

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

(Mark one)

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

For the quarterly period ended September 30, 1998  
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TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

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

Commission file number 1-5507

MAGELLAN PETROLEUM CORPORATION

-----  
(Exact name of registrant as specified in its charter)

DELAWARE 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)

203-245-7664

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

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

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

Yes  No

The number of shares outstanding of the issuer's single class of common  
stock as of November 5, 1998 was 25,032,495.

MAGELLAN PETROLEUM CORPORATION

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEET  
(unaudited)

<TABLE>  
<CAPTION>

	September 30, 1998	June 30, 1998
--	-----------------------	------------------

ASSETS

Current assets:

<S>	<C>	<C>	
Cash and cash equivalents	\$10,986,382	\$12,436,297	
Accounts receivable	1,262,876	567,175	
Marketable securities	2,047,015	1,265,495	
Reimbursable development costs	154,516	191,266	
Inventories	175,013	218,359	
Other assets	266,134	296,933	
	-----	-----	
Total current assets	14,891,936	14,975,525	
	-----	-----	
Marketable securities	1,200,473	1,201,890	
	-----	-----	
Property and equipment:			
Oil and gas properties (successful efforts method)	37,976,614	39,196,101	
Land, buildings and equipment	1,481,771	1,510,666	
Field equipment	1,213,010	1,262,464	
	-----	-----	
Total property and equipment	40,671,395	41,969,231	
Less accumulated depletion, depreciation and amortization	(18,680,256)	(18,949,917)	
	-----	-----	
Net property and equipment	21,991,139	23,019,314	
	-----	-----	
Other assets	557,717	582,251	
	-----	-----	
Total assets	\$38,641,265	\$39,778,980	
	=====	=====	
LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$ 2,670,583	\$ 1,918,880	
Accrued liabilities	708,363	806,150	
	-----	-----	
Total current liabilities	3,378,946	2,725,030	
	-----	-----	
Long term liabilities:			
Deferred income taxes	5,555,235	5,854,261	
Reserve for future site restoration costs	659,463	657,288	
	-----	-----	
Total long term liabilities	6,214,698	6,511,549	
	-----	-----	
Minority interests	12,465,521	13,123,313	
	-----	-----	
Stockholders' equity:			
Common stock, par value \$.01 per share:			
Authorized 50,000,000 shares			
Outstanding 25,032,495 and 24,982,495 shares, respectively	250,325	249,825	
Capital in excess of par value	43,572,363	43,532,238	
	-----	-----	
Total capital	43,822,688	43,782,063	
Accumulated deficit	(19,523,338)	(19,350,036)	
Foreign currency translation adjustments	(7,717,250)	(7,012,939)	
	-----	-----	
Total stockholders' equity	16,582,100	17,419,088	
	-----	-----	
Total liabilities, minority interests and stockholders' equity	\$38,641,265	\$39,778,980	
	=====	=====	

</TABLE>

MAGELLAN PETROLEUM CORPORATION

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED STATEMENT OF OPERATIONS  
(unaudited)

<TABLE>  
<CAPTION>

	Three months ended September 30,	
	1998	1997
Revenues:		
<S>	<C>	<C>
Oil sales	\$ 690,170	\$1,143,547
Gas sales	2,199,841	2,883,126
Other production related revenues		130,358
Interest income	179,811	196,522
	3,200,180	4,551,812
Costs and expenses:		
Production costs	1,075,893	933,909
Exploration and dry hole costs	1,058,426	1,603,046
Salaries and employee benefits	347,653	405,098
Depletion, depreciation and amortization	519,671	520,669
Auditing, accounting and legal services	180,873	179,810
Shareholder communications		33,964
Other administrative expenses	181,620	280,844
	3,398,100	3,942,991
Income (loss) before income taxes and minority interests		(197,920)
Income tax provision (credit)		251,289
		608,821
Income (loss) before minority interests		(145,085)
Minority interests	28,217	287,669
		357,532
Net (loss) income	\$ (173,302)	\$ 69,863
Average number of shares:		
Basic	25,019,995	24,874,683
Diluted	25,121,540	25,070,467
Net income (loss) per share (basic & diluted)		\$(.01)
		\$ -

</TABLE>

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
(unaudited)

<TABLE>  
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	Number of shares	Capital in		Foreign currency		Comprehensive income	
		Common stock	excess of par value	Accumulated Deficit	translation adjustments	Total	(loss)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
July 1, 1998	24,982,495	\$249,825	\$43,532,238	\$(19,350,036)	\$(7,012,939)	\$17,419,088	\$(26,362,975)
Net income (loss)	-	-	(173,302)	-	(173,302)	(173,302)	
Currency translation adjustments	-	-	-	(704,311)	(704,311)	(704,311)	
Exercise of stock options	50,000	500	40,125	-	40,625	-	
Comprehensive income (loss)					(877,613)		

</TABLE>

MAGELLAN PETROLEUM CORPORATION

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS  
(unaudited)

<TABLE>  
<CAPTION>

	Three months ended September 30,	
	1998	1997
	-----	-----
Operating Activities:		
<S> Net (loss) income	<C> \$ (173,302)	<C> \$ 69,863
Adjustments to reconcile net income to net cash provided by operating activities:		
Depletion, depreciation and amortization	519,671	520,669
Deferred income taxes	(299,026)	(16,268)
Minority interests	28,217	287,669
Increase (decrease) in operating assets and liabilities:		
Accounts receivable	(451,649)	(456,361)
Reimbursable development costs	86,312	(401,451)
Other assets	79,867	(5,501)
Inventories	99,201	(16,264)
Accounts payable and accrued liabilities	1,502,064	1,574,298
Net cash provided by operating activities	----- 1,391,355	----- 1,556,654
Investing Activities:		
Purchase of marketable securities	(780,103)	70,001
Net additions to property and equipment	(1,614,371)	(1,687,655)
Net cash used in investing activities	----- (2,394,474)	----- (1,617,654)
Financing Activities:		
Exercise of stock options	40,625	88,125
Net cash provided in financing activities	----- 40,625	----- 88,125
Effect of exchange rate changes on cash and cash equivalents	(487,421)	(399,953)
Net decrease in cash and cash equivalents	----- (1,449,915)	----- (372,828)
Cash and cash equivalents at beginning of year	12,436,297	12,942,862
Cash and cash equivalents at end of period	----- \$10,986,382	----- \$12,570,034

</TABLE>

MAGELLAN PETROLEUM CORPORATION

PART I - FINANCIAL INFORMATION

September 30, 1998

Item 1. Financial Statements - Notes

The information for the three month period ended September 30, 1998 and 1997, is unaudited but includes all adjustments which the Company considers necessary for a fair presentation of the results of operations for those periods. All adjustments are of a normal recurring nature. The consolidated financial statements include the Company's 50.7% owned subsidiary, Magellan Petroleum Australia Limited ("MPAL").

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Statements included in Management's Discussion and Analysis of Financial Condition and Results of Operations which are not historical in nature, are intended to be, and are hereby identified as "forward looking statements" for purposes of the "Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995. The Company cautions readers that forward looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward looking statements.

The Company follows the successful efforts method of accounting for its oil and gas operations; therefore, the results of operations may vary materially from quarter to quarter. An active exploration program may result in greater exploration and dry holes costs. Under this method, the cost of drilling a dry hole is written off immediately.

As of July 1, 1998, the Company adopted Statement 130, Reporting Comprehensive Income. Statement 130 establishes new rules for the reporting and display of comprehensive income and its components; however, the adoption of this Statement had no impact on the Company's net income or shareholders' equity. Statement 130 requires unrealized gains or losses on the Company's available-for-sale securities and foreign currency translation adjustments to be included in other comprehensive income. Prior to the adoption of Statement 130, these items were reported separately in stockholders' equity. Prior year financial statements have been reclassified to conform to the requirements of Statement 130.

During the first quarter of fiscal 1999 and 1998, total comprehensive loss amounted to \$877,613 and \$827,627, respectively.

Liquidity and Capital Resources

Consolidated

At September 30, 1998, the Company on a consolidated basis had approximately \$14,234,000 in cash and securities.

MAGELLAN PETROLEUM CORPORATION

PART I - FINANCIAL INFORMATION

September 30, 1998

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Cont'd)

A summary of the major changes in cash and cash equivalents during the period is as follows:

Cash and cash equivalents at beginning of period	\$12,436,000
Cash provided by operations	1,391,000
Net additions to property and equipment	(1,614,000)
Purchase of marketable securities	(780,000)
Other	(447,000)
	-----

Cash and cash equivalents at end of period \$10,986,000

As to MPC

At September 30, 1998, Magellan Petroleum Corporation ("MPC"), on an unconsolidated basis, had working capital of approximately \$3.6 million. 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 1999, MPC has budgeted approximately \$300,000 for oil and gas exploration compared to the \$111,000 expended during 1998. 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 September 1998, MPAL announced that its Board of Directors had recommended a dividend of A\$.05 per share. MPC's share of this dividend after withholding taxes is approximately \$600,000, which will be added to the Company's working capital.

As to MPAL

At September 30, 1998, MPAL had working capital of approximately \$9.1 million. MPAL has budgeted approximately \$3.6 million for exploration in fiscal 1999 as compared to the \$3.3 million expended during fiscal 1998. 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.

#### Results of Operations

Three month period ended September 30, 1998 vs. September 30, 1997.

The Company had a consolidated net loss of \$173,302 for the three month period ended September 30, 1998 compared to net income of \$69,863 for the comparable 1997 period. The components of consolidated net income for the comparable periods were as follows:

#### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Cont'd)

	Three month period ended September 30,	
	1998	1997
MPC unconsolidated pretax loss	\$(202,271)	\$(224,481)
MPC income tax	-	(1,000)
Share of MPAL pretax income	2,204	422,136
Share of MPAL income tax (provision) credit	26,765	(126,792)
Consolidated net income	<u>\$ 173,302</u>	<u>\$ 69,863</u>
Net loss per share (basic & diluted)	<u>\$(.01)</u>	<u>\$ -</u>

#### Revenues

Oil sales decreased by 40% in the current quarter to \$690,000 from \$1,144,000 in 1997 because of an 18% decrease in oil prices, the 19% Australian foreign exchange rate decrease discussed below and a 9% decrease in the number of units produced. Oil unit sales (before deducting royalties) in barrels ("bbls") and the average price per barrel sold during the periods indicated were as follows:

Three month period ended September 30,	
1998 Sales	1997 Sales
-----	-----

	Average price bbls      per bbl	bbls	Average price per bbl
Australia-Mereenie	64,289	20.83	70,851    A.\$25.49

Gas sales decreased 24% to \$2,200,000 in 1998 from \$2,883,000 in 1997 because of the 19% Australian foreign exchange rate decrease discussed below which was partially offset by a 3% increase in the volume of gas sold. 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:

	Three month period ended September 30,			
	1998 Sales		1997 Sales	
	bcf	Average price per mcf	bcf	Average price per mcf
	(A.\$)		(A.\$)	
Australia:				
Palm Valley				
Alice Springs contract	.285	2.97	.280	2.95
Darwin contract	.723	2.02	.633	2.02
Mereenie:				
Darwin contract	.526	1.99	.454	1.94
Other	.245	2.68	.427	2.82
Total	1.779		1.794	

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Cont'd)

Other production related revenues decreased 60% to \$130,000 in 1998 compared to \$329,000 in 1997. The primary reason for this decrease was that MPAL's share of gas pipeline tariffs decreased to \$99,000 in 1998 compared to \$298,000 in 1997 because of a continuing dispute regarding the producer's share of the tariffs.

Interest decreased 9% to \$180,000 in 1998 from \$197,000 in 1997. Although additional funds were available for investment, substantially lower interest rates and the 19% Australian foreign exchange rate decrease as discussed below offset the increase.

### Costs and Expenses

Production costs increased 15% in 1998 to \$1,076,000 from \$934,000 in 1997. The increase relates to the costs at Mereenie where remedial work is being performed on certain wells.

Exploration and dry hole costs totaled \$1,058,000 in 1998 compared to \$1,603,000 in 1997. In 1998, the Newhaven well in the Ngalia basin and Springbok well offshore Western Australia were abandoned.

Shareholder communication costs increased 73% from \$20,000 in 1997 to \$34,000 in 1998. In 1998, certain costs to hold the MPAL Annual Meeting were incurred earlier than in the prior year.

Other administrative expenses decreased 35% from \$273,000 in 1997 to \$182,000 in 1998. Travel expenses decreased and there was a 19% Australian foreign exchange rate decrease as discussed below.

### Income Taxes

Income tax expense decreased from \$251,000 in 1997 to a credit of \$53,000 in 1998. The components of tax income expense between MPC and MPAL were as follows:

	1998	1997
MPC	\$ -	\$ 1,000
MPAL	(53,000)	250,000
Consolidated tax (credit)	\$(53,000)	\$251,000

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Cont'd)

Exchange Effect

The value of the Australian dollar relative to the U.S. dollar decreased to \$.5933 at September 30, 1998 compared to a value of \$.6194 at June 30, 1998. This resulted in a \$704,000 charge to the foreign currency translation adjustments account for the three month period ended September 30, 1998. The 4% decrease in the value of the Australian dollar decreased the reported asset and liability amounts in the balance at September 30, 1998 from the June 30, 1998 amounts. The average exchange rate used to translate MPAL's operations in Australia was \$.5989 for the quarter ended September 30, 1998, which is a 19% decrease compared to the \$.7355 rate for the quarter ended September 30, 1997.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

The information required by this item is not applicable to the Company because the Company does not own any market risk sensitive instruments. During the first quarter of fiscal 1999, the value of the Australian dollar relative to the U.S. dollar decreased 4% and reduced the reported asset amounts at September 30, 1998 from the June 30, 1998 amounts.

MAGELLAN PETROLEUM CORPORATION

PART II - OTHER INFORMATION

September 30, 1998

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None.

(b) Reports on Form 8-K

On September 11, 1998, the Company filed a Current Report on Form 8-K to report that the Annual Meeting of Stockholders will be held on December 2, 1998 at 1:00 p.m. at the Hyatt Regency Orlando International Hotel, 9300 Airport Boulevard, Orlando, Florida 32827.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized:

MAGELLAN PETROLEUM CORPORATION  
Registrant

Date: November 10, 1998                      By /s/ James R. Joyce  
James R. Joyce, President and  
Chief Financial and Accounting Officer

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