

MAGELLAN PETROLEUM CORP /DE/
Form 10-Q/A
October 23, 2008

**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 December 31, 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
(State or other jurisdiction of incorporation or
organization)

06-0842255
(I.R.S. Employer Identification No.)

10 Columbus Boulevard, Hartford, Connecticut
(Address of principal executive offices)

06106
(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 February 07, 2008 was 41,500,325.

MAGELLAN PETROLEUM CORPORATION
 FORM 10-Q/A
 December 31, 2007
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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 December 31, 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 December 31, 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 three and six-month periods ended December 31, 2007 was understated by \$1,569,466 and \$2,816,574, respectively. 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 and six months ended December 31, 2007, Consolidated Balance Sheet as of December 31, 2007 and Consolidated Statement of Cash Flows for the six months ended December 31, 2007 are presented in Note 8.

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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 February 13, 2008, the date of the original filing.

MAGELLAN PETROLEUM CORPORATION
FORM 10-Q/A

PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS

| | December 31, 2007 (UNAUDITED) (As Restated, See Note 8) | JUNE 30, 2007 (NOTE) |
|--|--|-------------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 30,232,678 | \$ 28,470,448 |
| Accounts receivable Trade (net of allowance for doubtful accounts of \$81,500 and \$69,658 at December 31 and June 30, 2007, respectively) | 8,620,669 | 5,044,258 |
| Accounts receivable-working interest partners | 350,269 | |
| Marketable securities | 2,404,507 | 2,974,280 |
| Inventories | 1,096,024 | 702,356 |
| Other assets | 260,832 | 378,808 |
| Total current assets | 42,964,979 | 37,570,150 |
| Deferred income taxes | 2,130,501 | 2,300,830 |
| Marketable securities | 1,000,000 | 1,403,987 |
| Property and equipment, net: | | |
| Oil and gas properties (successful efforts method) | 126,296,515 | 120,734,449 |
| Land, buildings and equipment | 2,983,336 | 2,846,433 |
| Field equipment | 948,532 | 912,396 |
| | 130,228,383 | 124,493,278 |
| Less accumulated depletion, depreciation and amortization | (96,232,203) | (84,172,522) |
| Net property and equipment | 33,996,180 | 40,320,756 |
| Goodwill | 4,020,706 | 4,020,706 |
| Total assets | \$ 84,112,366 | \$ 85,616,429 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 2,425,177 | \$ 5,313,653 |
| Accounts payable-working interest partners | | 222,883 |
| Accrued liabilities | 1,566,905 | 1,382,320 |
| Income taxes payable | 12,068,510 | 1,647,137 |
| Total current liabilities | 16,060,592 | 8,565,993 |

| | | |
|---|----------------------|----------------------|
| Long term liabilities: | | |
| Deferred income taxes | 2,927,294 | 3,518,990 |
| Other long term liabilities | 39,593 | 100,578 |
| Asset retirement obligations | 10,222,099 | 9,456,088 |
| Total long term liabilities | 13,188,986 | 13,075,656 |
| Commitments | | |
| Stockholders' equity: | | |
| Common stock, par value \$.01 per share: | | |
| Authorized 200,000,000 shares, outstanding 41,500,325 | 415,001 | 415,001 |
| Capital in excess of par value | 73,153,002 | 73,153,002 |
| Accumulated deficit | (25,220,404) | (13,965,849) |
| Accumulated other comprehensive income | 6,515,189 | 4,372,626 |
| Total stockholders' equity | 54,862,788 | 63,974,780 |
| Total liabilities and stockholders' equity | \$ 84,112,366 | \$ 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.

MAGELLAN PETROLEUM CORPORATION
FORM 10-Q/A

PART I FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

| | THREE MONTHS ENDED | | SIX MONTHS ENDED | |
|--|--|------------------|--|-------------------|
| | DECEMBER 31, | | DECEMBER 31, | |
| | 2007 | 2006 | 2007 | 2006 |
| | (As restated, see Note 8) | | (As restated, see Note 8) | |
| REVENUES: | | | | |
| Oil sales | \$ 4,887,721 | \$ 3,227,393 | \$ 9,620,541 | \$ 6,152,907 |
| Gas sales | 4,772,980 | 4,490,952 | 8,762,164 | 7,894,350 |
| Other production related revenues | 713,280 | 695,740 | 1,313,209 | 1,189,992 |
| Total revenues | 10,373,981 | 8,414,085 | 19,695,914 | 15,237,249 |
| COSTS AND EXPENSES: | | | | |
| Production costs | 2,525,231 | 1,806,267 | 4,623,257 | 3,597,406 |
| Exploration and dry hole costs | 724,117 | 2,541,280 | 2,737,591 | 2,973,263 |
| Salaries and employee benefits | 375,840 | 394,972 | 820,349 | 710,102 |
| Depletion, depreciation and amortization | 4,365,856 | 2,762,867 | 8,774,220 | 4,764,819 |
| Auditing, accounting and legal services | 321,052 | 148,204 | 558,103 | 324,009 |
| Accretion expense | 176,180 | 134,413 | 346,388 | 266,179 |
| Shareholder communications | 154,222 | 159,342 | 201,288 | 235,890 |
| Gain on sale of field equipment | (17,304) | | (26,957) | |
| Other administrative expenses | 771,732 | 644,969 | 1,641,645 | 1,167,581 |
| Total costs and expenses | 9,396,926 | 8,592,314 | 19,675,884 | 14,039,249 |
| Operating income (loss) | 977,055 | (178,229) | 20,030 | 1,198,000 |
| Interest income | 569,862 | 425,793 | 1,059,079 | 770,913 |
| Income before income taxes | 1,546,917 | 247,564 | 1,079,109 | 1,968,913 |
| Income tax provision | (12,327,026) | (255,471) | (12,333,664) | (946,684) |
| NET (LOSS) INCOME | (10,780,109) | (7,907) | (11,254,555) | 1,022,229 |
| Average number of shares outstanding | | | | |
| Basic | 41,500,325 | 41,500,325 | 41,500,325 | 41,500,325 |
| Diluted | 41,500,325 | 41,500,325 | 41,500,325 | 41,500,325 |
| NET (LOSS) INCOME PER SHARE (BASIC AND DILUTED) | \$ (0.26) | \$ (0.00) | \$ (0.27) | \$ 0.02 |

See accompanying notes

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

ITEM 1 FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

| | SIX MONTHS ENDED | |
|---|--|----------------------|
| | DECEMBER 31, | |
| | 2007 | 2006 |
| | (As restated, see Note 8) | |
| OPERATING ACTIVITIES: | | |
| Net (loss) income | \$ (11,254,555) | \$ 1,022,229 |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Gain from sale of field equipment | (26,957) | |
| Depletion, depreciation and amortization | 8,774,220 | 4,764,819 |
| Accretion expense | 346,388 | 266,179 |
| Deferred income taxes | (324,744) | 1,180,020 |
| Stock option expense | | 4,950 |
| Exploration and dry hole costs | 2,685,371 | 2,861,197 |
| Increase (decrease) in operating assets and liabilities: | | |
| Accounts receivable | (3,290,960) | (1,234,337) |
| Other assets | 117,976 | 61,748 |
| Inventories | (358,054) | 26,709 |
| Accounts payable and accrued liabilities | (3,376,192) | (600,474) |
| Income taxes payable | 10,360,482 | (469,226) |
| Net cash provided by operating activities | 3,652,975 | 7,883,814 |
| INVESTING ACTIVITIES: | | |
| Proceeds from sale of field equipment | 26,957 | |
| Additions to property and equipment | (1,401,692) | (429,874) |
| Oil and gas exploration activities | (2,685,371) | (2,861,197) |
| Marketable securities matured | 1,474,988 | 539,675 |
| Marketable securities purchased | (501,228) | (385,347) |
| Net cash used in investing activities | (3,086,346) | (3,136,743) |
| FINANCING ACTIVITIES: | | |
| Net cash used in financing activities | | |
| Effect of exchange rate changes on cash and cash equivalents | 1,195,601 | 2,422,556 |
| Net increase in cash and cash equivalents | 1,762,230 | 7,169,627 |
| Cash and cash equivalents at beginning of period | 28,470,448 | 21,882,882 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | \$ 30,232,678 | \$ 29,052,509 |

Cash Payments:

| | | |
|--------------|-----------|---------|
| Income taxes | 2,297,926 | 487,312 |
|--------------|-----------|---------|

Interest

Supplemental Schedule of Non-cash Investing and Financing Activities:

At December 31, 2007 and 2006, accounts payable included \$1,654,587 and \$2,696,030 of payables related to property and equipment. A revision to estimates of asset retirement obligations for \$42,882 was made at December 31, 2007.

See accompanying notes.

MAGELLAN PETROLEUM CORPORATION
FORM 10-Q/A

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. The Palm Valley Darwin contract expires in January, 2012 and the Mereenie contracts expire in June, 2009. MPC has a direct 2.67% carried interest in the Kotaneelee gas field in the Yukon Territory of Canada.

The accompanying unaudited condensed 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 and six months ended December 31, 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. An increase in construction payables of \$1,830,464 for the six months ended December 31, 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 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 157 is effective for the Company beginning July 1, 2008. The Company is currently evaluating the impact, if any, the adoption of SFAS 157 will have on its 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 (Loss)

Total comprehensive income (loss) during the three and six month periods ended December 31, 2007 and 2006 was as follows:

| | THREE MONTHS ENDED | | | | ACCUMULATED |
|--|---------------------------|--------------|-------------------------|--------------|----------------------|
| | DECEMBER 31, | | SIX MONTHS ENDED | | OTHER |
| | 2007 | 2006 | 2007 | 2006 | COMPREHENSIVE |
| Balance at June 30, 2007 | | | | | \$ 4,372,626 |
| Net (loss) income | \$ (10,780,109) | \$ (7,907) | \$ (11,254,555) | \$ 1,022,229 | |
| Foreign currency translation adjustments | (162,924) | 2,510,633 | 2,142,563 | 3,786,588 | 2,142,563 |
| Total comprehensive (loss) income | \$ (10,943,033) | \$ 2,502,726 | \$ (9,111,992) | \$ 4,808,817 | |
| Balance at December 31, 2007 | | | | | \$ 6,515,189 |

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 and six month periods ended December 31, 2007 and 2006, the Company did not issue any stock options. At December 31, 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 December 31, 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 | | SIX MONTHS ENDED | |
|--------------------------------|---------------------------|-------------|-------------------------|-------------|
| | DECEMBER 31, | | DECEMBER 31, | |
| | 2007 | 2006 | 2007 | 2006 |
| Revenues: | | | | |
| MPC | \$ 31 | \$ | \$ 91 | \$ 1 |
| MPAL | 10,343 | 8,414 | 19,605 | 15,236 |
| Total consolidated revenues | \$ 10,374 | \$ 8,414 | \$ 19,696 | \$ 15,237 |
| Net (loss) income: | | | | |
| MPC | \$ (655) | \$ (432) | \$ (1,144) | \$ (855) |
| MPAL | (10,125) | 424 | (10,111) | 1,877 |
| Consolidated net (loss) income | \$ (10,780) | \$ (8) | \$ (11,255) | \$ 1,022 |

Note 5. Exploration and Dry Hole Costs

These costs relate primarily to the exploration work being performed on MPAL's properties. During the six months ended December 31, 2007, the Company incurred dry hole costs of \$1,505,000 in the Cooper Basin and \$125,000 in the Weald Basin in the United Kingdom.

Note 6. Asset Retirement Obligations

A reconciliation of the Company's asset retirement obligations for the six months ended December 31, 2007 was as follows:

| | |
|------------------------------|---------------|
| Balance at July 1, 2007 | \$ 9,456,088 |
| Liabilities incurred | |
| Liabilities settled | |
| Accretion expense | 346,388 |
| Revisions to estimate | 42,882 |
| Exchange effect | 376,741 |
| Balance at December 31, 2007 | \$ 10,222,099 |

Note 7. Income Taxes

As previously disclosed, the Australian Taxation Office (ATO) conducted an audit of the Australian income tax returns of MPAL and its wholly owned subsidiaries for the years 1997- 2005. The ATO audit 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 in August, 2007 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 indicated in its position papers that the increase in taxes arising from its proposed positions would be (Aus.) \$13,392,460 plus possible interest and penalties, which could have exceeded the amount of the increased taxes asserted by the ATO.

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 has 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.

Based upon the advice of Australian tax counsel, the Company and the ATO held settlement discussions concerning this matter during this quarter. In order to avoid a protracted and costly legal battle with the ATO, diversion of company management and resources away from Company business and the possibility of significantly higher payments with a loss in court, the Company decided to settle this matter. On December 19, 2007, MPAL reached a non-binding agreement in principle to settle this dispute for an aggregate settlement payment by MPAL to the ATO of (Aus) \$14,641,994. The aggregate settlement payment is comprised of (Aus) \$10,340,796 in amended taxes and (AUS) \$4,301,198 of interest on the amended taxes. No penalties were to be assessed as part of the terms of the settlement. The agreement in principle to settle the dispute was conditioned upon MPAL and the ATO agreeing on formal terms of settlement in a binding agreement (the Deed of Settlement) which the parties agreed to negotiate and sign promptly. As further agreed by the parties, the ATO issued assessments for the agreed upon amended tax liabilities in January 2008. Under the final terms of the Deed of Settlement signed by the parties on February 7, 2008, MPAL agreed not to object to or appeal the ATO's amended assessments. The Deed of Settlement with the ATO constitutes a complete release and extinguishment of the tax liabilities of MPAL and its subsidiaries with respect to the amended assessments and the prior bad debt deductions.

On January 21, 2008 MPAL paid (AUS) \$5,000,000 to the ATO as a deposit towards this settlement. The remaining (AUS) \$9,641,994 is scheduled to be paid by MPAL on February 14, 2008.

Both the amended taxes and interest in the amount of US\$12,836,636 has been recorded as part of the income tax provision for the quarter ended December 31, 2007 (\$.31 per share).

The Company adopted FIN 48 on July 1, 2007. Under FIN 48, a company recognizes an uncertain tax position (UTP) based on whether it is more likely than not that the UTP will be sustained upon examination by the appropriate taxing authority, including resolution of any related appeals or litigation processes, based solely on the technical merits of the position. In evaluating whether a UTP has met the more-likely-than-not recognition threshold, a company must presume 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 UTP that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. The UTP is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. A UTP is not recognized if it does not meet the more-likely-than-not threshold.

Upon the adoption of FIN 48, MPAL received a legal opinion from its Australian tax counsel that concluded that the Company would be more likely than not to sustain these deductions in court. Australian tax counsel also advised

the Company that 100% of the tax benefit of these deductions is the largest amount of the benefit that would be more than 50% likely to be realized. As a result, the Company recorded no liability for this UTP prior to the settlement which was negotiated in December.

The components of the income tax (in thousands) between MPC and MPAL are as follows:

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| | 3 MONTHS ENDED DECEMBER 31 | | 6 MONTHS ENDED DECEMBER 31 | |
|---|-------------------------------|--------|-------------------------------|----------|
| | 2007 | 2006 | 2007 | 2006 |
| Income before income taxes | \$ 1,547 | \$ 248 | \$ 1,079 | \$ 1,969 |
| Tax at 30% | 464 | 74 | 324 | 591 |
| MPC's non Australian loss | 195 | 129 | 337 | 257 |
| Non-taxable Australian revenue | (162) | (114) | (225) | (199) |
| Depletion on step up basis oil & gas properties | | 165 | 19 | 293 |
| Other permanent differences | 10 | 2 | 11 | 5 |
| ATO assessment of prior year taxes, net of interest expense benefit | 11,706 | | 11,706 | |
| Increase in valuation reserve for foreign (UK) exploration expenditures | 107 | | 140 | |
| Australian income tax provision | 12,320 | 256 | 12,312 | 947 |
| MPC income tax provision(a) | 7 | | 22 | |
| Consolidated income tax provision | \$ 12,327 | \$ 256 | \$ 12,334 | \$ 947 |
| Current income tax provision | \$ 12,644 | \$ 19 | \$ 12,659 | \$ 889 |
| Deferred income tax (benefit) provision | (317) | 237 | (325) | 58 |
| Income tax provision | \$ 12,327 | \$ 256 | \$ 12,334 | \$ 947 |
| Effective tax rate | 416% | 103% | 114% | 48% |

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

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 except for the issues agreed upon in the Deed of Settlement discussed above which are now closed.

Note 8. Restatement of Financial Information

Subsequent to the issuance of the consolidated financial statements for the period ended December 31, 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 three and six-month period ended December 31, 2007 was understated by \$1,569,466 and \$2,816,574, respectively.

As a result, the consolidated financial statements for the period ended December 31, 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 and six months ended December 31, 2007, Consolidated Balance Sheet as of December 31, 2007 and Consolidated Statement of Cash Flows for the six months ended December 31, 2007:

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

| | December 31, 2007 | | | |
|--|---------------------------|--------------|---------------------------|--------------|
| | 3 months | | 6 months | |
| | As Previously Reported | As Restated | As Previously Reported | As Restated |
| Depletion, depreciation and amortization | \$ 2,796,390 | \$ 4,365,856 | \$ 5,957,646 | \$ 8,774,220 |
| Total costs and expenses | 7,827,460 | 9,396,926 | 16,859,310 | 19,675,884 |
| Operating income | 2,546,521 | 977,055 | 2,836,604 | 20,030 |
| Income before income taxes | 3,116,383 | 1,546,917 | 3,895,683 | 1,079,109 |
| Income tax provision | (12,797,866) | (12,327,026) | (13,178,636) | (12,333,664) |
| Net (loss) | (9,681,483) | (10,780,109) | (9,282,953) | (11,254,555) |
| Per share (basic & diluted) | \$ (0.23) | \$ (0.26) | \$ (0.22) | \$ (0.27) |

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CONSOLIDATED BALANCE SHEET
(Unaudited)

| | December 31, 2007 | |
|--|---------------------------|--------------|
| | As Previously Reported | As Restated |
| Deferred income tax asset | \$ 1,330,021 | \$ 2,130,501 |
| Accumulated depletion, depreciation and amortization | (93,397,178) | (96,232,203) |
| Net property and equipment | 36,831,205 | 33,996,180 |
| Total assets | 86,146,911 | 84,112,366 |
| Deferred income tax liability | 2,977,321 | 2,927,294 |
| Total long term liabilities | 13,239,013 | 13,188,986 |
| Accumulated deficit | (23,248,802) | (25,220,404) |
| Accumulated other comprehensive income | 6,528,105 | 6,515,189 |
| Total stockholders' equity | 56,847,306 | 54,862,788 |
| Total liabilities and stockholders' equity | 86,146,911 | 84,112,366 |

CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

| | December 31, 2007 | |
|--|---------------------------|----------------|
| | As Previously Reported | As Restated |
| Net loss | \$(9,282,953) | \$(11,254,555) |
| Depletion, depreciation and amortization | 5,957,646 | 8,774,220 |
| Deferred income taxes | 520,228 | (324,744) |

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 December 31, 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 three and six-month period ended December 31, 2007 was understated by \$1,569,466 and \$2,816,574, respectively. 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 and six months ended December 31, 2007, Consolidated Balance Sheet as of December 31, 2007 and Consolidated Statement of Cash Flows for the six months ended December 31, 2007 are presented in Note 8.

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

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 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

At December 31 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 were capitalized during the year ended June 30, 2006. These amounts remain capitalized because the related well has sufficient quantity of reserves to justify its completion

as a producing well. Efforts are currently being made to market the gas from this 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 December 31 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 December 31 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, 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, (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. The Palm Valley Darwin contract expires in January, 2012 and the Mereenie contracts expire in June, 2009. 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 December 31, 2007, the Company on a consolidated basis had \$30,232,678 of cash and cash equivalents and \$3,404,507 of marketable securities.

Net cash provided by operations was \$3,652,975 in 2007 versus \$7,883,814 in 2006. The decrease in cash provided by operations is primarily due to the decrease in net income as a result of recording a tax provision for the ATO settlement (see Note 7) offset by the related increase in income taxes payable, an increase in accounts receivable of 2,056,623 relating to oil sales from the Nockatunga wells and a decrease in accounts payable of \$2,775,718 due to the payment of Company's joint venture liabilities related to the Nockatunga project.

The Company invested \$4,087,063 and \$3,291,071, which includes additions to property and equipment, in oil and gas exploration activities during the six months ended December 31, 2007 and 2006, respectively. The increase was due to a decrease in construction payables and an increase in the exchange rate discussed below.

As previously disclosed (See Note 7 to the Financial Statements), the ATO 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 in August 2007 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.

Based upon the advice of Australian tax counsel, the Company and the ATO held settlement discussions concerning this matter during this quarter. In order to avoid a protracted and costly legal battle with the ATO, diversion of company management and resources away from Company business and the possibility of a higher payment with a loss in court, the Company decided to settle this matter. On December 21, 2007, MPAL reached an agreement in principle to settle this dispute for an aggregate settlement payment by MPAL to the ATO of (Aus) \$14,641,994. This is comprised of (Aus) \$10,340,796 in amended taxes and (AUS) \$4,301,198 of interest on the amended taxes. No penalties were assessed as part of this settlement. The agreement in principle to settle the dispute was conditioned upon MPAL and the ATO agreeing on formal terms of settlement in a binding agreement (the Deed of Settlement) which the parties agreed to negotiate and sign promptly. As further agreed by the parties, the ATO issued assessments for the agreed upon amended tax liabilities in January 2008. Under the final terms of the Deed of Settlement signed by the parties on February 7, 2008, MPAL agreed not to object to or appeal the ATO's amended assessments. The Deed of Settlement with the ATO constitutes a complete release and extinguishment of the tax liabilities of MPAL and its subsidiaries with respect to the amended assessments and the prior bad debt deductions.

On January 21, 2008 MPAL paid (AUS) \$5,000,000 to the ATO as a deposit towards this settlement. The remaining (AUS) \$9,641,994 is scheduled to be paid by MPAL on February 14, 2008.

Effect of exchange rate changes

The value of the Australian dollar relative to the U.S. dollar increased 4.0% to \$.8767 at December 31, 2007, compared to a value of \$.8433 at June 30, 2007.

As to MPC

At December 31, 2007, MPC, on an unconsolidated basis, had working capital of approximately \$2.0 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.

As to MPAL

At December 31, 2007, MPAL had working capital of approximately \$24.9 million. MPAL has budgeted approximately (Aus.) \$7.2 million for specific exploration projects in fiscal year 2008 as compared to (Aus) \$2.6 million expended in the six months ended December 31, 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 in January, 2012 and June, 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 (MPAL and Santos) 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.

As previously disclosed, MPAL settled with the ATO for (AUS) \$14,641,994 (US\$12,836,636) (See Note 7 to the financial statements). As in the past, 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 December 31, 2007:

| | TOTAL | PAYMENTS DUE BY PERIOD | | | MORE THAN 5 YEARS |
|---|---------------|------------------------|--------------|--------------|-------------------------|
| | | LESS THAN 1 YEAR | 1-3 YEARS | 3-5 YEARS | |
| CONTRACTUAL OBLIGATIONS | | | | | |
| Operating Lease Obligations | 323,000 | 220,000 | 103,000 | | |
| Australian Tax Office Settlement (see note 7) | 12,837,000 | 12,837,000 | | | |
| Purchase Obligations(1) | 3,380,000 | 3,380,000 | | | |
| Asset Retirement Obligations | 10,222,000 | 205,000 | 6,324,000 | 1,768,000 | 1,925,000 |
| Total | \$ 26,762,000 | \$ 16,642,000 | \$ 6,427,000 | \$ 1,768,000 | 1,925,000 |

(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 DECEMBER 31, 2007 VS. DECEMBER 31, 2006

REVENUES

OIL SALES INCREASED 51% in the 2007 quarter to \$4,887,721 from \$3,227,393 in 2006 because of the 43% increase in average price per barrel and the 15.6% increase in the exchange rate discussed below. 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 DECEMBER 31, 2007 SALES | | 2006 SALES | |
|--------------------|---|--------------------------|-------------------|--------------------------|
| | BBLs | AVERAGE PRICE | BBLs | AVERAGE PRICE |
| | | A.\$ PER BBL | | A.\$ PER BBL |
| Australia: | | | | |
| Mereenie field | 25,701 | 116.88 | 27,871 | 74.01 |
| Cooper Basin | 1,254 | 119.74 | 4,010 | 72.41 |
| Nockatunga project | 27,651 | 89.36 | 23,037 | 69.27 |
| Total | 54,606 | 103.08 | 54,918 | 71.92 |

GAS SALES INCREASED 6% to \$4,772,980 in 2007 from \$4,490,952 in 2006 due mostly to a 2% increase in the average price per mcf and the 15.6% increase in the exchange rate discussed below partially offset by a 7% decrease in volume.

| | THREE MONTHS ENDED DECEMBER 31, | |
|-----------|--|--------------|
| | 2007 | 2006 |
| Australia | \$ 4,741,510 | \$ 4,490,952 |
| Canada | 31,470 | |
| Total | \$ 4,772,980 | \$ 4,490,952 |

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 DECEMBER 31, 2007 SALES | | 2006 SALES | |
|------------------------|---|---------------------------------------|-------------------|---------------------------------------|
| | BCF | A.\$ AVERAGE PRICE PER | BCF | A.\$ AVERAGE PRICE PER |
| | | MCF | | MCF |
| Australia: Palm Valley | .340 | 2.21 | .385 | 2.20 |
| Australia: Mereenie | 1.180 | 3.63 | 1.250 | 3.57 |
| Total | 1.520 | 3.30 | 1.635 | 3.24 |

COSTS AND EXPENSES

PRODUCTION COSTS INCREASED 40% in 2007 to \$2,525,231 from \$1,806,267 in 2006. The increase in 2007 was primarily the result of increased expenditures in the Nockatunga project due to increased revenues, repairs and maintenance on the Mereenie project and the 15.6% increase in the exchange rate described below.

EXPLORATION AND DRY HOLE COSTS DECREASED 72% to \$724,117 in 2007 from \$2,541,280 in 2006. These costs related to the exploration work performed on MPAL's properties. The primary reasons for the decrease in 2007 were the decreased drilling costs related to the Cooper Basin drilling program, partially offset by the 15.6% increase in the exchange rate described below.

DEPLETION, DEPRECIATION AND AMORTIZATION INCREASED 58% to \$4,365,856 in 2007 from \$2,762,867 in 2006. This increase was mostly due to the higher book values of MPAL's oil and gas properties acquired

during fiscal 2006, the 15.6% increase in the exchange rate described below, partially offset by lower depletion in the Mereenie and Palm Valley projects due to lower depletable costs.

AUDITING, ACCOUNTING AND LEGAL EXPENSES INCREASED 117% in 2007 to \$321,052 from \$148,204 in 2006 due to higher accounting and auditing costs relating to the ATO audit and settlement and the purchase of the remaining shares of MPAL and the 15.6% increase in the exchange rate described below.

ACCRETION EXPENSE INCREASED 31% to \$176,180 in 2007 from \$134,413 in 2006. This was due mostly to accretion of the new wells drilled in fiscal 2007 in the Nockatunga project and the 15.6% increase in the exchange rate described below.

OTHER ADMINISTRATIVE EXPENSES INCREASED 20% to \$771,732 in 2007 from \$644,969 in 2006. This is due mostly to increased consulting costs related to the ATO audit and settlement and the 15.6% increase in the exchange rate described below.

INCOME TAX PROVISION INCREASED in 2007 to \$12,327,026 from \$255,471 in 2006. This is mostly due to the \$12,836,636 tax settlement agreed to by MPAL with the ATO regarding amended assessments for MPAL's prior years' Australian taxes. (See Note 7).

EXCHANGE EFFECT

THE VALUE OF THE AUSTRALIAN DOLLAR RELATIVE TO THE U.S. DOLLAR DECREASED TO \$.8767 at December 31, 2007 compared to a value of \$.8787 at September 30, 2007. This resulted in a \$162,924 debit to the foreign currency translation adjustments account for the three months ended December 31, 2007. The average exchange rate used to translate MPAL's operations in Australia was \$.8899 for the quarter ended December 31, 2007, which was a 15.6% increase compared to the \$.7700 rate for the quarter ended December 31, 2006.

SIX MONTHS ENDED DECEMBER 31, 2007 VS. DECEMBER 31, 2006

REVENUES

OIL SALES INCREASED 56% in the six months to \$9,620,541 from \$6,152,907 in 2006 because of a 23% volume increase due to increased sales in the Nockatunga project, a 17% increase in the average price per barrel sold and the 13.8 % increase in the exchange rate discussed below. Oil unit sales (after deducting royalties) in barrels (bbls) and the average price per barrel sold during the periods indicated were as follows:

| | SIX MONTHS ENDED DECEMBER 31, 2007 SALES | | 2006 SALES | |
|--------------------|---|-------------------------------------|------------|-------------------------------------|
| | BBLs | AVERAGE PRICE A.\$ PER BBL | BBLs | AVERAGE PRICE A.\$ PER BBL |
| Australia: | | | | |
| Mereenie field | 50,735 | 103.40 | 52,782 | 81.25 |
| Cooper Basin | 3,287 | 103.36 | 11,013 | 85.39 |
| Nockatunga project | 62,487 | 83.15 | 31,002 | 73.93 |
| Total | 116,509 | 92.59 | 94,797 | 79.33 |

GAS SALES INCREASED 11% to \$8,762,164 in 2007 from \$7,894,350 in 2006. The increase was the result of a 5% increase in price per mcf sold and the 13.8% increase in the exchange rate discussed below partially offset by a 4% decrease in volume.

| | SIX MONTHS ENDED DECEMBER 31, | |
|-----------|----------------------------------|--------------|
| | 2007 | 2006 |
| Australia | \$ 8,671,436 | \$ 7,892,882 |
| Canada | 90,728 | 1,468 |
| Total | \$ 8,762,164 | \$ 7,894,350 |

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:

| | SIX MONTHS ENDED DECEMBER 31, 2007 SALES | | 2006 SALES | |
|------------------------|---|-------------------------------------|------------|-------------------------------------|
| | BCF | A.\$ AVERAGE PRICE PER MCF | BCF | A.\$ AVERAGE PRICE PER MCF |
| Australia: Palm Valley | .686 | 2.21 | .781 | 2.20 |
| Australia: Mereenie | 2.260 | 3.56 | 2.289 | 3.39 |

| | | | | |
|-------|-------|------|-------|------|
| Total | 2.946 | 3.24 | 3.070 | 3.08 |
|-------|-------|------|-------|------|

COSTS AND EXPENSES

PRODUCTION COSTS INCREASED 29% IN 2007 to \$4,623,257 from \$3,597,406 in 2006. The increase in 2007 was primarily the result of increased expenditures in the Nockatunga project due to increased revenues, repairs and maintenance on the Mereenie project and the 13.8% increase in the exchange rate described below.

EXPLORATION AND DRY HOLE COSTS DECREASED 8% to \$2,737,591 in 2007 from \$2,973,263 in 2006. These costs related to the exploration work performed on MPAL's properties. The primary reason for the decrease in 2007 were the decreased drilling costs related to the Cooper Basin drilling program, partially offset by the 13.8% increase in the exchange rate described below.

DEPLETION, DEPRECIATION AND AMORTIZATION INCREASED 84% to \$8,774,220 in 2007 from \$4,764,819 in 2006. This increase was mostly due to the higher book values of MPAL's oil and gas properties acquired during fiscal 2006, increased depletion in the Nockatunga project due to increased production and expenditures, the 13.8% increase in the exchange rate described below, partially offset by lower depletion in the Mereenie and Palm Valley projects due to lower depletable costs.

AUDITING, ACCOUNTING AND LEGAL EXPENSES INCREASED 72% in 2007 to \$558,103 from \$324,009 in 2006 due to higher accounting and auditing costs relating to the ATO audit and settlement and the purchase of the remaining shares of MPAL and the 13.8% increase in the exchange rate described below.

ACCRETION EXPENSE INCREASED 30% to \$346,388 in 2007 from \$266,179 in 2006. This was due mostly to accretion of the new wells drilled in fiscal 2007 in the Nockatunga project and the 13.8% increase in the exchange rate described below.

OTHER ADMINISTRATIVE EXPENSES INCREASED 41% to \$1,641,645 in 2007 from \$1,167,581 in 2006. This is due mostly to increased consulting costs related to the ATO audit and settlement and the 13.8% increase in the exchange rate described below.

INCOME TAX PROVISION INCREASED in 2007 to \$12,333,664 from \$946,684 in 2006. This is mostly due to the \$12,836,636 tax settlement agreed to by MPAL with the ATO regarding amended assessments for MPAL's prior years' Australian taxes (see Note 7).

EXCHANGE EFFECT

THE VALUE OF THE AUSTRALIAN DOLLAR RELATIVE TO THE U.S. DOLLAR INCREASED TO \$.8767 at December 31, 2007 compared to a value of \$.8433 at June 30, 2007. This resulted in a \$2,142,563 credit to the foreign currency translation adjustments account for the six months ended December, 2007. The average exchange rate used to translate MPAL's operations in Australia was \$.8688 for the six month period ended December 31, 2007, which was a 13.8% increase compared to the \$.7636 rate for the six month period ended December 31, 2006.

ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Company's exposure to market risk relates to fluctuations in foreign currency and world prices for crude oil, as well as market risk related to investment in marketable securities. At December 31, 2007, the carrying value of our investments in marketable securities including those classified as cash and cash equivalents was approximately \$33.6 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. Marketable securities have not been impacted by the US credit crisis. 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 \$1,970,000 and \$1,968,000, for the six months ended December 31, 2007, respectively. For the six month period ended December 31, 2007, oil sales represented approximately 52% of production revenues. Based on the current six month's sales volume and revenue, a 10% change in oil price would increase or decrease oil revenues by \$962,000. Gas sales, which represented approximately 48% of production revenues in the current six 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 six months ended December 31, 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 December 31, 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

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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 six months ended December 31, 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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ITEM 1 LEGAL PROCEEDINGS

As previously disclosed, the Australian Taxation Office (ATO) conducted an audit of the Australian income tax returns of MPAL and its wholly owned subsidiaries for the years 1997- 2005. The ATO audit 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 in August, 2007 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 indicated in its position papers that the increase in taxes arising from its proposed positions would be (Aus.) \$13,392,460, plus possible interest and penalties, which could be substantial and exceed the amount of the increased taxes asserted by the ATO.

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 has 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.

Based upon the advice of Australian tax counsel, the Company and the ATO held settlement discussions concerning this matter during this quarter. In order to avoid a protracted and costly legal battle with the ATO, diversion of company management and resources away from Company business and the possibility of significantly higher payments with a loss in court, the Company decided to settle this matter. On December 19, 2007, MPAL reached a non-binding agreement in principle to settle this dispute for an aggregate settlement payment by MPAL to the ATO of (Aus) \$14,641,994. The aggregate settlement payment is comprised of (Aus) \$10,340,796 in amended taxes and (AUS) \$4,301,198 of interest on the amended taxes. No penalties were to be assessed as part of the terms of the settlement. The agreement in principle to settle the dispute was conditioned upon MPAL and the ATO agreeing on formal terms of settlement in a binding agreement (the Deed of Settlement) which the parties agreed to negotiate and sign promptly. As further agreed by the parties, the ATO issued assessments for the agreed upon amended tax liabilities in January 2008. Under the final terms of the Deed of Settlement signed by the parties on February 7, 2008, MPAL agreed not to object to or appeal the ATO s amended assessments. The Deed of Settlement with the ATO constitutes a complete release and extinguishment of the tax liabilities of MPAL and its subsidiaries with respect to the amended assessments and the prior bad debt deductions.

On January 21, 2008, MPAL paid (AUS) \$5,000,000 to the ATO as a deposit towards this settlement. The remaining (AUS) \$9,641,994 is scheduled to be paid by MPAL on February 14, 2008.

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:

| | | | | Maximum Number of Shares that May |
|----------------------------|--------------------------|---|------------------------------------|--|
| Total Number of | Average Price | Total Number of Shares Purchased | of Shares Purchased | |

| Period | Shares Purchased | Paid per Share | as Part of Publicly Announced Plan(1) | Yet Be Purchased Under Plan |
|---------------------|-----------------------------|---------------------------|---|--|
| October 1-31, 2007 | 0 | 0 | 0 | 319,150 |
| November 1-30, 2007 | 0 | 0 | 0 | 319,150 |
| December 1-31, 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 December 31, 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.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) On December 6, 2007, the Company held its 2007 Annual General Meeting of Stockholders.

(b) The following directors were elected as directors of the Company. The vote was as follows:

| | Shares | | Stockholders | |
|-------------------|------------|----------|--------------|----------|
| | For | Withheld | For | Withheld |
| Ronald Pettirossi | 27,219,195 | 636,582 | 1,162 | 177 |
| Walter McCann | 27,405,687 | 617,090 | 1,156 | 183 |

(c) The firm of Deloitte & Touche LLP was appointed as the Company's independent auditors for the year ending June 30, 2008. The vote was as follows:

| | Shares | Stockholders |
|---------|------------|--------------|
| For | 30,460,136 | 1,203 |
| Against | 2,674,587 | 68 |
| Abstain | 442,317 | 68 |

(d) Authorization to amend the Company's Restated Certificate of Incorporation and implement a reverse stock split was approved. The vote was as follows:

| | Shares | Stockholders |
|---------|------------|--------------|
| For | 25,047,321 | 940 |
| Against | 8,255,591 | 297 |
| Abstain | 274,120 | 102 |

ITEM 5 OTHER EVENTS

On October 24, 2007, the Board of Directors of the Company amended the Company's 1998 Stock Option Plan to substantive and procedural requirements of Section 409A of the Internal Revenue Code of 1986, as amended. A copy of the First Amendment is attached to this Form 10-Q as Exhibit 10.1.

As discussed in Note 7 above, the Company reported on February 7, 2008 that MPAL reached an agreement to settle an ongoing income tax dispute between MPAL and the ATO for an aggregate settlement payment by MPAL to the ATO of (Aus) \$14.6 million. The dispute concerned 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. MPAL and the ATO entered into a Deed of Settlement dated February 7, 2008 concerning this matter. A copy of the Deed of Settlement is attached hereto as Exhibit 10.2.

ITEM 6 EXHIBITS

10.1 First Amendment to the Company's 1998 Stock Option Plan, dated as of October 24, 2007 incorporated by reference from Form 10-Q filed on February 13, 2008.

10.2 Deed of Settlement between Magellan Petroleum Australia Limited, Magellan Petroleum (N.T.) Pty LTD, Paroo Petroleum Pty Ltd and the Commissioner of Taxation of the Commonwealth of Australia dated February 7, 2008 incorporated by reference from Form 10-Q filed on February 13, 2008.

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 filed herein.

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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
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