                     | \$ 880,606 | \$ 820,843 | \$ 501,868 |
|                                                                                | =====      | =====      | =====      |
| Average number of shares                                                       | 24,599,899 | 24,421,309 | 24,382,291 |
|                                                                                | =====      | =====      | =====      |
| Per share, based on average number of shares<br>outstanding during the period: |            |            |            |
| Net income                                                                     | \$ .04     | \$ .03     | \$ .02     |
|                                                                                | =====      | =====      | =====      |

See accompanying notes.

</TABLE>

MAGELLAN PETROLEUM CORPORATION  
CONSOLIDATED STATEMENT OF  
CHANGES IN STOCKHOLDERS' EQUITY  
Three years ended June 30, 1996

<TABLE>

<CAPTION>

| <S>                                    | Number<br>of shares<br><C> | Capital in             |                               | Foreign<br>currency           |                    | translation<br>Total<br><C> |              |
|----------------------------------------|----------------------------|------------------------|-------------------------------|-------------------------------|--------------------|-----------------------------|--------------|
|                                        |                            | Common<br>stock<br><C> | excess of<br>par value<br><C> | Accumulated<br>Deficit<br><C> | adjustments<br><C> |                             |              |
| June 30, 1993                          | 24,381,890                 | \$ 243,819             | \$42,978,833                  | \$(20,938,695)                | \$(5,760,431)      |                             | \$16,523,526 |
| Net income                             | -                          | -                      | -                             | 501,868                       | -                  | 501,868                     |              |
| Currency<br>translation<br>adjustments | -                          | -                      | -                             | -                             | 1,286,811          | 1,286,811                   |              |
| Common stock issued<br>to directors    | 5,217                      | 52                     | 3,861                         | -                             | -                  | 3,913                       |              |
|                                        | -----                      | -----                  | -----                         | -----                         | -----              | -----                       |              |
| June 30, 1994                          | 24,387,107                 | 243,871                | 42,982,694                    | (20,436,827)                  | (4,473,620)        |                             | 18,316,118   |
| Net income                             | -                          | -                      | -                             | 820,843                       | -                  | 820,843                     |              |
| Currency<br>translation<br>adjustments | -                          | -                      | -                             | -                             | (359,513)          | (359,513)                   |              |
| Common stock issued<br>to directors    | 16,638                     | 166                    | 12,957                        | -                             | -                  | 13,123                      |              |

|                                  |            |            |              |                |               |              |
|----------------------------------|------------|------------|--------------|----------------|---------------|--------------|
| Exercise of stock options        | 140,000    | 1,400      | 116,725      | -              | -             | 118,125      |
| June 30, 1995                    | 24,543,745 | 245,437    | 43,112,376   | (19,615,984)   | (4,833,133)   | 18,908,696   |
| Net income                       |            | -          | 880,606      | -              | 880,606       |              |
| Currency translation adjustments |            | -          | -            | 2,048,537      | 2,048,537     |              |
| Exercise of stock options        | 147,500    | 1,475      | 132,525      | -              | -             | 134,000      |
| June 30, 1996                    | 24,691,245 | \$ 246,912 | \$43,244,901 | \$(18,735,378) | \$(2,784,596) | \$21,971,839 |

See accompanying notes.

</TABLE>

MAGELLAN PETROLEUM CORPORATION  
CONSOLIDATED STATEMENT OF CASH FLOWS

<TABLE>  
<CAPTION>

|                                                                                   | Year ended June 30, |             |             |
|-----------------------------------------------------------------------------------|---------------------|-------------|-------------|
|                                                                                   | 1996                | 1995        | 1994        |
|                                                                                   | ----                | ----        | ----        |
|                                                                                   | <C>                 | <C>         | <C>         |
| Operating Activities:                                                             |                     |             |             |
| Net income                                                                        | \$ 880,606          | \$ 820,843  | \$ 501,868  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                     |             |             |
| Abandonments and write downs                                                      | 2,500,000           | -           | -           |
| Depletion, depreciation and amortization                                          | 3,287,774           | 3,355,081   | 3,322,394   |
| Deferred income taxes                                                             | (360,659)           | 849,766     | 653,457     |
| Minority interests                                                                | 2,507,274           | 2,965,605   | 1,973,352   |
| Increase (decrease) in operating assets and liabilities:                          |                     |             |             |
| Accounts receivable                                                               | (991,763)           | 358,474     | (800,388)   |
| Reimbursable development costs                                                    | (122,153)           | (44,536)    | 406,025     |
| Other assets                                                                      | (217,509)           | (42,539)    | (8,704)     |
| Inventories                                                                       | (203,575)           | 86,750      | (36,569)    |
| Accounts payable and accrued liabilities                                          | (75,766)            | 237,064     | (1,635,618) |
| Income taxes payable                                                              | 1,980,817           | -           | -           |
| Net cash provided by operating activities                                         | 9,185,046           | 8,586,508   | 4,375,817   |
| Investing Activities:                                                             |                     |             |             |
| Additions to property and equipment                                               | (5,596,156)         | (7,283,821) | (3,898,629) |
| Sale of assets                                                                    | -                   | 905,556     | -           |
| Net cash used in investing activities                                             | (5,596,156)         | (6,378,265) | (3,898,629) |
| Financing Activities:                                                             |                     |             |             |
| Dividends to MPAL minority shareholders                                           | (1,619,104)         | (1,673,345) | (1,447,208) |
| Sales of common stock by MPC                                                      | 134,000             | 131,248     | 3,913       |
| Net cash used in financing activities                                             | (1,485,104)         | (1,542,097) | (1,443,295) |
| Effect of exchange rate changes on cash and cash equivalents                      | 192,589             | (34,141)    | 334,812     |
| Net increase (decrease) in cash and cash equivalents                              | 2,296,375           | 632,005     | (631,295)   |
| Cash and cash equivalents at beginning of year                                    | 8,982,582           | 8,350,577   | 8,981,872   |
| Cash and cash equivalents at end of year                                          | \$11,278,957        | \$8,982,582 | \$8,350,577 |

See accompanying notes.

</TABLE>

MAGELLAN PETROLEUM CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 1996

1. Summary of significant accounting policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of Magellan Petroleum Corporation ("MPC") and its subsidiaries, hereafter referred to collectively as the Company. All intercompany transactions have been eliminated. At June 30, 1996, MPC owned a 50.7% interest in Magellan Petroleum Australia Limited ("MPAL").

(b) Oil and gas properties

The Company follows the full cost method of accounting for oil and gas properties. The Company's cost centers are Australia, United States, Canada and Belize. All costs, whether successful or unsuccessful, associated with property acquisition, exploration and development activities are capitalized within the appropriate cost center. The estimated cost of restoring the properties to their original state at the end of the life of the producing fields is also included in oil and gas properties. The Company does not recognize gain or loss on the sale of proved oil and gas properties unless significant proved oil and gas reserves of that cost center are sold. Sales proceeds are credited to the appropriate cost center.

Capitalized costs are depleted on the unit-of-production method based on proved oil and gas reserves. Take or pay adjustment payments are included in gas sales when the applicable gas is actually delivered.

The Company assesses whether its unproved properties are impaired on a periodic basis. This assessment is based upon work completed on the properties to date, the status of drilling activities and technical data from the properties and adjacent areas. Based on the exploration activities on the properties completed to date, the Company expects to recover its \$2.9 million of capitalized costs. However, there can be no assurance that it will be successful and that costs associated with these properties will be realized.

1. Summary of significant accounting policies (Cont'd)

(c) Use of Estimates

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

(d) Land, buildings and equipment

Land, buildings and equipment and field equipment are carried at cost. Depreciation and amortization are provided on a straight-line basis over their estimated useful lives.

(e) Inventories

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

(f) Foreign currency translations

The accounts of the Company's Australian subsidiaries are translated

into U.S. dollars in accordance with Statement of Financial Accounting Standards No. 52. The translation adjustment is included as a component of stockholders' equity, whereas gain or loss on foreign currency transactions is included in the determination of income. All assets and liabilities are translated at the rates in effect at the balance sheet dates. Revenues, expenses, gains and losses are translated using a quarterly weighted average exchange rate for the period. At June 30, 1996 and 1995, the Australian dollar was equivalent to U.S. \$.7875, and \$.7097, respectively.

(g) Accounting for income taxes

The Company follows FASB Statement 109, the liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

1. Summary of significant accounting policies (Cont'd)

(h) Cash and cash equivalents

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

|                                                                   | June 30,            |                    |
|-------------------------------------------------------------------|---------------------|--------------------|
|                                                                   | 1996                | 1995               |
| Cash                                                              | \$ 394,224          | \$ 300,873         |
| U. S. Treasury Bills                                              | 1,678,858           | 1,183,559          |
| Australian money market accounts and short term commercial paper. | 9,205,875           | 6,892,594          |
|                                                                   | -----               | -----              |
| Marketable securities (*)                                         | 11,278,957          | 8,377,026          |
|                                                                   | -                   | 605,556            |
|                                                                   | -----               | -----              |
|                                                                   | <u>\$11,278,957</u> | <u>\$8,982,582</u> |

(\*) Includes 534,000 shares of Harken Energy Corporation as of June 30, 1995. See Note 2(c).

(I) Earnings per share

Earnings per common share is based upon the weighted average number of common and common equivalent shares outstanding during the period. Primary and fully diluted earnings per share are the same.

1. Summary of significant accounting policies (Cont'd)

(j) Geographic information

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

<TABLE>

<CAPTION>

|           | Year ended June 30, |               |                 |
|-----------|---------------------|---------------|-----------------|
|           | 1996                | 1995          | 1994            |
|           | -----               | -----         | -----           |
| <S>       | <C>                 | <C>           | <C>             |
| Revenue:  |                     |               |                 |
| Australia | \$17,639            | \$14,113      | \$12,365        |
| Americas  | 434                 | 1,311         | 953             |
|           | -----               | -----         | -----           |
|           | <u>\$18,073</u>     | <u>15,424</u> | <u>\$13,318</u> |

|                                                                          |          |          |          |
|--------------------------------------------------------------------------|----------|----------|----------|
| Operating income:                                                        |          |          |          |
| Australia                                                                | \$ 5,891 | \$ 4,874 | \$ 4,081 |
| Americas                                                                 | (3,108)  | (650)    | (826)    |
|                                                                          | 2,783    | 4,224    | 3,255    |
| Corporate overhead and interest net of other income                      | 1,409    | 941      | (577)    |
| Consolidated operating income before minority interests and income taxes | \$ 4,192 | \$ 5,165 | \$2,678  |
| Net income:                                                              |          |          |          |
| Australia                                                                | \$ 3,617 | \$ 1,864 | \$ 2,355 |
| Americas                                                                 | (2,736)  | (1,043)  | (1,853)  |
|                                                                          | \$ 881   | \$ 821   | \$ 502   |
| Identifiable assets:                                                     |          |          |          |
| Australia                                                                | \$52,901 | \$43,421 | \$43,515 |
| Americas                                                                 | 2,831    | 3,400    | 1,778    |
|                                                                          | 55,732   | 46,821   | 45,293   |
| Corporate assets                                                         | 2,690    | 2,007    | 1,138    |
|                                                                          | \$58,422 | \$48,828 | \$46,431 |

</TABLE>

Substantially all of the Company's Australian gas sales were to the Power and Water Authority ("PAWA") of the Northern Territory of Australia ("NTA"). Most of the Company's crude oil production was sold to the Mobil Port Stanvac Refinery near Adelaide.

1. Summary of significant accounting policies (Cont'd)

(k) Other financial information.

<TABLE>

<CAPTION>

Year ended June 30,

|                                        | 1996        | 1995        | 1994        |
|----------------------------------------|-------------|-------------|-------------|
|                                        | <C>         | <C>         | <C>         |
| Costs and expenses - Other             |             |             |             |
| Consultants                            | \$ 135,135  | \$ 174,499  | \$ 159,308  |
| Directors' fees and expense            | 167,002     | 163,922     | 163,056     |
| Insurance                              | 272,275     | 241,023     | 215,002     |
| Rent                                   | 283,954     | 350,290     | 271,067     |
| Taxes                                  | 220,968     | 234,008     | 152,351     |
| Travel                                 | 337,132     | 183,351     | 143,624     |
| Other (net of overhead reimbursements) | (389,577)   | (418,483)   | (173,023)   |
|                                        | \$1,026,889 | \$ 928,610  | \$ 931,385  |
| Royalty payments                       | \$1,544,508 | \$1,596,516 | \$1,415,283 |
| Interest payments                      | \$ 30,690   | \$ 27,937   | \$ 28,416   |
| Income tax payments                    | \$ 251,888  | \$ 260,580  | \$ 222,900  |

</TABLE>

2. Oil and gas properties

(a) Australia

## Mereenie

### Field Development and Oil Production

MPAL has a 35% working interest in the Mereenie oil and gas field in the NTA. MPAL's share of production from the field is subject to net overriding royalties aggregating 3.0625% and the statutory government royalty of 10%.

The field was producing about 2,800 (MPAL share 980) barrels of crude oil per day ("bpd") from 36 producing oil wells at June 30, 1996. The oil is being transported by means of a 167 mile, eight-inch oil pipeline from the field to an industrial park near Alice Springs. Most of the oil is then shipped south approximately 950 miles by rail and road to a refinery in the Adelaide area.

## 2. Oil and gas properties (Cont'd)

MPAL and its partner (the Mereenie Joint Venture - MPAL share 35%) are providing Mereenie gas for use in Darwin and other NTA centers. (See Darwin Gas Supply Contracts below).

### Refinery Obligation

Under the terms of the Mereenie petroleum leases, the Mereenie Joint Venture ("MJV") is obligated to construct a refinery in the Alice Springs area if it is determined that such a refinery is economically viable. The MJV submitted a study in early 1986 which concluded that a refinery was not economically viable at that time, and under the terms of the leases, an updated study may be required at any time. The Company believes a refinery in Alice Springs would not be economically viable under current market conditions. The Northern Territory Government has not raised any current objection to this conclusion.

## Palm Valley

### Field Development and Gas Production

MPAL has a 50.775% interest in the Palm Valley gas field which is located in the Northern Territory of Australia. Ten wells have been drilled in the field, six of which are currently connected to the gas treatment plant and flowed as required to meet the Alice Springs and Darwin supply contracts with PAWA. During fiscal 1996, MPAL's share of gas sales was 3.4 bcf.

In 1981, the Palm Valley Joint Venture ("PVJV") agreed to supply the PAWA facility in Alice Springs with 48 billion cubic feet ("bcf") of natural gas (MPAL share 24.4 bcf) from the Palm Valley field. During the twenty-five year period 1983-2008, PAWA is required to take and/or pay for at least 28 bcf (MPAL share -14.2 bcf). The price of the gas is adjusted quarterly to reflect fully changes in the Australian Consumer Price Index.

## 2. Oil and gas properties (Cont'd)

The PVJV is providing Palm Valley gas for use in Darwin and other NTA centers. (See Darwin Gas Supply Contracts below)

MPAL's share of Palm Valley production revenues is subject to a 10% statutory Government royalty and net overriding royalties aggregating 4.2548%.

### Darwin Gas Supply Contracts

In 1985, MPAL signed an agreement as a participant in the PVJV and also signed an agreement as a participant in the MJV for the sale of gas to the PAWA for use in PAWA's Darwin generating station and at a number of other generating stations in the Northern Territory. The gas is being delivered via the 922 mile Amadeus Basin to Darwin gas pipeline which was built by an Australian consortium.

### Palm Valley Agreement

The PVJV has contracted to supply a maximum of 175 bcf of gas (MPAL share - 88.9 bcf) from the Palm Valley field and PAWA has agreed to take or pay for 134 bcf (MPAL share - 68 bcf) during the 25 year period of the contract. The price



of gas being sold is subject to quarterly adjustments to partially reflect changes in the Australian Consumer Price Index and certain increases in the price of electricity.

Under the terms of the contract, PAWA is required to reimburse MPAL and its PVJV partners, subject to certain conditions, for any development expenditures (applicable to the Darwin contract) plus interest over a 10 year period (40 quarterly payments) after the expenditures are incurred. However, PAWA has elected to reimburse the PVJV on a current basis (free of any interest) for the costs incurred to date.

#### Mereenie Agreement

The MJV has contracted to supply a maximum of 56 bcf of gas (MPAL share - 19.6 bcf) from the Mereenie field and PAWA has agreed to take or pay for 40 bcf (MPAL share - 14 bcf) during the 25 year period of the contract. This agreement also provides for price adjustments identical to the Palm Valley agreement.

On May 29, 1995, the MJV concluded a new ten year contract for the sale of an additional 21.4 bcf of gas to PAWA. The additional gas was required to meet the power needs of new mining developments in the NTA including the McArthur River Mine.

## 2. Oil and gas properties (Cont'd)

#### Agreements Between the PVJV and the MJV

The agreement provides that if the MJV sells additional gas from the Mereenie field, the PVJV will be entitled to 35 percent of the revenues from the first 38 bcf of additional gas sold. At June 30, 1996, the balance of the MJV gas subject to this entitlement was 34 bcf (MPAL share - 17 bcf). MPAL's share of the above revenues in fiscal 1996, 1995 and 1994 was A.\$716,000, A.\$552,000 and A\$249,000, respectively.

The PVJV and the MJV are now entitled to receive a share of pipeline tariffs earned for transporting gas in the Amadeus Basin to Darwin pipeline. MPAL's share was \$1,126,000 in fiscal 1996 and \$167,000 in fiscal 1995.

#### Dingo Gas Field

MPAL has a 34.26% interest in Retention License 2 in the Amadeus basin in the NTA. The Dingo gas field has approximately 18 bcf of presently proved and recoverable reserves based on three production gas wells. Sufficient reserves are indicated to fulfill a modest gas contract, however, the initial well flow rates and consequent reserves per well are considered too low to be currently economic, given the high drilling costs of the wells. The current retention license requires that a well be drilled by May, 1997 at an estimated cost of A.\$3.5 million (MPAL share - A.\$1.2 million). Because of the subcommercial status of the field, an application to waive the drilling commitment will be filed. It is expected that the waiver will be granted. MPAL's share of potential production from these permit areas is subject to a 10% statutory government royalty and overriding royalties aggregating 2.5043%.

#### The Surat Basin

MPAL currently has a 15.625% working interest in the Burunga permit in Queensland (ATP 378P). During fiscal 1996, the Scotia No. 3 well was drilled to test for coal bed methane gas. The gas well is presently being tested to determine whether it would be economic to develop the discovery.

## 2. Oil and gas properties (Cont'd)

#### Ngalia Basin

MPAL has been granted a renewal of permit EP-15 in the Ngalia basin in the NTA which expires in May 1999. The renewal permit covers 1.9 million acres. The minimum obligations of this permit total A.\$1.2 million for 1997-1999 including an obligation to drill a well by May 1998. Previously MPAL had held a permit in the Ngalia basin where a 6,000 foot wildcat well, Davis No. 1, was drilled in 1981. Although the well was abandoned as a dry hole, it did yield minor shows of natural gas. MPAL is seeking co-venturers in this project.

## Maryborough Basin

MPAL is seeking partners for exploration permit ATP 613P, a 670,000 million acre block in the Maryborough Basin in Queensland, Australia. During fiscal 1996, a seismic survey was completed on the permit. Processing and analysis of the data is being completed. The minimum expenditure obligation of the permit is A\$.9 million over the term of the permit which ends March 31, 1999.

### (b) Canada

The Company has a 2.67% carried interest in the Kotaneelee gas field in the Yukon Territory which has been on production since February 1991. There are three wells capable of production in the field which is part of a permit covering 31,885 gross acres. For financial statement purposes in fiscal 1987 and 1988, the Company wrote down its Canada cost center, which included the Kotaneelee field to a nominal value because of the uncertainty as to the date when sales of Kotaneelee gas might begin and the immateriality of the carrying value of the investment. Although the field is now producing, the Company has not yet classified its share of the Kotaneelee gas reserves as proved because the gas field is still the subject of litigation. The Company will reclassify the reserves at the Kotaneelee field as proved when there is greater assurance as to the timing and assumptions regarding the investment. Based on the current price of gas and the unrecovered development costs, the Company does not expect to receive any revenue from the field until 1998.

### (c) United States

#### Navajo Joint Venture

Effective March 31, 1995, MPAL sold its 11.625% interest in oil and gas exploration, drilling, operating and production agreements covering properties located on

## 2. Oil and gas properties (Cont'd)

Navajo Tribal lands in the Four Corners Region of Arizona, New Mexico and Utah. MPAL realized proceeds of \$906,000 on the sale and recorded a gain of \$673,000. The consideration paid consisted of \$300,000 in cash and 534,000 shares of the purchaser, Harken Energy Corporation. During fiscal 1996, all of the shares were sold at a gain of \$350,000.

#### Baca County, Colorado

MPC (10%) and MPAL (90%) are participating in an exploration program in Colorado. During late April 1995, MPAL commenced an initial three well exploration drilling program. There are approximately 25 prospects that have been identified over the past 2 1/2 years from previous seismic surveys. The initial three well appraisal program has been completed. All three wells were dry holes. MPC has the right, but not the obligation to a 10% participation in drilling future prospects. Based on the data derived from the appraisal program during fiscal 1996, the Company has written off \$2,500,000 in costs incurred to date. In early 1997, the Company expects to drill an additional exploratory well on the most prospective structure.

### (d) Belize

#### Gladden Basin PSA

During January 1996, MPAL acquired a 20% working interest in a Production Sharing Agreement ("Gladden PSA") which covers approximately 351,000 acres offshore Belize, Central America. On May 30, 1996, MPC acquired a 2 1/2% in the Gladden PSA. The Gladden PSA expires on May 31, 2001 and requires that a well be drilled by December 1, 1996. The estimated cost of the well is \$10 million (MPAL share \$2 million, MPC share \$250,000).

#### Block 13 PSA

MPC (2 1/2%) and MPAL (20%) are also participants in a Production Sharing Agreement ("Block 13 PSA") offshore Belize adjoining the western and southern boundaries of the Gladden PSA. The Block 13 PSA covers approximately 788,000 acres. The Block 13 PSA expires on January 31, 2004. The aggregate estimated

cost for 1997 and 1998 is approximately \$68,000 for MPAL and MPC.

3. MPC Condensed financial statements

The following are unconsolidated condensed balance sheets (in thousands) of MPC and condensed statements of operations and cash flows.

MAGELLAN PETROLEUM CORPORATION  
BALANCE SHEET

<TABLE>  
<CAPTION>

|                                          | June 30,  |           |
|------------------------------------------|-----------|-----------|
|                                          | 1996      | 1995      |
| <S>                                      | <C>       | <C>       |
|                                          | ----      | ----      |
| ASSETS                                   |           |           |
| Current assets                           | \$ 2,287  | \$ 1,691  |
| Oil and gas properties - net             | 283       | 195       |
| Investment in MPAL                       | 19,493    | 17,085    |
|                                          | -----     | -----     |
| Total                                    | \$ 22,063 | \$ 18,971 |
|                                          | =====     | =====     |
| LIABILITIES AND STOCKHOLDERS' EQUITY     |           |           |
| Current liabilities                      | \$ 91     | \$ 62     |
|                                          | -----     | -----     |
| Stockholders' equity:                    |           |           |
| Capital                                  | 43,492    | 43,358    |
| Accumulated deficit                      | (18,735)  | (19,616)  |
| Foreign currency translation adjustments | 2,785     | (4,833)   |
|                                          | -----     | -----     |
|                                          | 21,972    | 18,909    |
|                                          | -----     | -----     |
| Total                                    | \$ 22,063 | \$ 18,971 |
|                                          | =====     | =====     |

</TABLE>

MAGELLAN PETROLEUM CORPORATION  
STATEMENT OF OPERATIONS

<TABLE>  
<CAPTION>

|                            | Year ended June 30, |         |         |
|----------------------------|---------------------|---------|---------|
|                            | 1996                | 1995    | 1994    |
| <S>                        | <C>                 | <C>     | <C>     |
|                            | ----                | ----    | ----    |
| Revenues                   | \$ 84               | \$ 58   | \$ 25   |
| Costs and expenses         | (973)               | (903)   | (1,346) |
|                            | -----               | -----   | -----   |
| Loss before income taxes   | (889)               | (845)   | (1,321) |
| Income tax provision       | 252                 | 261     | 223     |
|                            | -----               | -----   | -----   |
| Loss before equity in MPAL | (1,141)             | (1,106) | (1,544) |
| Equity in MPAL net income  | 2,022               | 1,927   | 2,046   |
|                            | -----               | -----   | -----   |
| Net income                 | \$ 881              | \$ 821  | \$ 502  |
|                            | =====               | =====   | =====   |

</TABLE>

3. MPC Condensed financial statements (Cont'd)

MAGELLAN PETROLEUM CORPORATION  
STATEMENT OF CASH FLOWS

<TABLE>  
<CAPTION>

Year ended June 30,

|                                                                               | 1996    | 1995     | 1994    |
|-------------------------------------------------------------------------------|---------|----------|---------|
| <S>                                                                           | ----    | ----     | ----    |
|                                                                               | <C>     | <C>      | <C>     |
| Operating Activities:                                                         |         |          |         |
| Net income                                                                    | \$ 881  | \$ 821   | \$ 502  |
| Adjustments to reconcile net income to net cash used in operating activities: |         |          |         |
| Abandonments                                                                  | 200     | -        | -       |
| Equity in MPAL income                                                         | (2,022) | (1,927)  | (2,046) |
| Change in operating assets and liabilities:                                   |         |          |         |
| Accounts receivable                                                           | (62)    | 239      | (186)   |
| Accounts payable and accrued liabilities                                      | 29      | (8)      | (339)   |
|                                                                               | -----   | -----    | -----   |
| Net cash used in operating activities                                         | (974)   | (875)    | (2,069) |
| Investing Activities:                                                         |         |          |         |
| Additions to property and equipment                                           | (288)   | (195)    | -       |
|                                                                               | -----   | -----    | -----   |
| Financing Activities:                                                         |         |          |         |
| Dividends from MPAL                                                           | 1,662   | 1,718    | 1,486   |
| Sales of common stock                                                         | 134     | 131      | 4       |
|                                                                               | -----   | -----    | -----   |
|                                                                               | 1,796   | 1,849    | 1,490   |
|                                                                               | -----   | -----    | -----   |
| Net increase (decrease) in cash and cash equivalents                          | 534     | 779      | (579)   |
| Cash and cash equivalents at beginning of year                                | 1,533   | 754      | 1,333   |
|                                                                               | -----   | -----    | -----   |
| Cash and cash equivalents at end of year                                      | \$2,067 | \$ 1,533 | \$ 754  |
|                                                                               | =====   | =====    | =====   |

</TABLE>

#### 4. MPAL transactions and condensed financial statements

The following are the condensed consolidated balance sheet of MPAL and condensed consolidated statement of operations (in thousands). At June 30, 1996, Santos Ltd. held 18.2% of MPAL and Boral Limited held 18.1% with the balance of 12.9% held by approximately 2,500 shareholders in Australia.

#### 4. MPAL transactions and condensed financial statements (Cont'd)

The consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles and include all of MPAL's subsidiaries.

##### Magellan Petroleum Australia Limited Consolidated Balance Sheet

<TABLE>

<CAPTION>

|                                    | June 30, |           |
|------------------------------------|----------|-----------|
| <S>                                | 1996     | 1995      |
|                                    | ----     | ----      |
|                                    | <C>      | <C>       |
| ASSETS                             |          |           |
| Current assets                     | \$12,617 | \$ 9,776  |
| Oil and gas properties - net       | 41,949   | 36,076    |
| Land, building and equipment - net | 1,166    | 969       |
|                                    | -----    | -----     |
| Total                              | \$55,732 | \$ 46,821 |
|                                    | =====    | =====     |

#### LIABILITIES AND STOCKHOLDERS' EQUITY

|                     |          |          |
|---------------------|----------|----------|
| Current liabilities | \$ 4,436 | \$ 2,236 |
|---------------------|----------|----------|

|                                          |          |           |
|------------------------------------------|----------|-----------|
| Long term liabilities                    | 13,052   | 11,100    |
| Stockholders' equity:                    |          |           |
| Capital                                  | 34,408   | 34,408    |
| Retained earnings                        | 8,353    | 7,642     |
| Foreign currency translation adjustments | (4,517)  | (8,565)   |
|                                          | 38,244   | 33,485    |
| Total                                    | \$55,732 | \$ 46,821 |

</TABLE>

4. MPAL transactions and condensed financial statements (Cont'd)

Magellan Petroleum Australia Limited  
Consolidated Statement of Operations

<TABLE>  
<CAPTION>

|                               | Year ended June 30, |          |          |
|-------------------------------|---------------------|----------|----------|
|                               | 1996                | 1995     | 1994     |
| <S>                           | <C>                 | <C>      | <C>      |
| Revenues                      | \$17,989            | \$15,366 | \$13,293 |
| Costs and expenses            | 12,908              | 9,355    | 9,294    |
| Income before taxes           | 5,081               | 6,011    | 3,999    |
| Income tax provision (credit) | 1,089               | 2,207    | (39)     |
| Net income                    | \$ 3,992            | \$ 3,804 | \$ 4,038 |

Magellan and Minority Equity in MPAL

|                                             |         |          |         |
|---------------------------------------------|---------|----------|---------|
| Magellan equity interest in MPAL:           |         |          |         |
| Income before tax                           | \$2,574 | \$3,045  | \$2,026 |
| Income tax (credit) provision               | 552     | 1,118    | (20)    |
| Magellan equity in net income               | \$2,022 | \$1,927  | \$2,046 |
| Minority equity interest in MPAL:           |         |          |         |
| Income before tax                           | \$2,507 | \$2,966  | \$1,973 |
| Income tax (credit) provision               | 537     | 1,089    | (19)    |
| Minority interest in net income             | 1,970   | 1,877    | 1,992   |
| Foreign currency translation                | 1,999   | (352)    | 1,253   |
| Dividends paid                              | (1,619) | (1,673)  | (1,447) |
| Other                                       | -       | -        | 35      |
| Total minority interest increase (decrease) | \$2,350 | \$ (148) | \$1,833 |

</TABLE>

5. Capital and stock options

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

On October 5, 1989, the Company adopted a Stock Option Plan covering 1,000,000 shares of the Company's common stock.

Following is a summary of option transactions for the three years ended June 30, 1996:

<TABLE>

<CAPTION>

| Options outstanding<br><S>         | Number of shares<br><C> | Option Prices<br><C> |
|------------------------------------|-------------------------|----------------------|
| June 30, 1993                      | 388,750                 | .94 - 1.125          |
| Granted                            | 275,000                 | .8125                |
| Granted                            | 140,000                 | .75                  |
|                                    | -----                   |                      |
| June 30, 1994                      | 803,750                 | .75 - 1.125          |
| Exercised                          | (105,000)               | .75                  |
| Exercised                          | (35,000)                | 1.125                |
|                                    | -----                   |                      |
| June 30, 1995                      | 663,750                 | .75 - 1.125          |
| Exercised                          | (25,000)                | .75                  |
| Exercised                          | (35,000)                | 1.125                |
| Exercised                          | (87,500)                | .75 - .94            |
|                                    | -----                   |                      |
| June 30, 1996                      | 516,250                 | .75 - 1.0625         |
|                                    | =====                   |                      |
| Options reserved for future grants | 196,250                 |                      |
|                                    | =====                   |                      |

</TABLE>

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB No. 25) and related interpretations in accounting for its stock options because the alternative fair value accounting provided under FASB Statement No. 123, "Accounting for Stock Based Compensation," requires use of option valuation models that were not developed for use in valuing stock options. Under APB No. 25, because the exercise price of the Company's stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. The Company will institute the disclosure requirements of FASB No. 123 starting in fiscal 1997.

Upon exercise of options, the excess of the proceeds over the par value of the shares issued is credited to capital in excess of par value. No charges have been made against income in accounting for options during the three year period ended June 30, 1996.

## 6. Income taxes

(a) Components of pretax income (loss) by geographic area (in thousands) are as follows:

<TABLE>

<CAPTION>

|           | Year ended June 30, |          |           |
|-----------|---------------------|----------|-----------|
|           | 1996                | 1995     | 1994      |
| <S>       | <C>                 | <C>      | <C>       |
| Americas  | \$(2,484)           | \$ (783) | \$(1,630) |
| Australia | 4,168               | 2,982    | 2,335     |
|           | -----               | -----    | -----     |
| Total     | \$1,684             | \$2,199  | \$ 705    |
|           | =====               | =====    | =====     |

</TABLE>

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

<TABLE>

<CAPTION>

Year ended June 30,

|                                                                                 | 1996    | 1995     | 1994     |
|---------------------------------------------------------------------------------|---------|----------|----------|
| <S>                                                                             | <C>     | <C>      | <C>      |
| Pretax consolidated income before minority interests                            | \$4,192 | \$ 5,165 | \$2,678  |
| Losses not recognized:                                                          |         |          |          |
| MPC's operations                                                                | 890     | 845      | 1,321    |
| MPAL's non Australian operations                                                | 831     | (124)    | 610      |
| Permanent differences                                                           | (1,615) | (217)    | 115      |
| Book taxable income                                                             | \$4,298 | \$5,669  | \$4,724  |
| Australian tax rate                                                             | 36%     | 36%      | 33%      |
| Australian income tax provision                                                 | \$1,547 | \$2,041  | \$ 1,559 |
| Tax provision attributable to reconciliation of year end deferred tax liability | 458     | 166      | -        |
| Tax credit attributable to settlement of Australian tax audit                   | -       | -        | 1,599    |
| Less: Minority interests                                                        | 1,089   | 2,207    | (40)     |
| Australian tax provision (credit)                                               | 552     | 1,118    | (20)     |
| MPC income tax provision                                                        | 252     | 261      | 223      |
| Consolidated income tax provision                                               | \$ 804  | \$1,379  | \$ 203   |
| Current income tax provision                                                    | \$ 804  | \$ -     | \$ -     |
| Deferred income tax                                                             | -       | 1,379    | 203      |
|                                                                                 | \$ 804  | \$1,379  | \$ 203   |

</TABLE>

The amount of \$9,054,000 and \$8,877,000 in deferred income taxes payable at June 30, 1996 and June 30, 1995, respectively, relates primarily to the deduction of exploration and development costs which are capitalized for financial statement purposes.

## 6. Income taxes (Cont'd)

### (c) United States

The following net operating loss carryforwards ("NOLS") and foreign tax credit carryovers ("FTC") available at June 30, 1996 (in thousands):

<TABLE>

<CAPTION>

| Year Expires | MPC<br>NOLS | MPC<br>FTC | MPAL<br>NOLS |
|--------------|-------------|------------|--------------|
| <S>          | <C>         | <C>        | <C>          |
| 1997         | \$ -        | \$ 131     | \$ -         |
| 1998         | -           | 115        | -            |
| 1999         | 351         | 223        | -            |
| 2000         | 982         | 258        | -            |
| 2001         | 684         | 250        | -            |
| 2002         | 911         | -          | -            |
| 2003         | 209         | -          | -            |
| 2004         | 915         | -          | -            |
| 2005         | 570         | -          | 268          |
| 2006         | -           | -          | 2,392        |
| 2007         | 865         | -          | -            |
| 2008         | 2,055       | -          | -            |
| 2010         | -           | -          | 1,669        |
| 2011         | -           | -          | 1,765        |
|              | \$7,542     | \$ 977     | \$6,093      |

</TABLE>

A deferred tax asset in the amount of \$6,526,000 in 1996 and \$5,639,000 in 1995 relates to the potential federal and state tax benefit of the above net operating losses and foreign tax credits carryovers. The Company has established a valuation allowance of \$6,526,000 at June 30, 1996 and \$5,639,000 at June 30, 1995 because it is more likely than not at this time that none of the losses and credits will be realized.

MPAL's investments in the U.S. have created deemed dividends under Subpart F of the Internal Revenue Code. These dividends have reduced MPC's net operating losses in earlier years. At June 30, 1996, the amount of unpaid deemed dividends was \$4,343,000. For financial statement purposes, MPC's share of MPAL's after tax accumulated earnings at June 30, 1996 was \$3,941,000 with \$2,782,000 in accumulated currency translation losses. The tax cost of the MPAL investment at June 30, 1996 was approximately \$15,800,000.

(d) Australia

Effective July 1, 1995, the Australian income tax rate increased to 36% from 33%. The effect of this change was to increase the consolidated income tax provision for fiscal 1995 by \$375,000.

At June 30, 1996, A.\$9,448,000 of consolidated losses and capitalized expenditures remain to be carried forward indefinitely by MPAL and its subsidiaries to reduce future petroleum taxable income.

7. Bank loan

MPC has a \$1,500,000 revolving line of credit at the bank's prime rate of interest (8 1/4% at June 30, 1996 and 9% at June 30, 1995) plus 1%, which will expire in December 31, 1996. The line is secured by 4,400,000 shares of MPAL common stock and requires a compensating balance of \$100,000 plus 10% of the amount used under the line of credit. In addition, there is a 1/2% commitment fee charged on the unused portion of the line of credit. MPC has an additional \$700,000 bank commitment to provide each director and officer with a \$100,000 letter of credit. The letters of credit secure MPC's agreement to indemnify its directors and officers. The directors and officers bear the cost of the letters of credit. At June 30, 1996 and 1995, the line of credit and letters of credit were not being utilized.

MPAL has a A.\$10 million line of credit with an Australian bank at the bank's prime rate of interest (7.6% at June 30, 1996, and 7.4% at June 30, 1995) plus .45%. This line of credit is unsecured and expires December 31, 1996. In addition, there is an annual fee of A.\$30,000 payable with respect to the line of credit. At June 30, 1996 and 1995, the line of credit was not being utilized.

8. Related party and other transactions

Mr. C. Dean Reasoner, a director of the Company, is a member of the law firm of Reasoner, Davis & Fox, which firm was paid fees of \$109,000, \$120,000 and \$132,000 for fiscal years 1996, 1995 and 1994, respectively. In fiscal 1995, the final year of his two year consulting agreement, Mr. Heath, a director of the Company, was paid \$35,000 plus an expense reimbursement. G&O'D INC, a firm that provides accounting and administrative services, office facilities and support staff to the Company, was paid \$187,898, \$256,196 and \$325,388 in fees for fiscal years 1996, 1995 and 1994, respectively. James R. Joyce, the President and Chief Financial Officer, is the owner of G&O'D INC. Mr. Timothy L. Largay, a director of the Company since February 1996, is a member of the law firm of Murtha, Cullina, Richter and Pinney, which firm was paid fees of \$28,449 for fiscal 1996. In addition, Messrs. Benjamin W. Heath and C. Dean Reasoner have overriding royalty interests which were granted between 1957 and 1968 on certain of the Company's oil and gas properties prior to any discoveries. The following gross royalty amounts represent payments by all of the owners of the fields, not just the Company's share. The payments to Messrs. Heath and Reasoner with respect to these royalties in fiscal 1996 were \$ 45,657 and \$20,071, in fiscal 1995 were \$45,220 and \$21,403 and in fiscal 1994 were \$46,362 and \$22,516, respectively.



9. Leases

MPAL leases various offices. At June 30, 1996 future minimum rental payments applicable to noncancelable operating leases were as follows:

| Fiscal Year | Amount    |
|-------------|-----------|
| 1997        | \$163,000 |
| 1998        | 160,000   |
|             | -----     |
|             | \$323,000 |
|             | =====     |

The information regarding the rental expense for all operating leases is included in Note 1 above.

10. Pension Plan

A defined benefit pension plan is operated by MPAL. All salaried employees are eligible to become participants of the plan. MPAL contributes to the plan at rates which (based on actuarial determination) are sufficient to meet the cost of employees' retirement benefits. No employee contributions are required. MPAL is committed to make up any shortfall in the plan's assets to meet payments to employees as they become due.

Plan participants are entitled to defined benefits on normal retirement, death or disability. The retirement benefits are dependent on years of participation and the highest average salary over three consecutive years. In the event of termination of employment within ten years of participation, employees are entitled to a partial vesting of their equitable share of the plan based on the number of years of participation. After ten years of participation, there is full vesting of benefits.

The investments of the plan at June 30, 1996 are comprised of units of NMFMM Superannuation Fund, a managed growth fund. The fund's assets are invested primarily in growth assets such as Australian and international shares.

10. Pension Plan (Cont'd)

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

<TABLE>

<CAPTION>

|                                                       | June 30,    |             |
|-------------------------------------------------------|-------------|-------------|
|                                                       | 1996        | 1995        |
|                                                       | ---         | ----        |
|                                                       | <C>         | <C>         |
| Plan assets at fair value                             | \$3,214,103 | \$2,469,925 |
| Actuarial value of accumulated benefit obligation     | \$3,062,115 | \$2,272,237 |
| Effect of assumed future compensation increases       | (108,603)   | 10,157      |
| Projected benefit obligation for service to date      | 2,953,512   | 2,282,394   |
| Plan assets in excess of projected benefit obligation | 260,591     | 187,531     |
| Unrecognized net loss                                 | 539,425     | 459,691     |
| Unrecognized net asset at transition                  | (280,256)   | (284,139)   |
|                                                       | -----       | -----       |
|                                                       | \$ 519,760  | \$ 363,083  |
|                                                       | =====       | =====       |

</TABLE>

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

<TABLE>

<CAPTION>

Year ended June 30,

|                                     | 1996      | 1995      | 1994      |
|-------------------------------------|-----------|-----------|-----------|
| <S>                                 | <C>       | <C>       | <C>       |
| Service cost                        | \$247,010 | \$228,421 | \$256,123 |
| Interest cost                       | 204,554   | 157,409   | 128,100   |
| Actual return on plan assets        | (259,695) | (201,565) | (124,517) |
| Net amortization and deferred items | (19,298)  | (15,503)  | (14,964)  |
| Net pension cost                    | \$172,571 | \$168,762 | \$244,742 |
| Plan contributions by MPAL          | \$279,000 | \$250,000 | \$223,000 |

</TABLE>

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

<TABLE>  
<CAPTION>

|                                                  | 1996    | 1995    | 1994    |
|--------------------------------------------------|---------|---------|---------|
| <S>                                              | <C>     | <C>     | <C>     |
| Assumed discount rate                            | 8.0%    | 9.0%    | 9.0%    |
| Rate of increase in future compensation levels   | 6.5%    | 15.0%   | 7.5%    |
| Expected long term rate of return on plan assets | 8.5%    | 10.0%   | 10.0%   |
| Australian exchange rate                         | \$.7875 | \$.7097 | \$.7287 |

</TABLE>

11. Tender offer and litigation expenses

MPC and MPAL had been parties to several legal proceedings that were instituted directly or indirectly as a result of the offer in 1993 by Sagasco Holdings Limited for all of the outstanding shares of MPC and MPAL. All of MPC's lawsuits have been terminated.

12. Financial instruments

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

13. Selected quarterly financial data (unaudited)

The following is a summary (in thousands) of the quarterly results of operations for the years ended June 30, 1996 and 1995:

<TABLE>  
<CAPTION>

| 1996               | QTR 1   | QTR 2   | QTR 3   | QTR 4    |
|--------------------|---------|---------|---------|----------|
| <S>                | <C>     | <C>     | <C>     | <C>      |
| Total revenues     | \$3,935 | \$4,649 | \$4,770 | \$4,719  |
| Costs and expenses | 2,748   | 2,929   | 2,745   | 5,459    |
| Minority interests | 687     | 963     | 1,062   | (205)    |
| Income taxes       | 227     | 632     | 368     | (423)    |
| Net income (loss)  | \$ 273  | \$ 125  | \$ 595  | \$ (112) |
| Per share          | \$.01   | \$.01   | \$.02   | \$ -     |
| 1995               | QTR 1   | QTR 2   | QTR 3   | QTR 4    |

|                          |         |          |         |         |
|--------------------------|---------|----------|---------|---------|
| Total sales and revenues | \$3,450 | \$3,661  | \$3,941 | \$4,372 |
| Costs and expenses       | 2,631   | 2,605    | 2,756   | 2,267   |
| Minority interests       | 532     | 666      | 653     | 1,114   |
| Income taxes             | 199     | 513      | 239     | 428     |
|                          | -----   | -----    | -----   | -----   |
| Net income (loss)        | \$ 88   | \$ (123) | \$ 293  | \$ 563  |
|                          | =====   | =====    | =====   | =====   |
| Per share                | \$ -    | \$(.01)  | \$.01   | \$.03   |
|                          | =====   | =====    | =====   | =====   |

</TABLE>

MAGELLAN PETROLEUM CORPORATION  
SUPPLEMENTARY OIL AND GAS INFORMATION  
(unaudited)

June 30, 1996

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

Estimated net quantities of proved developed and proved oil and gas reserves:

<TABLE>

<CAPTION>

| Proved Reserves:               | Natural Gas<br>(BCF) |        | Oil<br>(Thousand Bbls) |       |
|--------------------------------|----------------------|--------|------------------------|-------|
|                                | Australia            | U.S.   | Australia              | U.S.  |
| <S>                            | (*) <C>              | <C>    | <C>                    | <C>   |
| June 30, 1993                  | 86.527               | .176   | 1,710                  | 70    |
| Revision of previous estimates | .018                 | .310   | (61)                   | 85    |
| Extensions and discoveries     | -                    | -      | -                      | -     |
| Production                     | (4.783)              | (.358) | (285)                  | (89)  |
|                                | -----                | -----  | -----                  | ----- |
| June 30, 1994                  | 81.762               | .128   | 1,364                  | 66    |
| Revision of previous estimates | .244                 | .200   | -                      | 150   |
| Extensions and discoveries     | 6.502                | -      | 412                    | -     |
| Production                     | (4.934)              | (.132) | (280)                  | (89)  |
| Sales of minerals in place     | -                    | (.196) | -                      | (127) |
|                                | -----                | -----  | -----                  | ----- |
| June 30, 1995                  | 83.574               | -      | 1,496                  | -     |
| Revision of previous estimates | -                    | -      | -                      | -     |
| Extensions and discoveries     | 1.518                | -      | 23                     | -     |
| Production                     | (5.422)              | -      | (318)                  | -     |
|                                | -----                | -----  | -----                  | ----- |
| June 30, 1996                  | 79.670               | -      | 1,201                  | -     |
|                                | =====                | =====  | =====                  | ===== |
| Proved Developed Reserves:     |                      |        |                        |       |
| June 30, 1993                  | 86.527               | .176   | 1,710                  | 70    |
|                                | =====                | =====  | =====                  | ===== |
| June 30, 1994                  | 81.762               | .128   | 1,364                  | 66    |
|                                | =====                | =====  | =====                  | ===== |
| June 30, 1995                  | 83.574               | -      | 1,496                  | -     |
|                                | =====                | =====  | =====                  | ===== |
| June 30, 1996                  | 79.670               | -      | 1,201                  | -     |
|                                | =====                | =====  | =====                  | ===== |

</TABLE>

(\*) The amount of proved reserves applicable to the Palm Valley and Mereenie fields only reflects the amount of gas committed to specific contracts. Approximately 49.3% of reserves are attributable to minority interests.

Costs of oil and gas activities (in thousands):

<TABLE>

<CAPTION>

| Australia   |                   |                   |
|-------------|-------------------|-------------------|
| Fiscal Year | Exploration Costs | Development Costs |
| <S>         | <C>               | <C>               |
| 1996        | \$ 335            | \$2,989           |
| 1995        | 14                | 4,025             |
| 1994        | 224               | 3,071             |

  

| Americas    |                   |                   |
|-------------|-------------------|-------------------|
| Fiscal Year | Exploration Costs | Acquisition Costs |
| <S>         | <C>               | <C>               |
| 1996        | \$2,138           | \$ 426            |
| 1995        | 2,448             | 386               |
| 1994        | 652               | 83                |

</TABLE>

Capitalized costs subject to depletion, depreciation and amortization ("DD&A") (in thousands):

<TABLE>

<CAPTION>

| June 30, 1996             |               |              |           |
|---------------------------|---------------|--------------|-----------|
| <S>                       | Australia <C> | Americas <C> | Total <C> |
| Costs subject to DD&A     | \$66,673      | \$ -         | \$66,673  |
| Costs not subject to DD&A | -             | 2,898        | 2,898     |
| Less accumulated DD&A     | (26,053)      | -            | (26,053)  |
| Net capitalized costs     | \$40,620      | \$2,898      | \$43,518  |

| June 30, 1995             |               |              |           |
|---------------------------|---------------|--------------|-----------|
| <S>                       | Australia <C> | Americas <C> | Total <C> |
| Costs subject to DD&A     | \$ 55,044     | \$ -         | \$55,044  |
| Costs not subject to DD&A | -             | 2,834        | 2,834     |
| Less accumulated DD&A     | (20,517)      | -            | (20,517)  |
| Net capitalized costs     | \$ 34,527     | \$ 2,834     | \$37,361  |

</TABLE>

Discounted future net cash flows:

The following is the standardized measure of discounted (at 10%) future net cash flows (in thousands) relating to proved oil and gas reserves during the three years ended June 30, 1996. Approximately 49.3% of the reserves and the respective discounted future net cash flows are attributable to minority interests.

<TABLE>

<CAPTION>

| Australia |       |       |
|-----------|-------|-------|
| 1996      | 1995  | 1994  |
| -----     | ----- | ----- |

| <S>                                                       | <C>              | <C>              | <C>              |
|-----------------------------------------------------------|------------------|------------------|------------------|
| Future cash inflows                                       | \$138,797        | \$ 132,435       | \$129,973        |
| Future production costs                                   | (21,065)         | (23,354)         | (23,264)         |
| Future development costs                                  | -                | (1,139)          | (765)            |
| Future income tax expense                                 | (41,824)         | (38,870)         | (31,680)         |
|                                                           | -----            | -----            |                  |
| Future net cash flows                                     | 75,908           | 69,072           | 74,264           |
| 10% annual discount for estimating timing of cash flows   | (31,695)         | (30,691)         | (28,524)         |
|                                                           | -----            | -----            |                  |
| Standardized measures of discounted future net cash flows | <u>\$ 44,213</u> | <u>\$ 38,381</u> | <u>\$ 45,740</u> |

United States

|                                                           | 1996  | 1995   | 1994     |
|-----------------------------------------------------------|-------|--------|----------|
|                                                           | ----- | -----  | -----    |
| Future cash inflows                                       | \$(*) | \$ (*) | \$ 1,490 |
| Future production costs                                   |       |        | (393)    |
| Future development costs                                  |       |        | -        |
| Future income tax expense                                 |       |        | -        |
|                                                           |       |        | -----    |
| Future net cash flows                                     |       |        | 1,097    |
| 10% annual discount for estimating timing of cash flows   |       |        | (117)    |
| Standardized measures of discounted future net cash flows |       |        | \$980    |

(\*) U.S. producing properties sold effective March 31, 1995.

Total

|                                                           | 1996             | 1995             | 1994            |
|-----------------------------------------------------------|------------------|------------------|-----------------|
|                                                           | -----            | -----            | -----           |
| Future cash inflows                                       | \$138,797        | \$ 132,435       | \$131,463       |
| Future production costs                                   | (21,065)         | (23,354)         | (23,657)        |
| Future development costs                                  | -                | (1,139)          | (765)           |
| Future income tax expense                                 | (41,824)         | (38,870)         | (31,680)        |
|                                                           | -----            | -----            | -----           |
| Future net cash flows                                     | 75,908           | 69,072           | 75,361          |
| 10% annual discount for estimating timing of cash flows   | (31,695)         | (30,691)         | (28,641)        |
|                                                           | -----            | -----            | -----           |
| Standardized measures of discounted future net cash flows | <u>\$ 44,213</u> | <u>\$ 38,381</u> | <u>\$46,720</u> |

</TABLE>

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

<TABLE>

<CAPTION>

|                                                                  | 1996    | 1995    | 1994      |
|------------------------------------------------------------------|---------|---------|-----------|
|                                                                  | -----   | -----   | -----     |
| <S>                                                              | <C>     | <C>     | <C>       |
| Net change in prices and production costs                        |         | \$6,330 | \$(3,141) |
| Extensions and discoveries                                       | 87      | 6,838   | -         |
| Revision of previous quantity estimates                          | -       | 148     | (226)     |
| Changes in estimated future development costs                    | -       | -       | (1,534)   |
| Sales and transfers of oil and gas produced                      | (9,583) | (9,266) | (8,502)   |
| Sales of minerals in place                                       | -       | (1,313) | -         |
| Previously estimated development cost incurred during the period | 1,493   | 765     | 1,983     |
| Accretion of discount                                            | 3,180   | 4,113   | 3,715     |
| Net change in income taxes                                       | (43)    | (3,921) | 353       |
| Net change in exchange rate                                      | 4,368   | (1,028) | 3,893     |
|                                                                  | -----   | -----   | -----     |

\$5,832      \$(8,339)      \$ 593  
 =====      =====      =====

</TABLE>

Additional information regarding discounted future net cash flows.

Australia

Reserves - Natural Gas

Future net cash flows from net proved gas reserves in Australia were based on MPAL's share of reserves in the Palm Valley and Mereenie fields which have been limited to the quantities of gas to be sold under long-term supply contracts. A summary of these contracts is as follows:

<TABLE>

<CAPTION>

| Gas supply contract         | MPAL Share of contract<br>quantities of gas<br>to be sold (bcf) | MPAL<br>Contract %<br>completed through<br>June 30 1996 | share<br>(before<br>royalties) | Contract<br>period |
|-----------------------------|-----------------------------------------------------------------|---------------------------------------------------------|--------------------------------|--------------------|
| -----                       | -----<br>(after royalties)                                      | -----                                                   | -----                          | -----              |
| <S>                         | <C>                                                             | <C>                                                     | <C>                            | <C>                |
| Palm Valley - Alice Springs | 21.0                                                            | 40                                                      | 50.775%                        | 1983-2008          |
| Palm Valley - Darwin        | 76.6                                                            | 34                                                      | 50.775%                        | 1987-2012          |
| Mereenie - Darwin (1985)    | 17.0                                                            | 37                                                      | 35%                            | 1987-2012          |
| Mereenie - Darwin (1995)    | 6.5                                                             | 27                                                      | 40.5%                          | 1995-2009          |
| Mereenie - Cosmo Howley     | 1.5                                                             | 78                                                      | 40.5%                          | 1989-1999          |
| Mereenie - N.T. Gas         | .3                                                              | -                                                       | 40.5%                          | 1996-2006          |
|                             | -----<br>122.9                                                  |                                                         |                                |                    |

</TABLE>

Prices

The prices (Australian dollars) used in the foregoing estimates in Australia were based upon the following contract prices of gas per mcf:

<TABLE>

<CAPTION>

|                             | 1996     | 1995     | 1994     |
|-----------------------------|----------|----------|----------|
| <S>                         | <C>      | <C>      | <C>      |
| Palm Valley-Alice Springs   | A.\$2.94 | A.\$2.85 | A.\$2.73 |
| Palm Valley-Darwin          | 2.02     | 2.00     | 1.97     |
| Mereenie-Darwin             |          |          |          |
| Years 6-21 (1985 contract)  | .48      | .48      | .48      |
| Years 22-26 (1985 contract) | 2.07     | 2.05     | 2.07     |
| 1995 contract               | 2.70     | 2.64     | -        |
| Mereenie - Cosmo Howley     | 2.92     | 2.77     | 2.70     |
| Mereenie - NT Gas contract  | 2.72     | -        | -        |
| Crude oil per barrel        | 25.00    | 23.71    | 24.14    |
| Exchange rate A.\$= \$U.S.  | .79      | .71      | .73      |

Reserves and Costs - Oil

</TABLE>

At June 30, 1996, future net cash flows from the net proved oil reserves in Australia were calculated by the Company. Estimated future production and development costs were based on current costs and rates for each of the three years ended at June 30, 1996. All of the crude oil reserves are developed reserves. Undeveloped proved reserves have not been estimated since there are only tentative plans to drill a few additional wells.

Income taxes

Future Australian income tax expense applicable to the future net cash flows has been reduced by the tax effect of approximately A\$9,448,000, A.\$9,583,000 and A.\$13,600,000 in unrecovered capital expenditures at 1996, 1995,

and 1994, respectively. The tax rate in computing Australian future income tax expense was 36% at June 30, 1996 and 1995 and 33% in 1994.

For financial statements purposes in fiscal 1987 and 1988, MPC wrote down its Canada cost center which included the Kotaneelee gas field to a nominal value because of the uncertainty as to the date when sales of Kotaneelee gas might begin and the immateriality of the carrying value of the investment. Although the field is now producing, the Company has not yet classified its share of the Kotaneelee gas reserves as proved because the gas field is still the subject of litigation. The Company will reclassify the reserves at the Kotaneelee field as proved when there is greater assurance as to the timing and assumptions of the investment.

#### Results of Operations

The following are the Company's results of operations (in thousands) for the oil and gas producing activities during the three years ended June 30, 1996:

<TABLE>

<CAPTION>

|                                                  | United States |          |         | Australia |          |         |
|--------------------------------------------------|---------------|----------|---------|-----------|----------|---------|
|                                                  | 1996 (1)      | 1995 (1) | 1994    | 1996      | 1995     | 1994    |
| <S>                                              | <C>           | <C>      | <C>     | <C>       | <C>      | <C>     |
| Revenues:                                        |               |          |         |           |          |         |
| Oil sales                                        |               | \$363    | \$540   | \$5,922   | \$5,330  | \$5,224 |
| Gas sales                                        |               | 115      | 172     | 9,746     | 7748     | 6,592   |
|                                                  | 478           | 712      | 15,668  | 13,078    | 11,816   |         |
| Costs:                                           |               |          |         |           |          |         |
| Production costs                                 |               | 145      | 354     | 4,410     | 3,455    | 3,524   |
| Depletion, abandonments and write downs (sales)  |               | (54)     | 889     | 2,713     | 2,302    | 2,018   |
|                                                  | 91            | 1,243    | 7,123   | 5,757     | 5,542    |         |
| Income (loss) before taxes and minority interest |               | 387      | (531)   | 8,545     | 7,321    | 6,274   |
| Minority interest (49.3%)                        |               | (191)    | 263     | (4,217)   | (3,612)  | (3,096) |
| Income (loss) before taxes                       |               | 196      | (268)   | 4,328     | 3,709    | 3,178   |
| Income tax provision (2)                         |               | -        | -       | (1,558)   | (1,224)  | (1,049) |
| Net income (loss) from operations                | \$196         | \$(268)  | \$2,770 | \$2,485   | \$2,129  |         |
| Depletion per unit of production                 | \$14.88       | \$13.27  | A\$3.17 | A.\$2.96  | A.\$2.88 |         |

<FN>

(1) The Company's interest in the Navajo Joint Venture was sold effective as of March 31, 1995.

(2) Australian income tax provision 36% in 1996 and 33% in 1995 and 1994.

</FN>

</TABLE>

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

None.

#### PART III

For information concerning Item 10 - Directors and Executive Officers of

the Company, Item 11 Executive Compensation, Item 12 - Security Ownership of Certain Beneficial Owners and Management and Item 13 Certain Relationships and Related Transactions, see the Proxy Statement of Magellan Petroleum Corporation relative to the Annual Meeting of Stockholders for the fiscal year ended June 30, 1996, which will be filed with the Securities and Exchange Commission, which information is incorporated herein by reference. For information concerning Item 10 - Executive officers of the Company, see Part I.

#### PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) (1) Financial Statements.

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

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| Report of Independent Auditors                                                                                          | 38    |
| Consolidated balance sheet at June 30, 1996 and June 30, 1995                                                           | 39    |
| Consolidated statement of operations for each of the three years in the period ended June 30, 1996                      | 40    |
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(2) Financial Statement Schedules.

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

(3) Exhibits.

The following exhibits are filed as part of this report:

Item Number

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

None.

3. Articles of Incorporation and By-Laws.

Restated Certificate of Incorporation as filed on May 4, 1987 with the State of Delaware and Amendment of Article Twelfth as filed on February 12, 1988 with the State of Delaware filed as exhibit 3 to Registration Statement No. 33-21311 are incorporated herein by reference.

Copy of the By-Laws, as amended filed as exhibit 3 to Form 8-K filed on December 10, 1992 is incorporated herein by reference.



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

None.

9. Voting Trust Agreement.

None.

10. Material contracts.

(a) Petroleum Lease No. 4 dated November 18, 1981 granted by the Northern Territory of Australia to United Canso Oil & Gas Co. (N.T.) Pty Ltd., filed as exhibit 10(c) to Report on Form 10-K for the fiscal year ended April 30, 1982 is incorporated herein by reference.

(b) Petroleum Lease No. 5 dated November 18, 1981 granted by the Northern Territory of Australia to Magellan Petroleum (N.T.) Pty. Ltd., filed as exhibit 10(d) to Report on Form 10-K for the fiscal year ended April 30, 1982 is incorporated herein by reference.

(c) Gas Sales Agreement between The Palm Valley Producers and The Northern Territory Electricity Commission dated November 11, 1981, filed as exhibit 10(e) to Report on Form 10-K for the fiscal year ended April 30, 1982 is incorporated herein by reference.

(d) Palm Valley Petroleum Lease (OL3) dated November 9, 1982 filed as exhibit 10(h) to Report on Form 10-K for the fiscal year ended April 30, 1983 is incorporated herein by reference.

(e) Agreements relating to Kotaneelee.

(1) Copy of Agreement dated May 28, 1959 between the Company et al and Home Oil Company Limited et al and Signal Oil and Gas Company filed as exhibit 10(d) to Report on Form 10-K filed by Canada Southern Petroleum Ltd. for the fiscal year ended June 30, 1987 is incorporated herein by reference.

(2) Copies of Supplementary Documents to May 28, 1959 Agreement (see (1) above), dated June 24, 1959, consisting of Guarantee by Home Oil Company Limited and Pipeline Promotion Agreement filed as exhibit 10(d) to Report on Form 10-K filed by Canada Southern Petroleum Ltd. for the fiscal year ended June 30, 1987 is incorporated herein by reference.

(3) Copy of Modification to Agreement dated May 28, 1959 (see (1) above), made as of January 31, 1961 filed as exhibit 10(d) to Report on Form 10-K filed by Canada Southern Petroleum Ltd. for the fiscal year ended June 30, 1987 is incorporated herein by reference.

(4) Copy of Letter Agreement dated February 1, 1977 between the Company and Columbia Gas Development of Canada, Ltd. for operation of the Kotaneelee gas field filed by Canada Southern Petroleum Ltd. as Exhibit 10(d) to Report on Form 10-K for the fiscal year ended June 30, 1981 is incorporated herein by reference.

(f) Palm Valley Operating Agreement dated April 2, 1985 between Magellan Petroleum (N.T.) Pty. Ltd., C. D. Resources Pty. Ltd., Farmout Drillers N.L., Canso Resources Limited, International Oil Proprietary, Pancontinental Petroleum Limited, I.E.D.C. Australia Pty. Ltd., Southern Alloys Ventures Pty. Limited and Amadeus Oil N.L. filed as exhibit 10(i) to Report on Form 10-K for the fiscal year ended April 30, 1985 is incorporated herein by reference.

(g) Mereenie Operating Agreement dated April 27, 1984 between Magellan Petroleum (N.T.) Pty., United Oil & Gas Co. (N.T.) Pty. Ltd., Canso

Resources Limited, Oilmin (N.T.) Pty. Ltd., Krewliff Investments Pty. Ltd., Transoil (N.T.) Pty. Ltd. and Farmout Drillers NL filed as exhibit 10(l) to Report on Form 10-K for the fiscal year ended April 30, 1984 and Amendment of October 3, 1984 to the above agreement filed as exhibit 10(j) to Report on Form 10-K for the fiscal year ended April 30, 1985 is incorporated herein by reference.

- (h) Palm Valley Gas Purchase Agreement dated June 28, 1985 between Magellan Petroleum (N.T.) Pty. Ltd., C. D. Resources Pty., Ltd, Farmout Drillers N.L., Canso Resources Limited, International Oil Proprietary, Pancontinental Petroleum Limited, IEDC Australia Pty Limited, Amadeus Oil N.L., Southern Alloy Venture Pty. Limited and Gasgo Pty., Limited. Also included are the Guarantee of the Northern Territory of Australia dated June 28, 1985 and Certification letter dated June 28, 1985 that the Guarantee is binding. All of the above were filed as exhibit 10(p) to Report on Form 10-K for the fiscal year ended April 30, 1985 and are incorporated herein by reference.
- (i) Mereenie Gas Purchase Agreement dated June 28, 1985 between Magellan Petroleum (N.T.) Pty. Ltd., United Oil & Gas Co. (N.T.) Pty. Ltd., Canso Resources Limited, Moonie Oil N.L., Petromin No Liability, Transoil No Liability, Farmout Drillers N.L., Gasgo Pty. Limited, The Moonie Oil Company Limited, Magellan Petroleum Australia Limited and Flinders Petroleum N.L. Also included are the Guarantee of the Northern Territory of Australia dated June 28, 1985 and Certification letter dated June 28, 1985 that the Guarantee is binding. All of the above were filed as exhibit 10(q) to Report on Form 10-K for the fiscal year ended April 30, 1985 and are incorporated herein by reference.
- (j) Agreements dated June 28, 1985 relating to Amadeus Basin -Darwin Pipeline which include Deed of Trust Amadeus Gas Trust, Undertaking by the Northern Territory Electric Commission and Undertaking from the Northern Territory Gas Pty Ltd. filed as exhibit 10(r) to Report on Form 10-K for the fiscal year ended April 30, 1985 are incorporated herein by reference.
- (k) Agreement between the Mereenie Producers and the Palm Valley Producers dated June 28, 1985, filed as exhibit 10(s) to Report on Form 10-K for the fiscal year ended April 30, 1985 is incorporated herein by reference.
- (l) Form of Agreement pursuant to Article SIXTEENTH of the Company's Certificate of Incorporation and the applicable By-Law to indemnify the Company's directors and officers is filed as exhibit 10(s) to Registration Statement No. 33-21311, is incorporated herein by reference.
- (m) Revolving Credit Agreement dated as of March 19, 1987, as amended and restated as of May 5, 1988 between Magellan Petroleum Corporation and National Australian Bank Limited and First Amendment to such agreement dated as of May 5, 1988 filed as exhibit (t) to Registration Statement No. 33-21311, are incorporated herein by reference. Second Amendment to such agreement dated as of March 19, 1990 as filed as exhibit 10(s) to Report on Form 10-K for the fiscal year ended June 30, 1990 is incorporated herein by reference.

11. Statement re computation of per share earnings.

Not applicable.

12. Statement re computation of ratios.

None.

13. Annual report to security holders.

Not applicable.

16. Letter re change in certifying accountant.

None.

18. Letter re change in accounting principles.

None.

19. Report furnished to security holders.

None.

21. Subsidiaries of the registrant.

(a) Magellan Petroleum Australia Limited, incorporated in Queensland, Australia.

(b) Magellan Petroleum (N.T.) Pty. Ltd., incorporated in Queensland, Australia.

(c) Paroo Petroleum Pty. Ltd., incorporated in Queensland, Australia.

(d) Paroo Petroleum (Holdings), Inc., incorporated in Delaware, U.S.A.

(e) Paroo Petroleum(USA), Inc., incorporated in Delaware, U.S.A.

(f) Pacoota Resources Limited, incorporated in Alberta, Canada

(g) Hadborough Pty. Ltd., incorporated in Queensland, Australia

(h) Magellan Petroleum (Eastern) Pty. Ltd., incorporated in Queensland, Australia. (i) Magellan Petroleum (Burunga) Pty., Ltd., incorporated in Queensland, Australia.

(j) Magellan Petroleum (Belize) Limited.

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

Not applicable.

23. Consent of experts and counsel.

Consent of Ernst & Young LLP filed herewith.

24. Power of attorney.

Not applicable.

27. Financial Data Schedule.

Filed herein.

28. Information from reports furnished to state insurance regulatory agencies.

None.

99. Additional Exhibits.

None.

(b) Reports on Form 8-K.

None.

SIGNATURES

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

MAGELLAN PETROLEUM CORPORATION

/s/ James R. Joyce  
James R. Joyce, President

Dated: September 18, 1996

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/ Benjamin W. Heath  
Benjamin W. Heath  
Director

/s/ James R. Joyce  
James R. Joyce  
Director, President and Chief  
Executive Officer, Chief  
Financial and Accounting Officer

Dated: September 18, 1996

Dated: September 18, 1996

/s/ Dennis D. Benbow  
Dennis D. Benbow  
Director

/s/ Walter McCann  
Walter McCann  
Director

Dated: September 18, 1996

Dated: September 18, 1996

/s/ Timothy L. Largay  
Timothy L. Largay  
Director

/s/ C. Dean Reasoner  
C. Dean Reasoner  
Director

Dated: September 18, 1996

Dated: September 18, 1996

EXHIBIT 23

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 33-38429) pertaining to the Stock Option Plan of Magellan Petroleum Corporation of our report dated September 5, 1996, with respect to the consolidated financial statements of Magellan Petroleum Corporation included in the Annual Report (Form 10-K) for the year ended June 30, 1996.

ERNST & YOUNG LLP

Hartford, Connecticut  
September 12, 1996

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