



Operations Report

Quarter Ending 12/31/09

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Executive Summary

Magellan's President and CEO William H. Hastings:

Results for the second fiscal quarter represent an improvement over last year and last quarter. Revenues and profits were up over last year's quarter due mostly to stronger energy prices, exchange rate fluctuation, and reduced production costs. Cooper Basin asset sales were completed during the quarter. Taken as a whole, Cooper Basin asset sales will generate a gain for the year of approximately \$6 million including the impairment loss recorded this quarter of \$465,000. The remaining gain will be recorded next quarter.

Also during the quarter, the Company reported an \$800,000 gain on the sale of stock in an Australian Stock Exchange listed Company and a non-cash charge of \$986,000 related to the increase in the value of the warrants issued to Young Energy Prize S.A. (YEP). This non-cash revaluation is driven by the increase in our share price.

We continue to refocus the business model with the objective of gaining operating control of substantive, high potential, assets. The first step, the acquisition of the Poplar Dome structure is complete. Other plans remain active. Our current, smaller scale, non-operated positions have been sold at value. Over time, all of this activity may mean the addition of new equity partners and/or the generation of new operating partnerships with major Companies. Magellan is drawing upon the lengthy experience of its new management in pulling together these partnerships and creating value for shareholders.



Recent activity and initiatives to-date are summarized here:

- ◆ We completed our first private investment transaction with Young Energy Prize S. A. ("YEP") and signed a significant Heads of Agreement and Exclusivity Agreement with a major Methanol producer that has resulted in the initiation of feasibility work and commercial negotiations which may result in the construction of material methanol operations in or around the Darwin, NT, Australia area. The methanol plans are driven by market growth in Asia where recent mandates have lead to increased use of methanol as vehicle fuel and increased use of DME (Dimethyl Ether), a methanol derivative to augment supply for LPG systems already in place. Negotiations under the terms of the Methanol Heads of Agreement, toward a substantive long-term arrangement, are active now.
- ◆ The Company acquired an 83.5% ownership position as the Operator of Montana oil fields with significant remaining oil in place (see discussion below). The thrust of this acquisition is to upgrade primary recovery operations and to closely review the development of a tertiary recovery plan related to the wide availability of excess CO2 in the Negotiations with new partners for the Montana operations, toward that efficient redevelopment program and an AMI (area of mutual interest), are active now.
- ◆ We completed the sale of assets in the Cooper Basin, Australia. The assets were sold at value and the proceeds will be redirected into current initiatives.
- ◆ Ongoing discussions continue on developing a consolidated, single operations group for the our Palm Valley and Mereenie asset position. We believe that success in these programs will result in material long-term expense reduction.
- ◆ Gas sales discussions for near and longer term Mereenie volumes remain fluid. Mereenie volumes have flowed in the 20-25TJd (gross interest) range, however, increased volumes from Blacktip are entering the natural gas pipeline system. Efforts to resolve the situation on a longer-term basis continue and we expect to have more concise news over the next 3 to 6 month period as key operational performance facts on the pipeline and for the new supply become clear.
- ◆ In the Weald Basin, United Kingdom, Magellan (40% interest) will participate in the Markwell Woods-1. Given recent severe winter conditions in the UK, this well is expected to spud late in the first quarter or early in the second quarter of 2010. Havant-1 is to be drilled immediately following the end of drilling operations at Markwells Wood-1.



Operations Overview

Company Profile:

Magellan Petroleum Corporation, through its wholly owned subsidiary, **Magellan Petroleum Australia Limited**, and its majority controlling interest in **Nautilus Poplar LLC**, is engaged in the sale of oil and gas and the exploration for and development of oil and gas reserves worldwide. The Company engages in oil and gas exploration and production in Australia, the United Kingdom, and North America . ***The Company, with access to new major equity investment, will endeavor to substantially increase its position in "under-exploited" natural gas reserves. Those reserves will be targeted as Methanol feedstock which, in turn, will be used to augment vehicle fuel and LPG systems in Asia, particularly China***

Business Summary:

Pacific— Acquire and develop significant natural gas into Asia, and redevelop under-exploited, discovered assets

North America —Aggregate existing oil fields near CO2 sources and redevelop those fields utilizing tertiary CO2 injection / sequestration programs.

Calendar Year End Developments:

- ◆ Established new management team led by CEO William H. Hastings
- ◆ Completed Methanol Supply & Construction Exclusivity Agreements, Australia
- ◆ Achieved \$2.1 million gain on strategic business combination initiatives.
- ◆ Acquired Poplar, Montana oil fields for \$7/bbl
- ◆ Sold non-core Australian, Cooper Basin fields for \$31/bbl
- ◆ Relocated Corporate Office to Portland, Maine



<Magellan Petroleum marks its first entry into domestic U.S. oil market with a controlling interest in the Poplar Fields in north east Montana on 23,000 acres.



>Magellan Petroleum is developing an international portfolio through acquisitions of undervalued assets, with a focus on the developing methanol market in Asia.

North America



East Poplar and Northwest Poplar Oil Fields – Montana (51-63% Interest)

On October 14, 2009 the Company acquired an 83.5% controlling interest in Nautilus Poplar, LLC (Nautilus). Based in Denver, Colorado, Nautilus owns and operates oil development assets in Roosevelt County, Montana known as the East Poplar Unit and the Northwest Poplar field. Nautilus holds a 68.75% interest in the East Poplar Unit and varied interests ranging from 60% to 75% in the Northwest Poplar oil field.

The Poplar fields produced an average of approximately 258.barrels of oil per day (BOPD) during the reporting period.

Magellan Petroleum Corporate Headquarters in Portland, ME

Magellan Petroleum officially relocated the corporate Headquarters from Hartford , CT to Portland ME on November 30, 2009. The Executive Officers of the company will be located in Portland and can be reached at the following address:

Magellan Petroleum Corporation
 7 Custom House St, 3rd Floor
 Portland, Maine 04101
 Phone 207.619.8500
 Fax 207.553.2250

Fields (Magellan Share)	Barrels		Kilolitres	Variance
	Total	Daily		
East Poplar	7,273	94	1,156	N/A
Northwest Poplar	2,105	27	335	N/A
Total Crude Oil and Condensate	9,378	121	1,491	N/A

United Kingdom

UNITED KINGDOM EXPLORATION

In the Weald Basin, Magellan (40% interest) will participate in the Markwells Wood-1 exploration well in PEDL 126 and the Havant-1 well in PEDL 155. Markwells Wood-1, due to severe winter conditions, is expected to be drilled late in the 1st Quarter or early in the 2nd Quarter of 2010. Havant-1 is to be drilled immediately following the drilling of Markwells Wood-1.

Northern Petroleum, operator of the PEDL 126 Joint Venture, has completed site construction for the Markwells Wood-1 well which will target a prospect that is interpreted to be an eastward extension of the Horndean oil field which is currently producing from the Great Oolite Formation. Northern Petroleum, also operator of the PEDL 155 Joint Venture (Magellan 40%), commenced site construction for the Havant-1 well in mid-October. The Havant prospect which lies to the south of the Horndean oil field will also target oil in the Great Oolite Formation.

Magellan holds interests (ranging from 22.5% to 50%) in five other exploration licences in the Weald-Wessex Basin (PEDLs 098, 125, 153, 154, and 240), which are also operated by Northern Petroleum. Magellan also holds a 50% interest in PEDLs 231, 232, 234 and 243 in the central Weald Basin area which will be operated by Celtique Energie Petroleum with a 50% interest. PEDLs 135, 136, 137, 242 and 246 are held and operated by Magellan with a 100% interest. Well sites have been selected and applications for local council planning consents for the drilling of two prospects, one in PEDL 135 and one in PEDL 137 are being progressed.

Pad at Markwells Wood-1 site in Southern UK, expected to drill late in 1st Quarter or early 2nd Quarter of 2010



Pacific

AUSTRALIAN EXPLORATION

On December 4, 2009, the Company announced the pending sale of its interests in its various Cooper Basin exploration areas which included PEL 94 (Magellan 35% interest), PEL 95 (Magellan 50% interest), PEL 107 (Magellan 20% interest), PEL 110 (Magellan 60% interest) and the Udacha Unit PEL106-PEL 91 (Magellan 30%) in South Australia. The company has subsequently entered into a series of sale agreements for the sale of these exploration interests. The effective date of the various sale transactions is November 1, 2009.

On January 16, 2010, the Company entered into an asset sale agreement with Adelaide Energy to sell all of its ownership interests the three petroleum exploration permits ATP 613P, ATPA 733P and ATPA 674P that cover the Maryborough Basin in Queensland. ATPA 733P and ATPA 674P will be granted following the execution of the required native title agreements which the Company is currently finalizing with the native title claimants. The transaction is expected to be closed during the first half of 2010, following third party approvals and notices which are procedural only in nature. The permits are the subject of a Farmin Agreement with ASX-listed Blue Energy, under which Blue Energy may earn a 75% interest in the permits by completing a coal seam gas related work program.

Palm Valley Gas Field (PL 3) – Amadeus Basin NT (52.023% Interest)

The Palm Valley gas field which is operated by Magellan produced an average of approximately 6.5 million cubic feet per day (MMcf/D) of natural gas for sale during the quarter. The Palm Valley Joint Venture's objective is to maximise gas production from the existing facilities while maintaining a safe and efficient operation, conducted in accordance with good oil field practice.

Mereenie Oil and Gas Field (PL 4 & 5) – Amadeus Basin NT (35% Interest)

The Mereenie oil and gas field which is operated by Santos Ltd produced an average of approximately 29 MMcf/D of natural gas and 566 barrels of oil and condensate per day for sale during the reporting period.

Nockatunga Oil Fields (PLs 33, 50, 51, 244, 245 & ATP 276P) – Cooper Basin Qld (40.936% Interest)

On December 22, 2009, Magellan announced that it had sold its ownership interests in five petroleum production leases covering the Nockatunga oil fields and an adjacent exploration Authority to Prospect and the related agreements with effect from January 1, 2010. The Company received cash consideration for the sale of its Nockatunga assets of A\$6.3 million. The Buyer is a subsidiary of Santos Ltd, the current owner of the other 59% interest in the Nockatunga oil fields.

The Nockatunga oil fields produced an average of approximately 421 barrels of oil per day (BOPD) during the reporting period.

Kiana Oil Field (PPL 212) – Cooper Basin SA (30% Interest)

On December 4, 2009, the Company announced the pending sale of its interests in the Kiana oil field. The company has subsequently entered into a sale agreement to effect the sale of the Kiana oil field. The effective date of the Kiana sale transaction is November 1, 2009.

Aldinga Oil Field (PPL 210) – Cooper Basin SA (50% Interest)

On December 4, 2009, the Company announced the pending sale of its interests in the Aldinga oil field. The company has subsequently entered into an asset sale agreement for the sale of the Aldinga oil field. The effective date of the Aldinga asset sale transaction is November 1, 2009.

Production

Natural Gas

The Company's share of natural gas sales during the quarter ended December 31, 2009 decreased by 19 percent from the quarter ended December 31, 2008, as detailed below:

Field (Magellan Share)	Million Cubic Feet		Terajoules	Variance
	Total	Daily		
Mereenie	937	10	1,098	-21%
Palm Valley	311	3	354	-13%
Total Gas	1,248	13	1,452	-19%

Crude Oil and Condensate

The Company's share of crude oil and condensate sales during the quarter ended December 31, 2009 decreased by 7 percent from the quarter ended December 31, 2008, as detailed below:

Fields (Magellan Share)	Barrels		Kilolitres	Variance
	Total	Daily		
Mereenie	18,224	198	2,897	-29%
Nockatunga	15,354	167	2,441	-26%
Kiana*	278	9	44	-52%
Aldinga*	395	13	63	97%
East Poplar	7,273	94	1,156	N/A
Northwest Poplar	2,105	27	335	N/A
Total Crude Oil and Condensate	43,629		6,936	-7%

Note: * includes October sales only as interest was sold effective November 1, 2009.

Financials

	THREE MONTHS ENDED DECEMBER 31,		SIX MONTHS ENDED DECEMBER 31,	
	2009	2008	2009	2008
REVENUES:				
Oil sales	\$ 3,155,798	\$ 1,832,005	\$ 5,942,624	\$ 7,477,592
Gas sales	5,551,734	2,999,857	10,960,680	7,308,929
Other production related revenues	<u>1,008,737</u>	<u>340,422</u>	<u>1,691,751</u>	<u>824,447</u>
Total revenues	<u>9,716,269</u>	<u>5,172,284</u>	<u>18,595,055</u>	<u>15,610,968</u>
COSTS AND EXPENSES:				
Production costs	2,089,296	1,279,944	5,419,902	4,266,806
Exploration and dry hole costs	317,943	543,977	657,056	1,267,377
Salaries and employee benefits	1,006,793	347,793	2,750,301	813,985
Depletion, depreciation and amortization	1,484,130	2,060,331	2,647,136	4,561,281
Auditing, accounting and legal services	392,686	422,329	777,074	689,799
Accretion expense	209,584	119,861	384,351	278,276
Shareholder communications	223,647	122,593	302,174	213,172
(Gain) loss on sale of assets	(1,139,465)	15,367	(1,134,275)	11,861
Impairment loss	1,604,417	—	1,604,417	—
Other administrative expenses	<u>1,660,088</u>	<u>524,181</u>	<u>4,022,397</u>	<u>1,293,250</u>
Total costs and expenses	<u>7,849,119</u>	<u>5,436,376</u>	<u>17,430,533</u>	<u>13,395,807</u>
Operating income (loss)	1,867,150	(264,092)	1,164,522	2,215,161
Warrant expense	(986,248)	—	(2,378,719)	—
Investment income	<u>1,038,394</u>	<u>460,375</u>	<u>2,534,931</u>	<u>1,088,544</u>
Income before income taxes	1,919,296	196,283	1,320,734	3,303,705
Income tax provision	<u>323,104</u>	<u>720,977</u>	<u>1,021,806</u>	<u>2,320,588</u>
Net income (loss)	1,596,192	(524,694)	298,928	983,117
Net income attributable to non-controlling interest in subsidiaries	<u>3,637</u>	<u>—</u>	<u>3,637</u>	<u>—</u>
Net income (loss) attributable to Magellan Petroleum Corporation	<u>\$ 1,592,555</u>	<u>\$ (524,694)</u>	<u>\$ 295,291</u>	<u>\$ 983,117</u>
Average number of shares outstanding				
Basic	<u>51,679,618</u>	<u>41,500,325</u>	<u>50,612,610</u>	<u>41,500,325</u>
Diluted	<u>52,345,677</u>	<u>41,500,325</u>	<u>50,899,929</u>	<u>41,500,325</u>
Net Income (loss) per share (basic and diluted) attributable to Magellan Petroleum Corporation common shareholders				
	<u>\$ 0.03</u>	<u>\$ (0.01)</u>	<u>\$ 0.01</u>	<u>\$ 0.02</u>

Corporate Profile

Board of Directors

Walter McCann
Chairman
Chapel Hill, North Carolina
The American International University

William Hastings
President / CEO
Portland, Maine

Nikolay Bogachev, Director
Independent Investor
President
Young Energy Prize S.A
Annisquam, Massachusetts

J. Thomas Wilson, Director
Oil and Gas Advisor
Denver, Colorado

Donald Basso, Director
Geological Consultant
Calgary, Canada

Robert Mollah, Director
Geophysics Consultant
Brisbane, Australia

Ronald Petirossi, Director
Consultant-CPA
Vero Beach, Florida

Management

William H. Hastings
Chief Executive Officer

William E. Begley
Chief Financial Officer

Daniel J. Samela
Vice President, New Ventures

J. Thomas Wilson
Technical Advisor

Susan M. Filipos
Controller

Jeffrey G. Tounge
Manager, Commercial Operations

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