

MAGELLAN PETROLEUM CORP /DE/

Form 10-Q/A

October 23, 2008

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
(Amendment No. 1)
FORM 10-Q/A**

(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, 2007

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 incorporation or organization) (I.R.S. Employer Identification No.)

10 Columbus Boulevard, Hartford, Connecticut 06106
(Address of principal executive offices) (Zip Code)
(860) 293-2006
(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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

The number of shares outstanding of the issuer's single class of common stock as of November 12, 2007 was 41,500,325.

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IMPORTANT INFORMATION REGARDING THIS FORM 10-Q/A

Explanatory Note

This Amendment No. 1 to our Quarterly Report on Form 10-Q for the period ended September 30, 2007 is being filed solely to provide revised disclosure regarding the Company's recording of depletion expense in 1) the financial statement and related footnotes, 2) management's discussion and analysis of financial condition and results of operations, and 3) quantitative and qualitative disclosure about market risk.

As discussed in Note 8 to the accompanying consolidated financial statements in Item 1 of this quarterly report on Form 10-Q/A, subsequent to the issuance of the Company's Form 10-Q for the period ended September 30, 2007, the Company's management determined that depletion expense was miscalculated due to the misapplication of reserve information for a group of new wells which principally began production in fiscal 2008. Depletion expense for the period ended September 30, 2007 was understated by \$1,247,108. The restatement has no impact on the consolidated cash flows from operations or cash and cash equivalent balances for the period presented in this Form 10-Q/A. The effects of the restatement on the previously reported Consolidated Statements of Operations for the three months ended September 30, 2007, Consolidated Balance Sheet as of September 30, 2007 and the Consolidated Statement of Cash Flows for the three months ended September 30, 2007 are presented in Note 8.

For the convenience of the reader, this Form 10-Q/A sets forth the entire Form 10-Q. However, this Form 10-Q/A amends and restates only portions of Part I, Items 1, 2, 3 and 4. No other Items of the filing have been amended or revised. In addition, no information in this Form 10-Q/A has been updated for any subsequent events occurring after

November 14, 2007, the date of the original filing.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS

	SEPTEMBER 30, 2007 (UNAUDITED) (As restated, see Note 8)	JUNE 30, 2007 (NOTE)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 27,985,199	\$ 28,470,448
Accounts receivable Trade (net of allowance for doubtful accounts of \$77,134 and \$69,658 at September 30 and June 30, 2007, respectively)	6,729,394	5,044,258
Marketable securities	2,891,245	2,974,280
Inventories	727,028	702,356
Other assets	290,702	378,808
Total current assets	38,623,568	37,570,150
Deferred income taxes	2,102,868	2,300,830
Marketable securities	1,000,000	1,403,987
Property and equipment, net:		
Oil and gas properties (successful efforts method)	126,026,776	120,734,449
Land, buildings and equipment	2,963,178	2,846,433
Field equipment	950,696	912,396
	129,940,650	124,493,278
Less accumulated depletion, depreciation and amortization	(92,105,296)	(84,172,522)
Net property and equipment	37,835,354	40,320,756
Goodwill	4,020,706	4,020,706
Total assets	\$ 83,582,496	\$ 85,616,429
LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 1,520,644	\$ 5,313,653
Accounts payable-working interest partners	183,383	222,883
Accrued liabilities	1,698,645	1,382,320
Income taxes payable	1,110,750	1,647,137
Total current liabilities	4,513,422	8,565,993

Long term liabilities:		
Deferred income taxes	3,225,726	3,518,990
Other long term liabilities	34,120	100,578
Asset retirement obligations	10,003,407	9,456,088
Total long term liabilities	13,263,253	13,075,656
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Common stock, par value \$.01 per share:		
Authorized 200,000,000 shares Outstanding 41,500,325 and 41,500,325 shares	415,001	415,001
Capital in excess of par value	73,153,002	73,153,002
Accumulated deficit	(14,440,295)	(13,965,849)
Accumulated other comprehensive income	6,678,113	4,372,626
Total stockholders' equity	65,805,821	63,974,780
Total liabilities and stockholders' equity	\$ 83,582,496	\$ 85,616,429

Note: The balance sheet at June 30, 2007 has been derived from the audited consolidated financial statements at that date.

See accompanying notes.

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MAGELLAN PETROLEUM CORPORATION
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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	THREE MONTHS ENDED	
	SEPTEMBER 30,	
	2007	2006
	(As restated, see Note 8)	
REVENUES:		
Oil sales	\$ 4,732,820	\$ 2,925,514
Gas sales	3,989,184	3,403,398
Other production related revenues	599,929	494,252
Total revenues	9,321,933	6,823,164
COSTS AND EXPENSES:		
Production costs	2,098,026	1,791,139
Exploratory and dry hole costs	2,013,474	431,983
Salaries and employee benefits	444,509	315,130
Depletion, depreciation and amortization	4,408,364	2,001,952
Auditing, accounting and legal services	237,051	175,805
Accretion expense	170,208	131,767
Shareholder communications	47,066	76,547
Gain on sale of field equipment	(9,653)	
Other administrative expenses	869,913	522,612
Total costs and expenses	10,278,958	5,446,935
Operating (loss) income	(957,025)	1,376,229
Interest income	489,217	345,121
(Loss) income before income taxes	(467,808)	1,721,350
Income tax provision	(6,638)	(691,213)
Net (loss) income	\$ (474,446)	\$ 1,030,137
Average number of shares:		
Basic	41,500,138	41,500,138
Diluted	41,500,138	41,500,138
Net (loss) income per share (basic and diluted)	\$ (0.01)	\$ 0.02

See accompanying notes

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MAGELLAN PETROLEUM CORPORATION
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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	THREE MONTHS ENDED	
	SEPTEMBER 30,	
	2007	2006
	(As	
	restated,	
	see Note 8)	
OPERATING ACTIVITIES:		
Net (loss) income	\$ (474,446)	\$ 1,030,137
Adjustments to reconcile net loss to net cash provided by operating activities:		
Gain from sale of field equipment	(9,653)	
Depletion, depreciation and amortization	4,408,364	2,001,952
Accretion expense	170,208	131,767
Deferred income taxes	(7,890)	884,826
Stock option expense		1,238
Exploration and dry hole costs	2,013,474	386,875
Increase (decrease) in operating assets and liabilities:		
Accounts receivable	(1,433,939)	219,553
Other assets	88,106	39,171
Inventories	5,329	(113,148)
Accounts payable and accrued liabilities	(3,182,900)	(19,428)
Income taxes payable	(589,618)	(335)
Net cash provided by operating activities	987,035	4,562,608
INVESTING ACTIVITIES:		
Proceeds from sale of field equipment	9,653	
Additions to property and equipment	(1,386,371)	(1,280,597)
Oil and gas exploration activities	(2,013,474)	(386,875)
Marketable securities matured	737,769	149,991
Marketable securities purchased	(250,747)	(969,645)
Net cash used in investing activities	(2,903,170)	(2,487,126)
FINANCING ACTIVITIES:		
Net cash used in financing activities		
Effect of exchange rate changes on cash and cash equivalents	1,430,886	1,109,978
Net increase in cash and cash equivalents	(485,249)	3,185,460
Cash and cash equivalents at beginning of period	28,470,448	21,882,882
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 27,985,199	\$ 25,068,342

Cash Payments:

Income taxes

615,388

Interest

Supplemental Schedule of Non-cash Investing and Financing Activities:

At September 30, 2007 and 2006, accounts payable included \$872,847 and \$989,004 of payables related to property and equipment.

See accompanying notes.

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MAGELLAN PETROLEUM CORPORATION
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PART I FINANCIAL INFORMATION

ITEM 1: NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

Magellan Petroleum Corporation (the Company or MPC) is engaged in the sale of oil and gas and the exploration for and development of oil and gas reserves. MPC's principal asset is a 100% equity interest in its subsidiary, Magellan Petroleum Australia Limited (MPAL). MPAL's major assets are two petroleum production leases covering the Mereenie oil and gas field (35% working interest), one petroleum production lease covering the Palm Valley gas field (52% working interest), and three petroleum production leases covering the Nockatunga oil field (41% working interest). Both the Mereenie and Palm Valley fields are located in the Amadeus Basin in the Northern Territory of Australia. The Nockatunga field is located in the Cooper Basin in South Australia. MPC has a direct 2.67% carried interest in the Kotaneelee gas field in the Yukon Territory of Canada.

The accompanying unaudited consolidated financial statements include the accounts of MPC and MPAL, collectively the Company, and have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All such adjustments are of a normal recurring nature. Operating results for the three months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending June 30, 2008. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2007. All amounts presented are in United States dollars, unless otherwise noted.

Certain reclassifications of prior period data included in the accompanying consolidated financial statements have been made to conform with current financial statement presentation. Recoverable expenses representing intercompany charges of \$331,395 for the quarter ended September 30, 2006 were reclassified from other administrative expenses to salaries and employee benefits on the consolidated statements of operations. This reclassification did not impact previously reported operating or net income. A decrease in construction payables of \$77,623 for the quarter ended September 30, 2006 has been reclassified to additions to property and equipment on the consolidated statements of cash flows. This reclassification did not impact previously reported subtotals for operating, investing or financing cash flows.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. SFAS No. 157 is effective for the Company beginning July 1, 2008. The Company is currently evaluating the impact, if any, the adoption of SFAS No. 157 will have on our consolidated financial position, results of operations and cash flows.

In February 2007, the FASB issued SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities, (SFAS 159). SFAS 159 provides companies with an option to report selected financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. SFAS 159 is effective for the Company beginning July 1, 2008. The Company is currently in the process of evaluating the impact of adopting SFAS 159 on its consolidated financial statements.

Note 2. Comprehensive Income

Total comprehensive income during the three month periods ended September 30, 2007 and 2006 was as follows:

	THREE MONTHS ENDED SEPTEMBER 30, 2007		ACCUMULATED OTHER COMPREHENSIVE INCOME
Balance at June 30, 2007			\$ 4,372,626
Net (loss) income	\$ (474,446)	\$ 1,030,137	
Foreign currency translation adjustments	2,305,487	1,275,955	2,305,487
Total comprehensive income	\$ 1,831,041	\$ 2,306,092	
Balance at September 30, 2007			\$ 6,678,113

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Note 3. Earnings (Loss) per Share

Earnings per common share are based upon the weighted average number of common and common equivalent shares outstanding during the period. The only reconciling item in the calculation of diluted EPS is the dilutive effect of stock options which were computed using the treasury stock method. During the three months ended September 30, 2007 and 2006, the Company did not issue any stock options. At September 30, 2007 and 2006, the Company did not have any stock options that were issued that had a stock price below the average stock price for the period. Accordingly, there were no other potentially dilutive items at September 30, 2007 and 2006.

Note 4. Segment Information

The Company has two reportable segments, MPC and its wholly owned subsidiary, MPAL. The Company's chief operating decision maker is Daniel J. Samela (President, Chief Executive Officer and Chief Accounting and Financial Officer) who reviews the results of the MPC and MPAL businesses on a regular basis. MPC and MPAL both engage in business activities from which it may earn revenues and incur expenses. MPAL and its subsidiaries are considered one segment. Although there is discreet information available below the MPAL level, their products and services, production processes, market distribution and customers are similar in nature. In addition, MPAL has a management team which focuses on drilling efforts, capital expenditures and other operational activities.

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

	THREE MONTHS ENDED SEPTEMBER 30,	
	2007	2006
Revenues:		
MPC	\$ 59	\$ 1
MPAL	9,263	6,822
Total consolidated revenues	\$ 9,322	\$ 6,823
Net (loss) income:		
MPC	\$ (489)	\$ (424)
MPAL	15	1,454
Consolidated net (loss) income	\$ (474)	\$ 1,030

Note 5. Exploration and Dry Hole Costs

These costs relate primarily to the exploration work being performed on MPAL's properties. During the quarter ended September 30, 2007, the Company incurred dry hole costs of \$1,461,000 for Petroleum Exploration License (PEL) 93 in the Cooper Basin.

Note 6. Asset Retirement Obligations

A reconciliation of the Company's asset retirement obligations for the three months ended September 30, 2007 was as follows:

Balance at July 1, 2007	\$ 9,456,088
Liabilities incurred	
Liabilities settled	
Accretion expense	170,208
Revisions to estimate	
Exchange effect	377,111
Balance at September 30, 2007	\$ 10,003,407

Note 7. Uncertain Tax Positions

In June 2006, FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 is an interpretation of FASB Statement No. 109 Accounting for Income Taxes. The Company adopted FIN 48 effective July 1, 2007. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting, and disclosing in the financial statements uncertain tax positions that the company has taken or expects to take in its tax returns. Under FIN 48, the Company is able to recognize a tax position based on whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating

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whether a tax position has met the more-likely-than-not recognition threshold, the Company has presumed that its positions will be examined by the appropriate taxing authority that has full knowledge of all relevant information. The second step of FIN 48 adoption is measurement. A tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. An uncertain income tax position will not be recognized if it does not meet the more-likely-than-not threshold. The adoption of FIN 48 did not affect the Company's consolidated financial statements.

The Company has made a policy election that interest and penalty costs, if incurred, will be classified as income taxes in the Company's financial statements. The tax years that remain open and subject to examination by tax jurisdictions are fiscal 2004 to present in the United States and fiscal 1996 to present in Australia.

MPAL, the Company's wholly-owned Australian subsidiary, has been notified that the Australian Taxation Office (ATO) is conducting an audit of the Australian income tax returns of MPAL and its wholly owned subsidiaries for the years 1997- 2005. The ATO audit is focused on certain income tax deductions claimed by Paroo Petroleum Pty. Ltd. (PPPL), a wholly-owned subsidiary of MPAL related to the write-off of outstanding loans made by PPPL to other entities within the MPAL group of companies. As a result of this audit, the ATO has issued position papers which set forth its opinions that these previous deductions should be disallowed, resulting in additional income taxes being payable by MPAL and its subsidiaries. In the position papers, the ATO sets out its legal basis for its conclusions. The ATO has indicated in the position papers that the increase in taxes arising from its proposed positions would be (Aus.) \$13,392,460 (\$US \$11,767,955), plus possible interest and penalties, which could be substantial and exceed the amount of the increased taxes asserted by the ATO. If assessments of this amount are issued by the ATO, and upheld by the Australian courts, such assessments would have a material adverse impact on the Company's financial condition, results of operations and cash flows.

In a comprehensive audit conducted by the ATO in the period 1992-94, the ATO concluded that PPPL was carrying on business as a money lender and accordingly, should, for taxation purposes, account for its interest income on an accrual basis rather than a cash basis. MPAL accepted this conclusion and from that point has been determining its annual Australian taxation liability on this basis (including claiming deductions for bad debts as a money lender).

Recently, the ATO appears to have taken a more aggressive approach with respect to its views regarding income tax deductions attributable to in-house finance companies. Since this change in approach, the ATO has commenced audits of a number of companies involving, among other issues, the appropriate treatment of bad debt deductions taken by in-house finance companies. Magellan understands that, at this time, while there have been negotiated settlements in relation to some of these audits, none of them has reached final resolution in court.

MPAL does not agree with the positions taken by the ATO and has retained the services of experienced Australian tax counsel, and will also be represented by its Australian tax advisors.

Pursuant to the requirements of FIN 48 and based upon advice of its tax counsel, the Company has concluded that it is more likely than not that its tax position regarding these deductions will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Also pursuant to the requirements of FIN 48, the tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The Company has recorded the full benefit of these deductions in the consolidated financial statements upon the adoption of FIN 48 on July 1, 2007.

Settlement discussions between the ATO and MPAL are ongoing in this matter. These discussions could result in a material reduction in the benefit recorded in the Company's consolidated financial statements. The Company is not able to estimate the range of possible changes at this time.

Note 8. Restatement of Financial Information

Subsequent to the issuance of the consolidated financial statements for the period ended September 30, 2007, the Company's management determined that depletion expense was miscalculated due to the misapplication of reserve information for a group of new wells which principally began production in fiscal 2008. Depletion expense for the period ended September 30, 2007 was understated by \$1,247,108. As a result, the consolidated financial statements for the period ended September 30, 2007 have been restated. The restatement has no impact on the consolidated cash flows from operations or cash and cash equivalent balances for the period presented in this Form 10-Q/A.

The following is a summary of the effect of the restatement on the originally issued Consolidated Statements of Operations for the three months ended September 30, 2007, Consolidated Balance Sheet as of September 30, 2007 and Consolidated Statement of Cash Flows for the three months ended September 30, 2007:

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CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	September 30, 2007	
	3 months	
	As Previously Reported	As Restated
Depletion, depreciation and amortization	\$3,161,256	\$ 4,408,364
Total costs and expenses	9,031,850	10,278,958
Operating income (loss)	290,083	(957,025)
Income (loss) before income taxes	779,300	(467,808)
Income tax provision	(380,770)	(6,638)
Net income (loss)	398,530	(474,446)
Per share (basic & diluted)	\$ 0.01	\$ (0.01)

CONSOLIDATED BALANCE SHEET
(Unaudited)

	September 30, 2007	
	As Previously Reported	As Restated
Deferred income tax asset	\$ 1,736,651	\$ 2,102,868
Accumulated depletion, depreciation and amortization	(90,815,121)	(92,105,296)
Net property and equipment	39,125,529	37,835,354
Total assets	84,506,454	83,582,496
Deferred income tax liability	3,246,562	3,225,726
Total long term liabilities	13,284,089	13,263,253
Accumulated deficit	(13,567,319)	(14,440,295)
Accumulated other comprehensive income	6,708,259	6,678,113
Total stockholders' equity	66,708,943	65,805,821
Total liabilities and stockholders' equity	84,506,454	83,582,496

CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	September 30, 2007	
	As Previously Reported	As Restated
Net income (loss)	\$ 398,530	\$ (474,446)
Depletion, depreciation and amortization	3,161,256	4,408,364
Deferred income taxes	366,242	(7,890)

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
RESTATEMENT

As discussed in Note 8 to the accompanying consolidated financial statements in Item 1 of this quarterly report on Form 10-Q/A, subsequent to the issuance of the Company's Form 10-Q for the period ended September 30, 2007, the Company's management determined that depletion expense was miscalculated due to the misapplication of reserve

information for a group of new wells which principally began production in fiscal 2008. Depletion expense for the period ended September 30, 2007 was understated by \$1,247,108. The restatement has no impact on the consolidated cash flows from operations or cash and cash equivalent balances for the period presented in this Form 10-Q/A. The effects of the restatement on the previously reported Consolidated Statements of Operations for the three months ended September 30, 2007, Consolidated Balance Sheet as of September 30, 2007 and the Consolidated Statement of Cash Flows for the three months ended September 30, 2007 are presented in Note 8.

Management's Discussion and Analysis has been revised for the effects of the restatement.

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FORWARD LOOKING STATEMENTS

Statements included in Management's Discussion and Analysis of Financial Condition and Results of Operations which are not historical in nature are intended to be, and are hereby identified as, forward looking statements for purposes of the Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995. The Company cautions readers that forward looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward looking statements. The results reflect fully consolidated financial statements of MPC and MPAL. Among these risks and uncertainties are the ultimate outcome of the MPAL tax audit by the Australian Taxation Office, pricing and production levels from the properties in which the Company has interests, and the extent of the recoverable reserves at those properties. In addition, the Company has a large number of exploration permits and faces the risk that any wells drilled may fail to encounter hydrocarbons in commercially recoverable quantities. The Company undertakes no obligation to update or revise forward-looking statements, whether as a result of new information, future events, or otherwise.

CRITICAL ACCOUNTING POLICIES

Oil and Gas Properties

The Company follows the successful efforts method of accounting for its oil and gas operations. Under this method, the costs of successful wells, development dry holes, productive leases and permit and concession costs are capitalized and amortized on a units-of-production basis over the life of the related reserves. Cost centers for amortization purposes are determined on a field-by-field basis. The Company records its proportionate share in joint venture operations in the respective classifications of assets, liabilities and expenses. Unproved properties with significant acquisition costs are periodically assessed for impairment in value, with any impairment charged to expense. The successful efforts method also imposes limitations on the carrying or book value of proved oil and gas properties. Oil and gas properties are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The Company estimates the future undiscounted cash flows from the affected properties to determine the recoverability of carrying amounts. In general, analyses are based on proved developed reserves, except in circumstances where it is probable that additional resources will be developed and contribute to cash flows in the future. For Mereenie and Palm Valley, proved developed reserves are limited to contracted quantities. If such contracts are extended, the proved developed reserves will be increased to the lesser of the actual proved developed reserves or the contracted quantities.

Exploratory drilling costs are initially capitalized pending determination of proved reserves but are charged to expense if no proved reserves are found. Other exploration costs, including geological and geophysical expenses, leasehold expiration costs and delay rentals, are expensed as incurred. Because the Company follows the successful efforts method of accounting, the results of operations may vary materially from quarter to quarter. An active exploration program may result in greater exploration and dry hole costs.

Income Taxes

The Company follows Financial Accounting Standards Board (FASB) Statement No. 109, Accounting for Income Taxes (SFAS 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. The Company records a valuation allowance for deferred tax assets when it is more likely than not that such assets will not be recovered.

FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48) is an interpretation of SFAS 109 and was adopted by the Company July 1, 2007. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting, and disclosing in the financial statements uncertain tax positions that the company has taken or expects to take in its tax returns. Under FIN 48, the Company is able to recognize a tax position based on whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the Company has presumed that its positions will be examined by the appropriate taxing authority that has full knowledge of all relevant information. The second step of FIN 48 adoption is measurement. A tax position that meets the more-likely-than-not recognition threshold is measured to determine the

amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. An uncertain income tax position will not be recognized if it does not meet the more-likely-than-not threshold. To appropriately account for income tax matters in accordance with SFAS 109 and FIN 48, the Company is required to make significant judgments and estimates regarding the recoverability of deferred tax assets, the likelihood of the outcome of examinations of tax positions that may or may not be currently under review and potential scenarios involving settlements of such matters. Changes in these estimates could materially impact the consolidated financial statements.

Nondepletable Assets

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At September 30 and June 30, 2007, oil and gas properties include \$6.1 million and \$14.8 million, respectively, of capitalized costs that are currently not being depleted. These amounts consist of \$1.7 million and \$1.6 million, respectively, related to PEL 106 in the Cooper Basin which have been capitalized in excess of one year because the related well has sufficient quantity of reserves to justify its completion as a producing well. At June 30, 2007, nondepletable assets also include \$8.8 million of costs relating to drilling in the Nockatunga field which were capitalized as exploratory well costs pending the start of production. Depletion of these costs commenced in the three months ended September 30, 2007 when production started. In addition, as of September 30 and June 30, 2007 capitalized costs not currently being depleted include \$4.4 million associated with exploration permits and licenses in Australia and the U.K. The Company evaluates exploration permits and licenses annually or whenever events or changes in circumstances indicate that the carrying value may be impaired. The Company estimates the value of these assets based upon drilling activity, estimated cash flow and commitments.

Goodwill

Goodwill is not amortized. The Company evaluates goodwill for impairment annually or whenever events or changes in circumstances indicate that the carrying value may be impaired in accordance with methodologies prescribed in SFAS No. 142 Goodwill and Other Intangible Assets. The Company estimates future cash flows to determine if any impairment has occurred. There was no impairment of goodwill as of September 30 and June 30, 2007.

Asset Retirement Obligations

SFAS 143, Accounting for Asset Retirement Obligations requires legal obligations associated with the retirement of long-lived assets to be recognized at their fair value at the time that the obligations are incurred. Upon initial recognition of a liability, that cost is capitalized as part of the related long-lived asset (oil & gas properties) and amortized on a units-of-production basis over the life of the related reserves. Accretion expense in connection with the discounted liability is recognized over the remaining life of the related reserves.

The estimated liability is based on the future estimated cost of land reclamation, plugging the existing oil and gas wells and removing the surface facilities equipment in the Palm Valley, Mereenie, Nockatunga and the Cooper Basin fields. The liability is a discounted liability using a credit-adjusted risk-free rate on the date such liabilities are determined. A market risk premium was excluded from the estimate of asset retirement obligations because the amount was not capable of being estimated. Revisions to the liability could occur due to changes in the estimates of these costs, acquisition of additional properties and as new wells are drilled.

Estimates of future asset retirement obligations include significant management judgment and are based on projected future retirement costs. Judgments are based upon such things as field life and estimated costs. Such costs could differ significantly when they are incurred.

Revenue Recognition

The Company recognizes oil and gas revenue (net of royalties) from its interests in producing wells as oil and gas is produced and sold from those wells. Revenues from the purchase, sale and transportation of natural gas are recognized upon completion of the sale and when transported volumes are delivered. Other production related revenues are primarily MPAL's share of gas pipeline tariff revenues which are recorded at the time of sale. The Company records pipeline tariff revenues on a gross basis with the revenue included in other production related revenues and the remittance of such tariffs are included in production costs. Government sales taxes related to MPAL's oil and gas production revenues are collected by MPAL and remitted to the Australian government. Such amounts are excluded from revenue and expenses. Shipping and handling costs in connection with such deliveries are included in production costs. Revenue under carried interest agreements is recorded in the period when the net proceeds become receivable, measurable and collection is reasonably assured. The time when the net revenues become receivable and collection is reasonably assured depends on the terms and conditions of the relevant agreements and the practices followed by the operator. As a result, net revenues may lag the production month by one or more months.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements

that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. SFAS No. 157 is effective for the Company beginning July 1, 2008. The Company is currently evaluating the impact, if any, the adoption of SFAS No. 157 will have on our consolidated financial position, results of operations and cash flows.

In February 2007, the FASB issued SFAS No. 159 The Fair Value Option for Financial Assets and Financial Liabilities,

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(SFAS 159). SFAS 159 provides companies with an option to report selected financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. SFAS 159 is effective for the Company beginning July 1, 2008. The Company is currently in the process of evaluating the impact of adopting SFAS 159 on its consolidated financial statements.

Executive Summary

MPC is engaged in the sale of oil and gas and the exploration for and development of oil and gas reserves. MPAL's major assets are two petroleum production leases covering the Mereenie oil and gas field (35% working interest), one petroleum production lease covering the Palm Valley gas field (52% working interest), and three petroleum production leases covering the Nockatunga oil fields (41% working interest). Both the Mereenie and Palm Valley fields are located in the Amadeus Basin in the Northern Territory of Australia. The Nockatunga field is located in the Cooper Basin in South Australia. Santos Ltd., a publicly owned Australian company, owns a 48% interest in the Palm Valley field, a 65% interest in the Mereenie field and a 59% interest in the Nockatunga fields. Since 2006, MPAL has refocused its exploration activities into two core areas, the Cooper Basin in onshore Australia and the Weald Basin in the onshore southern United Kingdom with an emphasis on developing a low to medium risk acreage portfolio. MPC also has a direct 2.67% carried interest in the Kotaneelee gas field in the Yukon Territory of Canada.

LIQUIDITY AND CAPITAL RESOURCES

Consolidated

At September 30, 2007, the Company on a consolidated basis had \$27,985,199 of cash and cash equivalents and \$3,891,245 of marketable securities.

Net cash provided by operations was \$987,035 in 2007 versus \$4,562,608 in 2006. The decrease in cash provided by operations is primarily related to a decrease in accounts payable of \$3,163,472 due to the payment of Company's joint venture liabilities related to the Nockatunga project.

The Company invested \$3,399,845 and \$1,667,472 in oil and gas exploration activities, which includes additions to property and equipment, during the three months ended September 30, 2007 and 2006, respectively. The increase was due to increased oil and gas exploration activities for the three months ended September 30, 2007. The Company continues to invest in exploratory projects that result in exploratory and dry hole expenses in the consolidated financial statements.

As previously disclosed, the ATO has conducted an audit of the Australian income tax returns of MPAL and its wholly-owned subsidiaries for the years 1997- 2005. The audit focused on certain income tax deductions claimed by Paroo Petroleum Pty. Ltd. (PPPL), a wholly-owned finance subsidiary of MPAL, related to the write-off of outstanding loans made by PPPL to other entities within the MPAL group of companies. As a result of this audit, the ATO has issued position papers which set forth its opinions that these previous deductions should be disallowed, resulting in additional income taxes being payable by MPAL and its subsidiaries. The ATO has indicated in the position papers that the increase in taxes arising from its proposed positions would be (Aus.) \$13,392,460 (\$US \$11,767,955), plus possible interest and penalties, which could be substantial and exceed the amount of the increased taxes asserted by the ATO. If assessments of this amount are issued by the ATO, and upheld by the Australian courts, such assessments would have a material adverse impact on the Company's liquidity, financial condition, results of operations and cash flows.

Effect of exchange rate changes

The value of the Australian dollar relative to the U.S. dollar increased 4.2% to \$.8787 at September 30, 2007, compared to a value of \$.8433 at June 30, 2007.

As to MPC

At September 30, 2007, MPC, on an unconsolidated basis, had working capital of approximately \$2.8 million. Working capital is comprised of current assets less current liabilities. MPC's current cash position and its annual MPAL dividend should be adequate to meet its current and future cash requirements.

In August 2006, a dividend of approximately \$5.9 million was received from MPAL. Also in August 2006, MPC loaned approximately \$4.1 million to MPAL payable August, 2011 at an interest rate of 5.84%. The tax effect of these transactions was recorded in fiscal year 2006. The loan was repaid in full on March 22, 2007.

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As to MPAL

At September 30, 2007, MPAL had working capital of approximately \$31.3 million. MPAL has budgeted approximately \$7.2 million for specific exploration projects in fiscal year 2008 as compared to \$1.7 million expended in the three months ended September 30, 2007. However, the total amount to be expended may vary depending on when various projects reach the drilling phase. MPAL's current contracts for the sale of Palm Valley and Mereenie gas will expire during fiscal year 2012 and 2009, respectively. Unless MPAL is able to obtain additional contracts for its remaining gas reserves or be successful in its current exploration program, its revenues will be materially reduced after 2009. The Producers are actively pursuing gas sales contracts for the remaining uncontracted reserves at both the Mereenie and Palm Valley gas fields in the Amadeus Basin. While opportunities exist to contract additional gas sales in the Northern Territory market after these dates, there is strong competition within the market and there are no assurances that the Amadeus producers will be able to contract for the sale of the remaining uncontracted reserves.

MPAL expects to fund its exploration costs through its cash and cash equivalents and cash flow from Australian operations. MPAL also expects that it will continue to seek partners to share its exploration costs. If MPAL's efforts to find partners are unsuccessful, it may be unable or unwilling to complete the exploration program for some of its properties.

OFF BALANCE SHEET ARRANGEMENTS

The Company does not use off-balance sheet arrangements such as securitization of receivables with any unconsolidated entities or other parties. The Company is exposed to oil and gas market price volatility and uses fixed pricing contracts with inflation clauses to mitigate this exposure.

The following is a summary of our consolidated contractual obligations at September 30, 2007:

		PAYMENTS DUE BY PERIOD			MORE THAN
		LESS THAN	1-3 YEARS	3-5 YEARS	
CONTRACTUAL OBLIGATIONS	TOTAL	1 YEAR	1-3 YEARS	3-5 YEARS	5 YEARS
Operating Lease Obligations	344,000	208,000	136,000		
Purchase Obligations(1)	3,380,000	3,380,000			
Asset Retirement Obligations	10,003,000	205,000	6,224,000	1,706,000	1,868,000
Total	\$ 13,727,000	\$ 3,793,000	\$ 6,360,000	\$ 1,706,000	1,868,000

(1) Represents firm commitments for exploration and capital expenditures. The Company is committed to these expenditures, however some may be farmed out to third parties. Exploration contingent

expenditures of
 \$15,284,000
 which are not
 legally binding
 have been
 excluded from
 the table above
 and based on
 exploration
 decisions would
 be due as
 follows:
 \$1,158,000 (less
 than 1 year),
 \$14,126,000
 (1-3 years), \$0
 (3-5 years).

**THREE MONTHS ENDED SEPTEMBER 30, 2007 VS. SEPTEMBER 30, 2006
 REVENUES**

OIL SALES INCREASED 62% in the 2007 quarter to \$4,732,820 from \$2,925,514 in 2006 because of the 55% increase in volume and the 12% increase in the exchange rate discussed below. The volume increase was due mostly to increased production from the Nockatunga project. Oil unit sales (after deducting royalties) in barrels (bbls) and the average price per barrel sold during the periods indicated were as follows:

	THREE MONTHS ENDED SEPTEMBER 30, 2007 SALES		2006 SALES	
	BBLs	AVERAGE PRICE A.\$ PER BBL	BBLs	AVERAGE PRICE A.\$ PER BBL
Australia:				
Mereenie field	25,034	89.56	24,911	89.35
Cooper Basin	2,033	93.27	7,003	92.82
Nockatunga project	34,837	78.23	7,965	87.39
Total	61,904	83.33	39,879	89.55

GAS SALES INCREASED 17% to \$3,989,184 in 2007 from \$3,403,398 in 2006 due mostly to an increase in the average price per mcf and the 12% increase in the exchange rate discussed below.

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	THREE MONTHS ENDED SEPTEMBER 30,	
	2007	2006
Australia	\$ 3,930,000	\$ 3,402,000
Canada	59,000	1,000
Total	\$ 3,989,000	\$ 3,403,000

The volumes in billion cubic feet (bcf) (after deducting royalties) and the average price of gas per thousand cubic feet (mcf) sold during the periods indicated were as follows:

	THREE MONTHS ENDED SEPTEMBER 30,			
	2007 SALES		2006 SALES	
	BCF	A.\$ AVERAGE PRICE PER MCF	BCF	A.\$ AVERAGE PRICE PER MCF
Australia: Palm Valley	.345	2.21	.395	2.19
Australia: Mereenie	1.079	3.49	1.039	3.17
Total	1.424	3.17	1.434	2.89

OTHER PRODUCTION RELATED REVENUES INCREASED 21% to \$599,929 in 2007 from \$494,252 in 2006. Other production related revenues are primarily MPAL's share of gas pipeline tariff revenues.

COSTS AND EXPENSES

PRODUCTION COSTS INCREASED 17% in 2007 to \$2,098,026 from \$1,791,139 in 2006. The increase in 2007 was primarily the result of increased expenditures in the Nockatunga project due to increased revenues and the 12% increase in the exchange rate described below.

EXPLORATION AND DRY HOLE COSTS INCREASED 366% to \$2,013,474 in 2007 from \$431,983 in 2006. These costs related to the exploration work performed on MPAL's properties. The primary reasons for the increase in 2007 were the increased drilling costs related to the Cooper Basin drilling program (\$1,461,000) for PEL 93 and the 12% increase in the exchange rate described below.

DEPLETION, DEPRECIATION AND AMORTIZATION INCREASED 120% to \$4,408,364 in 2007 from \$2,001,952 in 2006. This increase was mostly due to the higher book values of MPAL's oil and gas properties acquired during fiscal 2006 (\$514,000), and increased depletion in the Nockatunga project due to increased production and expenditures (\$718,000) as ten new wells were tied into production and the 12% increase in the exchange rate described below.

AUDITING, ACCOUNTING AND LEGAL EXPENSES INCREASED 35% in 2007 to \$237,051 from \$175,805 in 2006 due to higher accounting and auditing costs relating to the purchase of the remaining shares of MPAL and the 12% increase in the exchange rate described below.

ACCRETION EXPENSE INCREASED 29% to \$170,208 in 2007 from \$131,767 in 2006. This was due mostly to accretion of the revised asset retirement obligation recorded in fiscal 2007 and the 12% increase in the exchange rate described below.

OTHER ADMINISTRATIVE EXPENSES INCREASED 66% to \$869,913 in 2007 from \$522,612 in 2006. This is due mostly to increased consulting costs related to the ATO audit and the 12% increase in the exchange rate described below.

INCOME TAXES

INCOME TAX PROVISION DECREASED in 2007 to \$6,638 from \$691,213 in 2006 as a result of a decrease in income before taxes. The components of the income tax (in thousands) between MPC and MPAL are as follows:

	2007	2006
(Loss) income before income taxes	\$ (468)	\$ 1,721
Tax at 30%	(140)	516
MPC's non Australian loss	142	126
Non-taxable Australian revenue	(62)	(84)
Depletion on step up basis oil & gas properties		128
Other permanent differences	52	5
Australian income tax (benefit) provision	(8)	691
MPC income tax provision(a)	15	
Consolidated income tax provision	\$ 7	\$ 691

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	2007	2006
Current income tax provision	\$ 15	\$ 39
Deferred income tax provision	(8)	652
Income tax provision	\$ 7	\$ 691
Effective tax rate	(15%)	40%

(a) MPC's income tax provisions represent the 25% Canadian withholding tax on its Kotaneelee gas field carried interest net proceeds.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 is an interpretation of FASB Statement No. 109 Accounting for Income Taxes and was adopted by the Company July 1, 2007. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting, and disclosing in the financial statements uncertain tax positions that the company has taken or expects to take in its tax returns. Under FIN 48, the Company is able to recognize a tax position based on whether it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. In evaluating whether a tax position has met the more-likely-than-not recognition threshold, the Company has presumed that its positions will be examined by the appropriate taxing authority that has full knowledge of all relevant information. The second step of FIN 48 adoption is measurement. A tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. An uncertain income tax position will not be recognized if it does not meet the more-likely-than-not threshold. The adoption of FIN 48 did not affect the Company's consolidated financial statements.

As previously disclosed, MPAL, the Company's wholly-owned Australian subsidiary, has been notified that the Australian Taxation Office (ATO) is conducting an audit of the Australian income tax returns of MPAL and its wholly owned subsidiaries for the years 1997- 2005. The ATO audit is focused on certain income tax deductions claimed by Paroo Petroleum Pty. Ltd. (PPPL), a wholly-owned subsidiary of MPAL related to the write-off of outstanding loans made by PPPL to other entities within the MPAL group of companies. As a result of this audit, the ATO has issued position papers which set forth its opinions that these previous deductions should be disallowed, resulting in additional income taxes being payable by MPAL and its subsidiaries. In the position papers, the ATO sets out its legal basis for its conclusions. The ATO has indicated in the position papers that the increase in taxes arising from its proposed positions would be (Aus.) \$13,392,460 (\$US 11,767,955), plus possible interest and penalties, which could be substantial and exceed the amount of the increased taxes asserted by the ATO. If assessments of this amount are issued by the ATO, and upheld by the Australian courts, such assessments would have a material adverse impact on the Company's financial condition, results of operations and cash flows.

In a comprehensive audit conducted by the ATO in the period 1992-94, the ATO concluded that PPPL was carrying on business as a money lender and accordingly, should, for taxation purposes, account for its interest income on an accrual basis rather than a cash basis. MPAL accepted this conclusion and from that point has been determining

its annual Australian taxation liability on this basis (including claiming deductions for bad debts as a money lender).

Recently, the ATO appears to have taken a more aggressive approach with respect to its views regarding income tax deductions attributable to in-house finance companies. Since this change in approach, the ATO has commenced audits of a number of companies involving, among other issues, the appropriate treatment of bad debt deductions taken by in-house finance companies. Magellan understands that, at this time, while there have been negotiated settlements in relation to some of these audits none of them has reached final resolution in court.

MPAL does not agree with the positions taken by the ATO and has retained the services of experienced Australian tax counsel, and will also be represented by its Australian tax advisors.

Pursuant to the requirements of FIN 48 and based upon advice of its tax counsel, the Company has concluded that it is more likely than not that its tax position regarding these deductions will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Also pursuant to the requirements of FIN 48, the tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The Company has recorded the full benefit of these deductions in the consolidated financial statements upon the adoption of FIN 48 on July 1, 2007.

Settlement discussions between the ATO and MPAL are ongoing in this matter. These discussions could result in a material reduction in the benefit recorded in the Company's consolidated financial statements. The Company is not able to estimate the range of possible changes at this time.

EXCHANGE EFFECT

THE VALUE OF THE AUSTRALIAN DOLLAR RELATIVE TO THE U.S. DOLLAR INCREASED TO \$.8787 at September 30, 2007 compared to a value of \$.8433 at June 30, 2007. This resulted in a \$2,305,487 credit to the foreign currency translation adjustments account for the three months ended September 30, 2007. The average exchange rate used to translate

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MPAL's operations in Australia was \$.8477 for the quarter ended September 30, 2007, which was a 12% increase compared to the \$.7571 rate for the quarter ended September 30, 2006.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company does not have any significant exposure to market risk, other than as previously discussed regarding foreign currency risk and the risk of fluctuations in the world price of crude oil, as the only market risk sensitive instruments are its investments in marketable securities. At September 30, 2007, the carrying value of our investments in marketable securities including those classified as cash and cash equivalents was approximately \$31.9 million, which approximates the fair value of the securities. Since the Company expects to hold the investments to maturity, the maturity value should be realized. A 10% change in the Australian foreign currency rate compared to the U.S. dollar would increase or decrease revenues and costs and expenses by \$932,000 and \$1,028,000, for the three months ended September 30, 2007, respectively. For the three months period ended September 30, 2007, oil sales represented approximately 54% of production revenues. Based on the current three month's sales volume and revenue, a 10% change in oil price would increase or decrease oil revenues by \$473,000. Gas sales, which represented approximately 46% of production revenues in the current three months, are derived primarily from the Palm Valley and Mereenie fields in the Northern Territory of Australia and the gas prices are set according to long term contracts that are subject to changes in the Australian Consumer Price Index (ACPI) for the three months ended September 30, 2007.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including Daniel J. Samela, the Company's President, Chief Executive Officer and Chief Financial and Accounting Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities and Exchange Act of 1934) as of September 30, 2007. Based on this evaluation, the Company's President concluded that the Company's disclosure controls and procedures were effective such that the material information required to be included in the Company's SEC reports is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms relating to the Company, including its consolidated subsidiaries, and the information required to be disclosed was accumulated and communicated to management as appropriate to allow timely decisions for disclosure.

Internal Control Over Financial Reporting.

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

However, as part of the Company's annual financial close and reporting process for the June 30, 2008 year end, the misapplication of the reserve data in the calculation of depletion expense was discovered by management (see Note 8 of Item 1). MPAL's calculation of depletion ratios used in their local reporting under Australian International Financial Reporting Standards were harmonized with generally accepted accounting standards in the United States in the fourth quarter of fiscal 2008 and since the depletion ratios will be independently calculated and compared by both MPAL and MPC management, the likelihood of a similar error occurring in the future is considered to be remote. The harmonization of the depletion calculation, which was undertaken to promote efficiency in the financial close and reporting process, and the independent calculations described above materially affected and improved the Company's internal controls over financial reporting.

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MAGELLAN PETROLEUM CORPORATION
FORM 10-Q/A
PART II OTHER INFORMATION
SEPTEMBER 30, 2007

ITEM 1 LEGAL PROCEEDINGS

As previously disclosed, MPAL, the Company's wholly-owned Australian subsidiary, has been notified that the Australian Taxation Office (ATO) is conducting an audit of the Australian income tax returns of MPAL and its wholly owned subsidiaries for the years 1997- 2005. The ATO audit is focused on certain income tax deductions claimed by Paroo Petroleum Pty. Ltd. (PPPL), a wholly-owned subsidiary of MPAL related to the write-off of outstanding loans made by PPPL to other entities within the MPAL group of companies. As a result of this audit, the ATO has issued position papers which set forth its opinions that these previous deductions should be disallowed, resulting in additional income taxes being payable by MPAL and its subsidiaries. In the position papers, the ATO sets out its legal basis for its conclusions. The ATO has indicated in the position papers that the increase in taxes arising from its proposed positions would be (Aus.) \$13,392,460 (\$US 11,767,955), plus possible interest and penalties, which could be substantial and exceed the amount of the increased taxes asserted by the ATO. If assessments of this amount are issued by the ATO, and upheld by the Australian courts, such assessments would have a material adverse impact on the Company's financial condition, results of operations and cash flows.

In a comprehensive audit conducted by the ATO in the period 1992 - 94, the ATO concluded that PPPL was carrying on business as a money lender and accordingly, should, for taxation purposes, account for its interest income on an accrual basis rather than a cash basis. MPAL accepted this conclusion and from that point has been determining its annual Australian taxation liability on this basis (including claiming deductions for bad debts as a money lender).

Recently, the ATO appears to have taken a more aggressive approach with respect to its views regarding income tax deductions attributable to in-house finance companies. Since this change in approach, the ATO has commenced audits of a number of companies involving, among other issues, the appropriate treatment of bad debt deductions taken by in-house finance companies. Magellan understands that, at this time, while there have been negotiated settlements in relation to some of these audits, none of them has reached final resolution in court.

MPAL does not agree with the positions taken by the ATO and has retained the services of experienced Australian tax counsel, and will also be represented by its Australian tax advisors. See Note 7, Uncertain Tax Positions and Income Taxes in Item 2 of management's discussion and analysis of financial condition and results of operations for discussions of the impact of the adoption of FIN 48 on the Company's financial statements.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following schedule sets forth the number of shares that the Company has repurchased under any of its repurchase plans for the stated periods, the cost per share of such repurchases and the number of shares that may yet be repurchased under the plans:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan(1)	Maximum Number of Shares that May Yet Be Purchased Under Plan
July 1-31, 2007	0	0	0	319,150
August 1-31, 2007	0	0	0	319,150
September 1-30, 2007	0	0	0	319,150

(1)

The Company through its stock repurchase plan may purchase up to one million shares of its common stock in the open market. Through September 30, 2007, the Company had purchased 680,850 of its shares at an average price of \$1.01 per share or a total cost of approximately \$686,000, all of which shares have been cancelled.

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ITEM 6. EXHIBITS

31. Rule 13a-14(a) Certifications.

Certification of Daniel J. Samela, President, Chief Executive Officer and Chief Financial and Accounting Officer, pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934 is filed herein.

32. Section 1350 Certifications.

Certification of Daniel J. Samela, President, Chief Executive Officer and Chief Financial and Accounting Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, is furnished herein.

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MAGELLAN PETROLEUM CORPORATION
FORM 10-Q/A
SEPTEMBER 30, 2007
SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Amendment No. 1 to quarterly report to be signed on its behalf by the undersigned thereunto duly authorized:

MAGELLAN PETROLEUM
CORPORATION
Registrant

Date: October 23, 2008

By /s/ Daniel J. Samela
Daniel J. Samela,
President and Chief Executive Officer,
Chief Financial and Accounting Officer